

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2016  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34756

**Tesla, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
3500 Deer Creek Road  
Palo Alto, California  
(Address of principal executive offices)

91-2197729  
(I.R.S. Employer  
Identification No.)

94304  
(Zip Code)

(650) 681-5000

(Registrant's telephone number, including area code)

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

Title of each class

Common Stock, \$0.001 par value

Name of each exchange on which registered

The NASDAQ Stock Market LLC

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

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (\$229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the registrant, as of June 30, 2016, the last day of registrant's most recently completed second fiscal quarter, was \$24,663,024.104 (based on the closing price for shares of the registrant's Common Stock as reported by the NASDAQ Global Select Market on June 30, 2016). Shares of Common Stock held by each executive officer, director, and holder of 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 31, 2017, there were 161,670,428 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2016.

TESLA, INC.  
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

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#### Forward-Looking Statements

*The discussions in this Annual Report on Form 10-K 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", "will", "would" 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 I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission. We do not assume any obligation to update any forward-looking statements.*

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## ITEM 1. BUSINESS

**Overview**

We design, develop, manufacture and sell high-performance fully electric vehicles, and energy storage systems, as well as install, operate and maintain solar and energy storage products. We are the world's only vertically integrated energy company, offering end-to-end clean energy products, including generation, storage and consumption. We have established a global network of vehicle stores, service centers and Supercharger stations to accelerate the widespread adoption of our products. Our vehicles, engineering expertise across multiple products and systems, intense focus to accelerate the world's transition to sustainable transport, and business model differentiates us from other manufacturers.

We currently produce and sell two fully electric vehicles, the Model S sedan and the Model X sport utility vehicle (SUV). Both vehicles offer exceptional performance, functionality and attractive styling. We commenced deliveries of Model S in June 2012 and have continued to improve Model S by introducing performance, all-wheel drive dual motor, and autopilot options, as well as free over-the-air software updates.

We commenced deliveries of Model X in the third quarter of 2015. Model X offers exceptional safety, seating for up to seven people, all-wheel drive, and our autopilot functionality. We are currently ramping production and deliveries of Model X in the United States, Europe and Asia.

Our next vehicle introduction is the Model 3, a lower priced sedan designed for the mass market. We intend to begin volume production and deliveries of Model 3 in the second half of 2017. We also intend to bring additional vehicles to market in the future. The production of fully electric vehicles that meets consumers' range and performance expectations requires substantial design, engineering, and integration work on almost every system of our vehicles. Our design and vehicle engineering capabilities, combined with the technical advancements of our powertrain system, have enabled us to design and develop electric vehicles that we believe overcome the design, styling, and performance issues that have historically limited broad consumer adoption of electric vehicles. As a result, our customers enjoy several benefits, including:

- *Long Range and Recharging Flexibility.* Our vehicles offer ranges that significantly exceed those of any other commercially available electric vehicle. In addition, our vehicles incorporate our proprietary on-board charging system, permitting recharging from almost any available electrical outlet, and also offer fast charging capability from our Supercharger network.
- *High-Performance Without Compromised Design or Functionality.* Our vehicles deliver unparalleled driving experiences with instantaneous and sustained acceleration, an advanced autopilot system with active safety and convenience features, and over-the-air software updates.
- *Energy Efficiency and Cost of Ownership.* Our vehicles offer an attractive cost of ownership when compared to similar internal combustion engine or hybrid electric vehicles. Using only an electric powertrain enables us to create more energy efficient vehicles that are mechanically simpler than currently available hybrid or internal combustion engine vehicles. The cost to fuel our vehicles is less compared to internal combustion vehicles. We also expect our electric vehicles will have lower relative maintenance costs than other vehicles due to fewer moving parts and the absence of certain components, including oil, oil filters, spark plugs and engine valves.

We sell our vehicles through our own sales and service network which we are continuing to grow globally. The benefits we receive from distribution ownership enable us to improve the overall customer experience, the speed of product development and the capital efficiency of our business. We are also continuing to build our network of Superchargers and destination chargers in North America, Europe and Asia to provide both fast charging that enables convenient long-distance travel as well as other convenient charging options.

In addition to manufacturing and selling our own vehicles, we leverage our technology expertise in batteries, power electronics, and integrated systems to manufacture and sell energy storage products. We recently announced the latest generation of our energy storage products, the 14 kilowatt hour (kWh) Powerwall 2 with an integrated inverter for residential applications and the infinitely scalable 200 kWh Powerpack 2. In addition, we also announced an accompanying bi-directional inverter for commercial, industrial and utility applications. We began production and deliveries of these second generation products in the fourth quarter of 2016. Similar to our electric vehicles, our energy storage products have been developed to receive over-the-air firmware and software updates that enable additional features over time.

Also, through our acquisition of SolarCity Corporation, which closed on November 21, 2016, we sell renewable energy to our customers typically at prices below utility rates and are focused on reducing the cost of solar energy for our customers. Since 2006, SolarCity has installed solar energy systems for over 325,000 customers. Our long-term agreements with our customers generate recurring payments and create a portfolio of high-quality receivables that we leverage to further reduce the cost of making the switch to solar energy. The electricity produced by our solar installations represents a very small fraction of total U.S. electricity generation. With over tens of millions of single-family homes in our primary service territories, and many more in other locations, we have a large opportunity to expand and grow this business.

We manufacture our vehicle products primarily at our facilities in Fremont, California, Lathrop, California, Tilburg, Netherlands and at our Gigafactory 1 near Reno, Nevada. We are currently using battery packs manufactured at Gigafactory 1 for our energy storage products, and will build Model 3 battery packs and drive units at Gigafactory 1. We manufacture our solar products at our factories in Fremont, California and Buffalo, New York (Gigafactory 2).

## **Our Products and Services**

### **Vehicles**

#### ***Model S***

Model S is a fully electric, four-door, five-adult passenger sedan that offers compelling range and performance with zero tailpipe emissions. We offer performance and all-wheel drive dual motor system options. Model S 100D is the longest range all-electric production sedan in the world, and the performance version with the Ludicrous speed upgrade is the quickest accelerating production vehicle ever.

Model S offers a unique combination of functionality, convenience, safety and styling without compromising performance and energy efficiency. Model S also includes premium luxury features, including a 17 inch touch screen driver interface, our advanced autopilot hardware to enable both active safety and convenience features, and over-the-air software updates. We believe the combination of performance, safety, styling, convenience and energy efficiency of Model S positions it as a compelling alternative to other vehicles in the luxury and performance segments.

#### ***Model X***

Model X is the longest range all-electric production sport utility vehicle in the world, and offers exceptional functionality with high performance features such as our fully electric, all-wheel drive dual motor system and our autopilot system. Model X can seat up to seven adults and incorporates a unique falcon wing door system for superior access to the second and third seating rows. Although the National Highway Traffic Safety Administration has not yet conducted crash testing on Model X, based on our internal testing, we are confident that Model X will receive the highest safety rating. We began customer deliveries of Model X in the third quarter of 2015 in the United States. Model X is sold in all the markets where Model S is available, including in Asia and Europe.

#### ***Model 3***

We are developing a third generation electric vehicle, Model 3, which we unveiled in March 2016 and will be produced at the Tesla Factory. We intend to offer this vehicle at a lower price point and expect to produce it at far higher volumes than our Model S or Model X. Gigafactory 1 construction and Model 3 development both remain on plan to support volume Model 3 production and deliveries in the second half of 2017.

#### ***Future Consumer and Commercial EVs***

Following the introduction of Model 3, we are also planning to introduce additional vehicles to address a broader cross-section of the consumer vehicle market, as well as introduce commercial EVs in the coming years.

### **Energy Storage**

Using the energy management technologies and manufacturing processes developed for our vehicle powertrain systems, we developed energy storage products for use in homes, commercial facilities and utility sites. The applications for these battery systems include the provision of backup power, grid independence, peak demand reduction, demand response, reducing intermittency of renewable generation and wholesale electric market services. We began selling our residential systems in 2013 and our commercial and utility systems in 2014, and have recently commenced production of the second generation of these systems.

Our energy product portfolio includes systems with a wide range of applications, from use in homes to use in large grid-scale projects. Powerwall 2 is a 14 kWh rechargeable lithium-ion battery designed to store energy at a home or small commercial facility and can be used for reducing demand, self-consumption of solar power generation and as backup power. In addition, we offer a 200 kWh Powerpack system which can be used by commercial and industrial customers for peak shaving, load shifting, self-consumption of solar generation and demand response. The Powerpack system is a fully integrated energy storage solution that can be used by utilities to smooth and firm the output of renewable power generation sources, provide dynamic energy capacity to the grid, defer or eliminate the need to upgrade transmission infrastructure and also provide for a variety of grid services for utilities. For grid-scale applications, 200 kWh battery blocks can be grouped together to offer MWh and GWh installations. We began production of the second generation of energy storage products at Gigafactory 1 in the fourth quarter of 2016.

Along with designing and manufacturing energy storage products, we continue to develop and advance our software capabilities for the control and optimal dispatch of energy storage systems across a wide range of markets and applications.

#### **Solar Energy Systems**

The major components of our solar energy systems include solar panels that convert sunlight into electrical current, inverters that convert the electrical output from the panels to a usable current compatible with the electric grid, racking that attaches the solar panels to the roof or ground, electrical hardware that connects the solar energy system to the electric grid and our monitoring device. We purchase the majority of system components from vendors, maintaining multiple sources for each major component to ensure competitive pricing and an adequate supply of materials. We also design and manufacture other system components.

Our SolarLease and SolarPPA customer agreements have fueled our growth by allowing our customers to pay little or no upfront costs to switch to distributed solar energy. Over the terms of both agreements, we own and operate the solar energy system and guarantee its performance. Our current standard SolarLeases and SolarPPAs have 20-year terms, and we typically offer the opportunity to renew our agreements. Additionally, our Solar Loan offers third-party financing alternatives to allow customers to take direct advantage of federal tax credits to reduce their electricity costs.

In October 2016, we revealed the solar roof, integrating solar energy production with aesthetically pleasing and durable glass roofing tiles, designed to complement and power customer homes and commercial buildings. We currently expect to commence production in the summer of 2017 at our Gigafactory 2 in Buffalo, New York, and begin customer installations of the solar roof later in 2017.

#### **Technology**

##### **Vehicles**

Our core competencies are powertrain engineering, vehicle engineering, innovative manufacturing and energy storage. Our core intellectual property resides not only within our electric powertrain, but also within our ability to design a vehicle that utilizes the unique advantages of an electric powertrain and the latest advancements in consumer technologies. Our powertrain consists of our battery pack, power electronics, motor, gearbox and control software. We offer several powertrain variants for the Model S and Model X that incorporate years of research and development. In addition, we have designed our vehicles to incorporate the latest advances in consumer technologies, such as mobile computing, sensing, displays, and connectivity. Further evolution of our technology continues for Model 3 and future vehicles. In addition, advancements in battery architecture, thermal management and power electronics that were originally commercialized in our vehicles, are now being leveraged in our energy storage products.

##### ***Battery Pack***

We design our battery packs to achieve high energy density at a low cost while also maintaining safety, reliability and long life. Our proprietary technology includes systems for high density energy storage, cooling, safety, charge balancing, structural durability, and electronics management. We have also pioneered advanced manufacturing techniques to manufacture large volumes of battery packs with high quality and low costs.

We have significant expertise in the safety and management systems needed to use lithium-ion cells in the automotive environment, and have actively worked with lithium-ion cell suppliers to further optimize cell designs to increase overall performance. These advancements have enabled us to improve cost and performance of our batteries over time. For example, we recently upgraded the battery of our highest range Model S to 100 kWh.

Our engineering and manufacturing efforts have been performed with a longer-term goal of building a foundation for further development. For instance, we have designed our battery pack to permit flexibility with respect to battery cell chemistry and form factor. In so doing, we can leverage the substantial investments and advancements being made globally by battery cell manufacturers to continue to improve cost. We maintain extensive testing and R&D capabilities at the individual cell level, the full battery-pack level, and other critical battery pack systems. As a result, we have built an expansive body of knowledge on lithium-ion cell vendors, chemistry types, and performance characteristics. We believe that the flexibility of our designs, combined with our research and real-world performance data, will enable us to continue to evaluate new battery cells as they become commercially viable, and thereby optimize battery pack system performance and cost for our current and future vehicles.

#### ***Power Electronics***

The power electronics in our electric vehicle powertrain govern the flow of high voltage electrical current throughout the vehicle. The power electronics have two primary functions, powering our electric motor to generate torque while driving and delivering energy into the battery pack while charging.

The first function is accomplished through the drive inverter, which converts direct current (DC) from the battery pack into alternating current (AC) to drive our induction motors. The drive inverter also provides “regenerative braking” functionality, which captures energy from the wheels to charge the battery pack. Tesla has developed a family of drive inverter designs that are customized to our proprietary motor designs to most efficiently meet the demands of each of our vehicles. The primary technological advantages to our designs include the ability to drive large amounts of current in a small physical package.

The second function, charging the battery pack, is accomplished by the charger, which converts alternating current (usually from a wall outlet or other electricity source) into direct current that can be accepted by the battery. Tesla vehicles can recharge on a wide variety of electricity sources due to the design of this charger, from a common household outlet to high power circuits meant for more industrial uses. Tesla vehicles come with a Universal Mobile Connector that allows for multiple different charging services to be used. We also offer a Tesla Wall Connector that can be set up to provide higher power charging than the Universal Mobile Connectors.

On the road, customers can also charge using our Supercharger network or at a variety of destinations that have deployed our charging equipment. In addition, our vehicles can charge at a variety of public charging stations around the world, either natively or through a suite of adapters. This flexibility in charging provides customers with additional mobility, while also allowing them to conveniently charge the vehicle overnight at home.

#### ***Dual Motor Powertrain***

In October 2014, we launched the initial version of our dual motor powertrain, which uses two electric motors to provide greater efficiency, performance, and range in an all-wheel drive configuration. Conventional all-wheel drive vehicles distribute power to the wheels from a single engine driving a complex mechanical transmission system. By contrast, Tesla’s dual motor powertrain digitally and independently controls torque to the front and rear wheels. The almost instantaneous response of the motors, combined with low centers of gravity, provides drivers with controlled performance and increased traction control.

#### ***Vehicle Control and Infotainment Software***

The performance and safety systems of our vehicles and their battery packs require sophisticated control software. There are numerous processors in our vehicles to control these functions, and we write custom firmware for many of these processors. The flow of electricity between the battery pack and the motor must be tightly controlled in order to deliver the performance and behavior expected in an automobile. For example, software algorithms enable the vehicle to mimic the “creep” feeling which drivers expect from an internal combustion engine vehicle without having to apply pressure on the accelerator. Similar algorithms control traction, vehicle stability and the sustained acceleration and regenerative braking of the vehicle. Software also is used extensively to monitor the charge state of each of the cells of the battery pack and to manage all of its safety systems. Drivers use the information and control systems in our vehicles to optimize performance, customize vehicle behavior, manage charging modes and times and control all infotainment functions. We develop almost all of this software, including most of the user interfaces, internally.

### ***Autopilot Systems***

We have developed an expertise in vehicle autopilot systems, including auto-steering, traffic aware cruise control, lane changing, automated parking and Summon and driver warning systems. In October 2014, we began equipping all Model S vehicles with hardware to allow for the incremental introduction of autopilot technology. In October 2016, we began equipping all Tesla vehicles with hardware needed for full self-driving capability, including cameras that provide 360 degree visibility, updated ultrasonic sensors for object detection, a forward-facing radar with enhanced processing, and a powerful new onboard computer. Our autopilot systems relieve our drivers of the most tedious and potentially dangerous aspects of road travel. Although, at present, the driver is ultimately responsible for controlling the vehicle, our system provides safety and convenience functionality that allows our customers to rely on it much like the system that airplane pilots use when conditions permit. This hardware suite, along with over-the-air firmware updates and field data feedback loops from the onboard camera, radar, ultrasonics, and GPS, enables the system to continually learn and improve its performance.

### **Energy Storage**

We are leveraging many of the component level technologies from our vehicles to advance our energy storage products, including high density energy storage, cooling, safety, charge balancing, structural durability, and electronics management. By taking a modular approach to the design of battery systems, we are able to maximize manufacturing capacity to produce both Powerwall and Powerpack products. Additionally, we are making significant strides in the area of bi-directional, grid-tied power electronics that enable us to interconnect our battery systems seamlessly with global electricity grids while providing fast-acting systems for power injection and absorption.

### **Solar Energy Systems**

We are continually innovating and developing new technologies to facilitate the growth of our solar energy systems business. For example, the solar roof is being designed to work seamlessly with Tesla Powerwall 2 and we have developed proprietary software to reduce system design and installation timelines and costs.

### **Design and Engineering**

#### **Vehicles**

In addition to the design, development and production of the powertrain, we have created significant in-house capabilities in the design and engineering of electric vehicles and their components and systems. We design and engineer bodies, chassis, interiors, heating and cooling and low voltage electrical systems in house and to a lesser extent in conjunction with our suppliers. Our team has core competencies in computer aided design and crash test simulations which reduces the product development time of new models.

Additionally, our team has expertise in lightweight materials, a very important characteristic for electric vehicles given the impact of mass on range. Model S and Model X are built with a lightweight aluminum body and chassis which incorporates a variety of materials and production methods that help optimize the weight of the vehicle.

#### **Energy Storage**

We have an in-house engineering team that both designs our energy storage products themselves, and works with our residential, commercial and utility customers to design bespoke systems incorporating our products. Our team's expertise in electrical, mechanical, civil and software engineering enables us to create integrated energy storage solutions that meet the particular needs of all customer types.

#### **Solar Energy Systems**

We also have an in-house engineering team that designs a customized solar energy system for each of our customers, and which works closely with our energy storage engineering teams to integrate an energy storage system when requested by the customer. We have developed software that simplifies and expedites the design process and optimizes the design to maximize the energy production of each system. Our engineers complete a structural analysis of each building and produce a full set of structural design and electrical blueprints that contain the specifications for all system components. Additionally, we design complementary mounting and grounding hardware.



## **Sales and Marketing**

### **Vehicles**

#### ***Company-Owned Stores and Galleries***

We market and sell our vehicles directly to consumers through an international network of company-owned stores and galleries which we believe enables us to better control costs of inventory, manage warranty service and pricing, maintain and strengthen the Tesla brand, and obtain rapid customer feedback. Our Tesla stores and galleries are highly visible, premium outlets in major metropolitan markets, some of which combine retail sales and service. We have also found that opening a service center in a new geographic area can increase demand. As a result, we have complemented our store strategy with sales facilities and personnel in service centers to more rapidly expand our retail footprint. We refer to these as "Service Plus" locations. Including all of our stores, galleries, Service Plus and service facilities, we operated 265 locations around the world as of December 31, 2016.

#### ***Tesla Supercharger Network***

We continue to build a network of fast chargers, each called a Tesla Supercharger, throughout North America, Europe, Asia and other markets to enable convenient, long-distance travel. Our Supercharger network is a strategic corporate initiative designed to provide fast charging to enable long-distance travel and remove a barrier to the broader adoption of electric vehicles caused by the perception of limited vehicle range. The Tesla Supercharger is an industrial grade, high speed charger designed to recharge a Tesla vehicle significantly more quickly than other charging options. To satisfy growing demand, Supercharger stations typically have between four and fourteen Superchargers and are strategically placed along well-travelled routes to allow Tesla vehicle owners the ability to enjoy long distance travel with convenient, minimal stops. Use of the Supercharger network is either free or requires a small fee to Supercharge. As of December 31, 2016, we had 790 Supercharger stations open worldwide and plan to continue expanding the Supercharger network.

#### ***Destination Charging***

We are working with a wide variety of hospitality locations, including hotels, resorts and shopping centers, to offer an additional charging option for our customers. These destination charging partners deploy our wall connectors and provide charging to Tesla vehicle owners that patronize their businesses. As of December 31, 2016, over 4,140 locations around the world had more than 7,110 Tesla wall connectors installed.

#### ***Orders and Reservations***

We typically carry a small inventory of our vehicles at our Tesla stores which are available for immediate sale. The majority of our customers, however, customize their vehicle by placing an order with us via the Internet. To begin production or make a reservation, we require an initial payment which is collected once the customer has selected the vehicle specifications and has entered into a purchase agreement. We require all remaining payment of the vehicle purchase price upon vehicle delivery to the customer.

#### ***Marketing***

Historically, we have been able to generate significant media coverage of our company and our vehicles, and we believe we will continue to do so. To date, for vehicle sales, media coverage and word of mouth have been the primary drivers of our sales leads and have helped us achieve sales without traditional advertising and at relatively low marketing costs.

### **Energy Storage**

We market and sell our energy storage products to individuals, commercial and industrial customers and utilities through a variety of channels. Powerwall 2 appears in many of our stores and galleries worldwide, which generates interest in the product. In the U.S., we also use our national sales organization, channel partner network and customer referral program to market and sell Powerwall 2. Outside of the U.S., we use our international sales organization and a network of channel partners to market and sell Powerwall 2. We also sell Powerwall 2 directly to utilities who act as a channel to their end-customers. We sell Powerpack systems to utility and commercial customers through our international sales organization, which consists of experienced power industry professionals in all of our target markets, as well as a channel partner network.

### **Solar Energy Systems**

We sell our solar products and services through a national sales organization that includes specialized internal call centers, outside sales force, a channel partner network and a robust customer referral program. In the first quarter of 2017, we also began offering our solar products and services in select Tesla stores.

## **Service and Warranty**

### **Vehicles**

#### ***Service***

We provide service for our electric vehicles at our company-owned service centers, at our Service Plus locations or, in certain areas for an additional charge, through Tesla Ranger mobile technicians who provide services that do not require a vehicle lift. We owned and operated 135 service locations as of December 31, 2016.

Our vehicles are designed with the capability to wirelessly upload data to us via an on-board system with cellular connectivity, allowing us to diagnose and remedy many problems before ever looking at the vehicle. When maintenance or service is required, a customer can schedule service by contacting one of our Tesla service centers. Our Tesla Rangers can also perform an array of services from the convenience of a customer's home or other remote location.

Our company-owned service centers enable our technicians to work closely with our engineers and research and development teams in Silicon Valley to identify problems, find solutions, and incorporate improvements faster than incumbent automobile manufacturers.

#### ***New Vehicle Limited Warranty, Maintenance and Extended Service Plans***

We provide a four year or 50,000 mile New Vehicle Limited Warranty with every new vehicle, subject to separate limited warranties for the supplemental restraint system and battery and drive unit. For the battery and drive unit on our current new vehicles, we offer an eight year, infinite mile warranty, although the battery's charging capacity is not covered.

In addition to the New Vehicle Limited Warranty, we offer a comprehensive maintenance program for every new vehicle, which includes plans covering prepaid maintenance for up to four years or up to 50,000 miles and an Extended Service plan. The maintenance plans cover annual inspections and the replacement of wear and tear parts, excluding tires and the battery. The Extended Service plan covers the repair or replacement of vehicle parts for up to an additional four years or up to an additional 50,000 miles after the New Vehicle Limited Warranty.

Our New Vehicle Limited Warranty and Extended Service plans are subject to certain limitations, exclusions or separate warranties, including on certain wear items, such as tires, brake pads, paint and general appearance, and battery performance, and are intended to cover parts and labor to repair defects in material or workmanship in the body, chassis, suspension, interior, electronic systems, battery, powertrain and brake system. In addition, all prepaid maintenance and Extended Service plans must be purchased within a specified period of time after vehicle purchase or warranty expiration.

### **Energy Storage**

We generally provide a ten year "no defect" and "energy retention" warranty with every Powerwall 2 and Powerpack 2. For Powerwall 2, the energy retention warranty involves us guaranteeing that the energy capacity of the product will be 70% or 80% (depending on the region of installation) of its nameplate capacity after 10 years of use. For Powerpack 2, the energy retention warranty involves us guaranteeing a minimum energy capacity in each of its first 10 years of use, subject to specified throughput caps. In addition, we offer certain extended warranties, which customers are able to purchase from us at the time they purchase an energy storage system, including a 20 year extended protection plan for Powerwall 2 and a 10 or 20 year "capacity maintenance agreement" for Powerpack 2. We agree to repair or replace our energy storage products in the event of a valid warranty claim. In circumstances where we install a Powerwall 2 or Powerpack 2 system, we also provide warranties, generally ranging from one to four years, on our installation workmanship. All of the warranties for our energy storage systems are subject to customary limitations and exclusions.

### **Solar Energy Systems**

We generally provide warranties of between ten to 30 years on the generating and non-generating parts of the solar energy systems we sell, together with a pass-through of the inverter and module manufacturers' warranties that generally range from five to 30 years. Where we sell the electricity generated by a solar energy system, we compensate customers if their system produces less energy over a specified performance period than our guarantee. We also provide ongoing service and repair during the entire term of the customer relationship.

### **Financial Services**

#### **Vehicles**

We offer loans and leases for our vehicles in North America, Europe and Asia primarily through various financial institutions. We also offer financing arrangements directly through our local subsidiaries in certain areas of the United States, Germany, Canada and the UK. We intend to broaden our financial services offerings during the next few years.

Certain of our current financing programs outside of North America provide customers with a resale value guarantee under which those customers have the option of selling their vehicle back to us at a preset future date, generally during the period of 36 to 39 months following delivery for a pre-determined resale value. In certain markets, we also offer resale value guarantees to financial institutions which may obligate us to repurchase the vehicles for a pre-determined price.

#### **Energy Storage**

Through our acquisition of SolarCity, we are able to use available financial instruments in the U.S. to offer a loan product for energy storage systems to end-customers, particularly when combined with a new solar installation to take advantage of available tax credits and incentives to reduce the cost to customer.

#### **Solar Energy Systems**

We are an industry leader in offering innovative financing alternatives that allow our customers to make the switch to solar energy with little to no upfront costs under our SolarLease and Solar PPA, or to take direct advantage of available tax credits and incentives to reduce the cost of owning a solar energy system through a SolarLoan. Our SolarLease, offers customers a fixed monthly fee at rates that typically translate into lower monthly utility bills with an electricity production guarantee. Our SolarPPA charges customers a fee per kWh based on the amount of electricity produced by our solar energy systems at rates typically lower than their local utility rate. Both our SolarLease and SolarPPA create high-quality, recurring customer payments that we monetize through financing funds we have formed with fund investors and by leveraging the value of our interests. In addition, our Solar Loan offers third-party financing directly to a qualified customer to enable the customer to purchase and own a solar energy system installed by us. We are not a party to the loan agreement between the customer and the third-party lender, and the third-party lender has no recourse against us with respect to the loan.

#### **Manufacturing**

##### **Vehicles**

We conduct vehicle manufacturing and assembly operations at our facilities in Fremont, California; Lathrop, California; and Tilburg, Netherlands. We are also building a cell and battery manufacturing facility, Gigafactory 1, outside of Reno, Nevada.

##### ***The Tesla Factory in Fremont, CA and Manufacturing Facility in Lathrop, CA***

We manufacture the Model S and Model X, and certain components that are critical to our intellectual property and quality standards, at the Tesla Factory. We will also manufacture Model 3 at the Tesla Factory. The Tesla Factory contains several manufacturing operations, including stamping, machining, casting, plastics, body assembly, paint operations, drive unit production, final vehicle assembly and end-of-line testing. In addition, we manufacture lithium-ion battery packs, electric motors, gearboxes and components for our vehicles at the Tesla Factory. Some major vehicle component systems are purchased from suppliers; however we have a high level of vertical integration in our manufacturing processes at the Tesla Factory. We machine various aluminum components at our facility in Lathrop, California and are nearing completion of a site expansion to include an aluminum castings operation.

In some areas of the Tesla Factory, we have designed our investments with flexibility to accommodate multiple products. For example, our new high volume paint shop and new stamping lines can support Model S, Model X and Model 3. Our final vehicle assembly line is producing both Model S and Model X. We also continue to make significant additional investments at the Tesla Factory to be able to start production and deliveries of Model 3, in the second half of 2017. These investments include a new body assembly shop and Model 3 final vehicle assembly.

##### ***The Netherlands***

Our European headquarters and manufacturing facilities are located in Amsterdam and Tilburg. The entities through which these facilities are operated hold the rights to manufacture and distribute all Tesla products to customers in all markets outside of the United States and provide corporate oversight functions for European sales, service, and administrative functions. Our operations in Tilburg include final assembly, testing and quality control for vehicles delivered within the European Union, a parts distribution warehouse for service centers throughout Europe, a center for remanufacturing work and a customer service center.

#### ***Gigafactory 1 outside of Reno, Nevada***

We are developing Gigafactory 1 as a facility where we work together with our suppliers to integrate battery material, cell, module and battery pack production in one location. We plan to use the battery packs manufactured at Gigafactory 1 for our vehicles, including Model 3 and energy storage products. We broke ground on Gigafactory 1 in June 2014, began assembling our energy storage products in the fourth quarter of 2015, and began production of lithium-ion battery cells for our energy storage products in the first quarter of 2017. We also intend to manufacture Model 3 drive units at Gigafactory 1.

Gigafactory 1 is being built in phases so that Tesla, Panasonic, and other partners can begin manufacturing immediately inside the finished sections and continue to expand thereafter. Gigafactory 1 is currently expected to attain full production capacity by 2020, which is anticipated to be sufficient for the production of approximately 500,000 vehicles annually as well as for the production of our energy storage products.

We believe that Gigafactory 1 will allow us to achieve a significant reduction in the cost of our battery packs once we are in volume production with Model 3. We have committed to invest heavily on capital expenditures for Gigafactory 1. Panasonic has agreed to partner with us on Gigafactory 1 with investments in production equipment that it will use to manufacture and supply us with battery cells. We have agreed to prepare and provide the land, buildings and utilities, to invest in production equipment for battery module and pack production and to be responsible for the overall management of Gigafactory 1.

#### ***Supply Chain***

Our vehicles use thousands of purchased parts which we source globally from hundreds of suppliers. We have developed close relationships with several key suppliers particularly in the procurement of cells and certain other key system parts. While we obtain components from multiple sources in some cases, similar to other automobile manufacturers, many of the components used in our vehicles are purchased by us from a single source. In addition, while several sources of the battery cell we have selected for our battery packs are available, we have currently fully qualified only one cell supplier for the battery packs we use in our production vehicles. We are working to fully qualify additional cells from other manufacturers.

We use various raw materials in our business including aluminum, steel, cobalt, lithium, nickel and copper. The prices for these raw materials fluctuate depending on market conditions and global demand for these materials. We believe that we have adequate supplies or sources of availability of the raw materials necessary to meet our manufacturing and supply requirements.

#### ***Energy Storage***

Our energy storage products are manufactured at Gigafactory 1. We leverage the same supply chain process and infrastructure as we use for our vehicles. The battery architecture and many of the components used in our energy storage products are the same or similar to those used in our vehicles' battery pack, enabling us to take advantage of manufacturing efficiencies and supply chain economies of scale. The power electronics and grid-tie inverter for the Powerwall and Powerpack systems are also manufactured at Gigafactory 1, allowing us to ship deployment-ready systems directly from Gigafactory 1.

#### ***Solar Energy Systems***

We currently purchase major components such as solar panels and inverters directly from multiple manufacturers. We typically purchase solar panels and inverters on an as-needed basis from our suppliers at then-prevailing prices pursuant to purchase orders issued under our master contractual arrangements. In December 2016, we entered into a long-term agreement with Panasonic to manufacture photovoltaic (PV) cells at our Gigafactory 2 in Buffalo, New York, with negotiated pricing provisions and the intent to manufacture 1 gigawatt of solar panels annually.

#### **Governmental Programs, Incentives and Regulations**

##### ***Vehicles***

##### ***California Alternative Energy and Advanced Transportation Financing Authority Tax Incentives***

We have entered into multiple agreements over the past few years with the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) that provide multi-year sales tax exclusions on purchases of manufacturing equipment that will be used for specific purposes including the expansion and ongoing development of Model S, Model X, Model 3 and future electric vehicles and expansion of electric vehicle powertrain production in California. We estimate the combined tax savings under these agreements will be approximately \$198 million, of which \$100 million has been realized as of December 31, 2016.

### ***Nevada Tax Incentives***

In connection with the construction of Gigafactory 1 in Nevada, we have entered into agreements with the State of Nevada and Storey County in Nevada that will provide abatements for sales and use taxes, real and personal property taxes, and employer excise taxes, discounts to the base tariff energy rates, and transferable tax credits. These incentives are available for the applicable periods ending on June 30, 2034, subject to capital investments by Tesla and its partners for Gigafactory 1 of at least \$3.5 billion in the aggregate on or before June 30, 2024, and certain other conditions specified in the agreements. If we do not satisfy one or more conditions under the agreements, Tesla will be required to repay to the respective taxing authorities the amounts of the tax incentives incurred, plus interest.

### ***Tesla Regulatory Credits***

In connection with the production, delivery and placement into service of our zero emission vehicles, charging infrastructure and solar systems in global markets, we have earned and will continue to earn various tradable regulatory credits. We have sold these credits, and will continue to sell future credits, to automotive companies and regulated entities. For example, under California's Zero-Emission Vehicle Regulation and those of states that have adopted California's standard, vehicle manufacturers are required to earn or purchase credits for compliance with their annual regulatory requirements. These laws provide that automakers may bank excess credits, referred to as ZEV credits, if they earn more credits than the minimum quantity required by those laws. Manufacturers with a surplus of credits may sell their credits to other regulated parties. Pursuant to the U.S. Environmental Protection Agency's (EPA) national greenhouse gas (GHG) emission standards and similar standards adopted by the Canadian government, car and truck manufacturers are required to meet fleet-wide average carbon dioxide emissions standards. Manufacturers may sell excess credits to other manufacturers, who can use the credits to comply with these regulatory requirements. Many U.S. states have also adopted procurement requirements for renewable energy production. These requirements enable companies deploying solar energy to earn tradable credits known as Solar Renewable Energy Certificates (SRECs).

### ***Regulation—Vehicle Safety and Testing***

Our vehicles are subject to, and comply with or are otherwise exempt from, numerous regulatory requirements established by NHTSA, including all applicable United States Federal Motor Vehicle Safety Standards (FMVSS). Model S and Model X fully comply with all FMVSSs without the need for any exemptions, and we expect future Tesla vehicles to also fully comply.

As a manufacturer, we must self-certify that our vehicles meet all applicable FMVSS, as well as the NHTSA bumper standard, or otherwise are exempt, before the vehicles can be imported or sold in the United States. Numerous FMVSS apply to our vehicles, such as crash-worthiness requirements, crash avoidance requirements, and electric vehicle requirements. We are also required to comply with other federal laws administered by NHTSA, including the CAFE standards, Theft Prevention Act requirements, consumer information labeling requirements, Early Warning Reporting requirements regarding warranty claims, field reports, death and injury reports and foreign recalls, and owner's manual requirements.

The Automobile Information and Disclosure Act requires manufacturers of motor vehicles to disclose certain information regarding the manufacturer's suggested retail price, optional equipment and pricing. In addition, this law allows inclusion of city and highway fuel economy ratings, as determined by EPA, as well as crash test ratings as determined by NHTSA if such tests are conducted.

Our vehicles sold in outside of the U.S. are subject to foreign safety testing regulations. Many of those regulations are different from the federal motor vehicle safety standards applicable in the United States and may require redesign and/or retesting.

### ***Regulation—Battery Safety and Testing***

Our battery pack conforms to mandatory regulations that govern transport of "dangerous goods", defined to include lithium-ion batteries, which may present a risk in transportation. The regulations vary by mode of shipping transportation, such as by ocean vessel, rail, truck, or air. We have completed the applicable transportation tests for our battery packs, demonstrating our compliance with applicable regulations.

We use lithium metal oxide cells in our high voltage battery packs. The cells do not contain any lead, mercury, cadmium, other hazardous materials, heavy metals, or toxic materials. Our battery packs include certain packaging materials that contain trace amounts of hazardous chemicals whose use, storage, and disposal is regulated under federal law. We currently have an agreement with a third party battery recycling company to recycle our battery packs.

### ***Automobile Manufacturer and Dealer Regulation***

State laws regulate the manufacture, distribution, and sale of automobiles, and generally require motor vehicle manufacturers and dealers to be licensed in order to sell vehicles directly to consumers in the state. As we open additional Tesla stores and service centers, we secure dealer licenses (or their equivalent) and engage in sales activities to sell our vehicles directly to consumers. A few states, such as Michigan and Connecticut, do not permit automobile manufacturers to be licensed as dealers or to act in the capacity of a dealer, or otherwise restrict a manufacturer's ability to deliver or service vehicles. To sell vehicles to residents of states where we are not licensed as a dealer, we generally conduct the sale of the state via the internet, phone or mail. In such states, we have opened "galleries" that serve an educational purpose and are not retail locations.

As we expand our retail footprint in the United States, some automobile dealer trade associations have both challenged the legality of our operations in court and used administrative and legislative processes to attempt to prohibit or limit our ability to operate existing stores or expand to new locations. We expect that the dealer associations will continue to mount challenges to our business model. In addition, we expect the dealer associations to actively lobby state licensing agencies and legislators to interpret existing laws or enact new laws in ways not favorable to Tesla's ownership and operation of its own retail and service locations, and we intend to actively fight any such efforts to limit our ability to sell our own vehicles.

While we have analyzed the principal laws in the U.S., EU, China, Japan, UK, and Australia relating to our distribution model and believe we comply with such laws, we have not performed a complete analysis of all jurisdictions in which we may sell vehicles. Accordingly, there may be laws in certain jurisdictions that may restrict our sales and service operations.

### **Energy Storage**

The regulatory regime for energy storage projects is still under development. Nevertheless, there are various policies, incentives and financial mechanisms at the federal, state and local level that support the adoption of energy storage. For example, energy storage systems that are charged using solar energy are eligible for the 30% tax credit under Section 48(a)(3) of the Internal Revenue Code, or the IRC, as described below. In addition, California and a number of other states have adopted procurement targets for energy storage, and behind the meter energy storage systems qualify for funding under the California Self Generation Incentive Program.

The Federal Energy Regulatory Commission (FERC) has also taken steps to enable the participation of energy storage in wholesale energy markets. In 2011 and 2013, FERC removed many barriers for systems like energy storage to provide frequency regulation service, thus increasing the value these systems can obtain in wholesale energy markets. More recently, in late 2016, FERC released a Notice of Proposed Rulemaking that, if it becomes a final rule, would further break down barriers preventing energy storage from fully participating in wholesale energy markets. Finally, in January 2017, FERC issued a statement supporting the use of energy storage as both electric transmission and as electric generation concurrently, thus enabling energy storage systems to provide greater value to the electric grid.

### **Solar Energy Systems**

#### ***Government and Utility Programs and Incentives***

U.S. federal, state and local governments have established various policies, incentives and financial mechanisms to reduce the cost of solar energy and to accelerate the adoption of solar energy. These incentives include tax credits, cash grants, tax abatements and rebates.

The federal government currently provides an uncapped investment tax credit, or Federal ITC, under two sections of the IRC: Section 48 and Section 25D. Section 48(a)(3) of the IRC allows a taxpayer to claim a credit of 30% of qualified expenditures for a commercial solar energy system that commences construction by December 31, 2019. The credit then declines to 26% in 2020, 22% in 2021, and a permanent 10% thereafter. We claim the Section 48 commercial credit when available for both our residential and commercial projects, based on ownership of the solar energy system. The federal government also provides accelerated depreciation for eligible commercial solar energy systems. Section 25D of the IRC allows a homeowner-taxpayer to claim a credit of 30% of qualified expenditures for a residential solar energy system owned by the homeowner that is placed in service by December 31, 2019. The credit then declines to 26% in 2020 and 22% in 2021, and is scheduled to expire thereafter. Customers who purchase their solar energy systems for cash or through our Solar Loan are eligible to claim the Section 25D investment tax credit.

In addition to the Federal ITC, many U.S. states offer personal and corporate tax credits and incentive available for solar energy systems.

#### ***Regulation -General***

We are not a "regulated utility" in the U.S. To operate our systems, we obtain interconnection agreements from the utilities. In almost all cases, interconnection agreements are standard form agreements that have been pre-approved by the public utility commission or other regulatory body.

Sales of electricity and non-sale equipment leases by third parties, such as our SolarLeases and SolarPPAs, face regulatory challenges in some states and jurisdictions.

**Regulation - Net Metering**

Forty-one states, Washington, D.C. and Puerto Rico have a regulatory policy known as net energy metering, or net metering, available to new solar customers. Net metering typically allows solar customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit for excess energy generated by their solar energy system that is exported to the grid. Each of the states where we currently serve customers has adopted a net metering policy except for Texas, where certain individual utilities have adopted net metering or a policy similar to net metering. In certain jurisdictions, regulators or utilities have reduced or eliminated the benefit available under net metering, or have proposed to do so.

**Regulation - Mandated Renewable Capacity**

Many states also have adopted procurement requirements for renewable energy production, such as an enforceable renewable portfolio standard, or RPS, or other policies that require covered entities to procure a specified percentage of total electricity delivered to customers in the state from eligible renewable energy sources, such as solar energy systems. To prove compliance with such mandates, utilities typically must surrender renewable energy certificates. A solar renewable energy certificate, or SREC, is a tradable credit that represents all of the clean energy benefits of electricity generated from a solar energy system. Every time a solar energy system generates 1,000 kWh of electricity, one SREC is issued or minted by a government agency. The SREC can then be sold or traded separately from the energy produced, generally through brokers and dealers facilitating individually negotiated bilateral arrangements.

**Competition**

**Vehicles**

The worldwide automotive market, particularly for alternative fuel vehicles, is highly competitive today and we expect it will become even more so in the future as we introduce additional, lower priced vehicles such as our Model 3, and as we introduce other types of vehicles.

We believe the primary competitive factors in our markets include but are not limited to:

- technological innovation;
- product quality and safety;
- service options;
- product performance;
- design and styling;
- brand perception;
- product price; and
- manufacturing efficiency.

We believe that our vehicles compete in the market both based on their traditional segment classification as well as based on their propulsion technology. For example, Model S and Model X compete primarily in the extremely competitive premium sedan and premium SUV markets with internal combustion vehicles from more established automobile manufacturers, including Audi, BMW, Lexus and Mercedes, and Model 3 will compete with small to medium-sized sedans from manufacturers including Audi, BMW, Lexus, Mercedes, Honda and Toyota. Our vehicles also compete with vehicles propelled by alternative fuels, principally electricity.

Many established and new automobile manufacturers have entered or have announced plans to enter the alternative fuel vehicle market. Overall, we believe these announcements and vehicle introductions promote the development of the alternative fuel vehicle market by highlighting the attractiveness of alternative fuel vehicles, particularly those fueled by electricity, relative to the internal combustion vehicle. BMW, Daimler, Nissan, Fiat, Ford, General Motors and Mitsubishi, among others, have electric vehicles available today, and other current and prospective automobile manufacturers are also developing electric vehicles. Electric vehicles have also already been brought to market in China and other foreign countries and we expect a number of those manufacturers to enter the United States market as well. In addition, several manufacturers, including General Motors, Toyota, Ford, and Honda, are each selling hybrid vehicles, including plug-in versions of their hybrid vehicles.

**Energy Storage**

The market for energy storage products is also highly competitive. Established companies, such as AES Energy Storage, LG Chem and Samsung, as well as various emerging companies, have introduced products that are similar to our product portfolio. There are several companies providing individual components of energy storage systems (such as cells, battery modules, and power electronics) as well as others providing integrated systems. We compete with these companies on price, energy density and efficiency. We believe that the superior specifications of our products, our strong brand, and the modular, scalable nature of our Powerpack 2 product give us a competitive advantage when marketing our products.

**Solar Energy Systems**

The primary competitors to our solar energy business are the traditional local utility companies that supply energy to our potential customers. We compete with these traditional utility companies primarily based on price, predictability of price and the ease by which customers can switch to electricity generated by our solar energy systems rather than fossil fuel based alternatives. We also compete with solar energy companies that provide products and services in distinct segments of solar energy and energy-related products. Many solar energy companies only install solar energy systems, while others only provide financing for these installations. In the residential solar energy system installation market, our primary competitors include Vivint Solar Inc., Sunrun Inc., Trinity Solar, Sungevity, Inc., and many smaller local solar companies.

**Intellectual Property**

As part of our business, we seek to protect our intellectual property rights such as with respect to patents, trademarks, copyrights, trade secrets, including through employee and third party nondisclosure agreements, and other contractual arrangements. Additionally, we previously announced a patent policy in which we irrevocably pledged that we will not initiate a lawsuit against any party for infringing our patents through activity relating to electric vehicles or related equipment for so long as such party is acting in good faith. We made this pledge in order to encourage the advancement of a common, rapidly-evolving platform for electric vehicles, thereby benefiting ourselves, other companies making electric vehicles, and the world.

**Segment Information**

We operate as two reportable segments: automotive and energy generation and storage.

The automotive segment includes the design, development, manufacturing, and sales of electric vehicles. The energy generation and storage segment includes the design, manufacture, installation, and sale or lease of stationary energy storage products and solar energy systems to residential and commercial customers, or sale of electricity generated by our solar energy systems to customers.

**Employees**

As of December 31, 2016, Tesla, Inc. had 17,782 full-time employees and SolarCity Corporation had 12,243 full-time employees. To date, we have not experienced any work stoppages, and we consider our relationship with our employees to be good.

**Available Information**

We file or furnish periodic reports and amendments thereto, including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K; proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, amendments, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically. Our reports, amendments thereto, proxy statements and other information are also made available, free of charge, on our investor relations website at [ir.tesla.com](http://ir.tesla.com) as soon as reasonably practicable after we electronically file or furnish such information with the SEC. The information posted on our website is not incorporated by reference into this Annual Report on Form 10-K.



**ITEM 1A. RISK FACTORS**

You should carefully consider the risks described below together with the other information set forth in this report, which could materially affect our business, financial condition and future results. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

**Risks Related to Our Business and Industry**

**We have experienced in the past, and may experience in the future, significant delays or other complications in the design, manufacture, launch and production ramp of new vehicles and other products such as our energy storage products and the solar roof, which could harm our brand, business, prospects, financial condition and operating results.**

We have experienced in the past launch, manufacturing and production ramp delays or other complications in connection with new vehicle models such as Model S and Model X, and new vehicle features such as the all-wheel drive dual motor drivetrain on Model S and the second version of autopilot hardware. For example, at times since the launch of Model X, we encountered unanticipated challenges, such as certain supply chain constraints, that forced us to decrease the production of these vehicles from our initial expectations. If unexpected issues arise or recur with respect to any of our production vehicles, we may experience further delays. In addition, because our vehicle models share certain production facilities with other models, the volume or efficiency of production with respect to one model may impact the production of other models.

We may also experience similar delays or other complications in bringing to market and ramping production of new vehicles, such as Model 3, and other products such as our energy storage products and the solar roof. Any significant additional delay or other complication in the production of our current products or the development, manufacture, launch and production ramp of our future products, including complications associated with expanding our production capacity, supply chain or regulatory approvals, could materially damage our brand, business, prospects, financial condition and operating results.

**We may experience delays in realizing our projected timelines and cost and volume targets for the production, launch and ramp of our Model 3 vehicle, which could harm our business, prospects, financial condition and operating results.**

Our future business depends in large part on our ability to execute on our plans to develop, manufacture, market and sell the Model 3 vehicle, which we intend to offer at a lower price point and to produce at significantly higher volumes than our present production capabilities for the Model S or Model X vehicles. We unveiled a prototype of Model 3 in March 2016 and have announced our goal to achieve volume production and deliveries of this vehicle in the second half of 2017.

We have no experience to date in manufacturing vehicles at the high volumes that we anticipate for Model 3, and to be successful, we will need to implement efficient, automated and low-cost manufacturing capabilities, processes and supply chains necessary to support such volumes. We will also need to do extensive testing to ensure that Model 3 is in compliance with our quality standards and applicable regulations prior to beginning mass production and delivery of the vehicles. Moreover, our Model 3 production plan will also require significant investments of cash and management resources.

Our production plan for Model 3 is based on many key assumptions, including:

- that we will be able to build and equip a new dedicated final assembly line for high volume production of Model 3 at the Tesla Factory without exceeding our projected costs and on our projected timeline;
- that we will be able to continue to expand Gigafactory 1 in a timely manner to produce high volumes of quality lithium-ion cells and integrate such cells into finished battery packs for Model 3, all at costs that allow us to sell Model 3 at our target gross margins;
- that the equipment and processes which we install for Model 3 production will be able to accurately manufacture high volumes of Model 3 vehicles within specified design tolerances and with high quality;
- that we will be able to continue to engage suppliers for the necessary components on terms and conditions that are acceptable to us and that we will be able to obtain components on a timely basis and in the necessary quantities to support high volume production;
- that we will be able to complete our final tooling, production planning and validation for Model 3 and the delivery of final component designs to our suppliers in a timely manner; and
- that we will be able to attract, recruit, hire and train skilled employees, including employees on the production line, to operate our planned high volume production facilities to support Model 3, including at the Tesla Factory and Gigafactory 1.

If one or more of the foregoing assumptions turns out to be incorrect, our ability to successfully launch Model 3 on time and at volumes and prices that are profitable, as well as our business, prospects, operating results and financial condition, may be materially and adversely impacted.

***We may be unable to meet our growing vehicle production and delivery plans, both of which could harm our business and prospects.***

Our plans call for significant increases in vehicle production and deliveries to high volumes in a short amount of time. Our ability to achieve these plans will depend upon a number of factors, including our ability to add production lines and capacity as planned while maintaining our desired quality levels and optimize design and production changes, and our suppliers' ability to support our needs. In addition, we have used and may use in the future a number of new manufacturing technologies, techniques and processes for our vehicles, which we must successfully introduce and scale for high volume production. For example, we have introduced aluminum spot welding systems and high-speed blow forming of certain difficult to stamp vehicle parts. We have also introduced unique design features in our vehicles with different manufacturing challenges, such as a 17 inch display screen, dual motor drivetrain, autopilot hardware and falcon-wing doors. We have limited experience developing, manufacturing, selling and servicing, and allocating our available resources among, multiple products simultaneously. If we are unable to realize our plans, our brand, business, prospects, financial condition and operating results could be materially damaged.

Concurrent with the significant planned increase in our vehicle production levels, we will also need to continue to significantly increase deliveries of our vehicles. We have limited experience in delivering a high volume of vehicles, and no experience in delivering vehicles at the significantly higher volumes we anticipate for Model 3, and we may face difficulties meeting our delivery and growth plans into both existing markets as well as new markets into which we expand. If we are unable to ramp up to meet our delivery goals globally, this could have a material adverse effect on our business, prospects, financial condition and operating results.

***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, could have a material adverse effect on our financial condition and operating results.***

Our current products contain numerous purchased parts which we source globally from hundreds of direct suppliers, the majority of whom are currently single source suppliers despite efforts to qualify and obtain components from multiple sources whenever feasible. Any significant unanticipated demand would require us to procure additional components in a short amount of time, and in the past we have also replaced certain suppliers because of their failure to provide components that met our quality control standards. While we believe that we will be able to secure additional or alternate sources of supply for most of our components in a relatively short time frame, there is no assurance that we will be able to do so or develop our own replacements for certain highly customized components of our products. Moreover, we have signed long-term agreements with Panasonic to be our manufacturing partner and supplier for lithium-ion cells at Gigafactory 1 in Nevada and PV cells and panels at Gigafactory 2 in Buffalo, New York. If we encounter unexpected difficulties with key suppliers such as Panasonic, and if we are unable to fill these needs from other suppliers, we could experience production delays and potential loss of access to important technology and parts for producing, servicing and supporting our products.

This limited supply chain exposes us to multiple potential sources of delivery failure or component shortages for the production of our products, such as those which we experienced in 2012 and 2016 in connection with our slower-than-planned Model S and Model X ramps. Furthermore, unexpected changes in business conditions, materials pricing, labor issues, wars, governmental changes, natural disasters such as the March 2011 earthquakes in Japan and other factors beyond our and our suppliers' control, could also affect our suppliers' ability to deliver components to us on a timely basis. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to product design changes and delays in product deliveries to our customers, which could hurt our relationships with our customers and result in negative publicity, damage to our brand and a material and adverse effect on our business, prospects, financial condition and operating results.

Changes in our supply chain have also resulted in the past, and may result in the future, in increased cost. We have also experienced cost increases from certain of our suppliers in order to meet our quality targets and development timelines as well as due to design changes that we made, and we may experience similar cost increases in the future. Certain suppliers, including for Model X, have sought to renegotiate the terms of the supply arrangements. Additionally, we are negotiating with existing suppliers for cost reductions, seeking new and less expensive suppliers for certain parts, and attempting to redesign certain parts to make them less expensive to produce. If we are unsuccessful in our efforts to control and reduce supplier costs, our operating results will suffer.

We expect the foregoing discussion to apply generally to Model 3. However, because we plan to produce Model 3 at significantly higher volumes than Model S or Model X, the negative impact of any delays or other constraints with respect to our suppliers for Model 3 could be substantially greater than any such issues experienced with respect to our products to date. As some of our suppliers for our current production vehicles do not have the resources, equipment or capability to provide components for the Model 3 in line with our requirements, we have engaged a significant number of new suppliers, and such suppliers will also have to ramp to achieve our needs in a short period of time. There is no assurance that these suppliers will ultimately be able to meet our cost, quality and volume needs. Furthermore, as the scale of our vehicle production increases, we will need to accurately forecast, purchase, warehouse and transport to our manufacturing facilities components at much higher volumes than we have experience with. If we are unable to accurately match the timing and quantities of component purchases to our actual production plans or capabilities, or successfully implement automation, inventory management and other systems to accommodate the increased complexity in our supply chain, we may have to incur unexpected storage, transportation and write-off costs, which could have a material adverse effect on our financial condition and operating results.

***Our future growth and success is dependent upon consumers' willingness to adopt electric vehicles and specifically our vehicles, especially in the mass market demographic which we are targeting with Model 3.***

Our growth is highly dependent upon the adoption by consumers of alternative fuel vehicles in general and electric vehicles in particular. Although we have successfully grown demand for Model S and Model X to date and have seen very strong initial demand for Model 3, and we believe that we will be able to continue to grow demand separately for each of these vehicles and their variants, there is no guarantee of such future demand or that our vehicles will not compete with one another in the market. Moreover, the mass market demographic which we are targeting with Model 3 is larger, but more competitive, than for Model S and Model X.

If the market for electric vehicles in general and Tesla vehicles in particular does not develop as we expect, or develops more slowly than we expect, our business, prospects, financial condition and operating results could be harmed. The market for alternative fuel vehicles is relatively new, rapidly evolving, and could be affected by numerous external factors, such as:

- perceptions about electric vehicle features, quality, safety, performance and cost;
- perceptions about the limited range over which electric vehicles may be driven on a single battery charge;
- competition, including from other types of alternative fuel vehicles, plug-in hybrid electric vehicles, and high fuel-economy internal combustion engine vehicles;
- volatility in the cost of oil and gasoline;
- government regulations and economic incentives; and
- access to charging facilities.

***Future problems or delays in expanding Gigafactory 1 and operating it in line with our expectations could negatively affect the production and profitability of our battery-based products, such as Model 3 or our energy storage products.***

To lower the cost of cell production and produce cells in high volume, we intend to integrate the production of lithium-ion cells and finished battery packs for our vehicles including Model 3 and energy storage products at Gigafactory 1. While Gigafactory 1 began producing lithium-ion cells for energy storage products in January 2017, we have no other direct experience in the production of lithium-ion cells, including those intended for use in vehicles. Although we continue to remain on track with our progress at Gigafactory 1, given the size and complexity of this undertaking, it is possible that future events could result in the cost of expanding and operating Gigafactory 1 exceeding our current expectations and Gigafactory 1 taking longer to expand than we currently anticipate. In order to build our Model 3 vehicles at our planned volume and target gross margin, we must have significant battery cell production from Gigafactory 1. If we are unable to expand Gigafactory 1 in a timely manner, and attract, hire and retain a substantial number of highly skilled personnel to work there in order to produce high volumes of quality lithium-ion cells at reasonable prices, our ability to supply battery packs to our vehicles, especially Model 3, and other battery-based products according to our schedule and/or at a price that allows us to sell them at our target gross margins and in the quantities we estimate could be negatively impacted. Any such future problems or delays with Gigafactory 1 could negatively affect our brand and harm our business, prospects, financial condition and operating results.

***If our vehicles or other products that contain our vehicle powertrains or battery packs fail to perform as expected, our ability to develop, market and sell our electric vehicles could be harmed.***

If our vehicles, other OEMs' vehicles that contain our powertrains or our energy storage products were to contain defects in design and manufacture that cause them not to perform as expected or that require repair, our ability to develop, market and sell our products could be harmed. For example, the operation of our vehicles is highly dependent on software, which is inherently complex and could conceivably contain defects and errors. Issues experienced by customers have included those related to the software for the 17 inch display screen, the panoramic roof and the 12 volt battery in the Model S and the seats and doors in the Model X. Although we attempt to remedy any issues we observe in our vehicles as effectively and rapidly as possible, such efforts may not be timely, may hamper production or may not be up to the satisfaction of our customers. While we have performed extensive internal testing, we currently have a limited frame of reference by which to evaluate detailed long-term quality, reliability, durability and performance characteristics of our battery packs, powertrains, vehicles and energy storage products. There can be no assurance that we will be able to detect and fix any defects in our products prior to their sale to consumers.

Any product defects or any other failure of our products to perform as expected could harm our reputation and result in delivery delays, product recalls, product liability claims, significant warranty and other expenses, and could have a material adverse impact on our business, financial condition, operating results and prospects. Our Model X vehicles have not yet been evaluated by NHTSA for a star rating under the New Car Assessment Program, and while based on our internal testing we expect to obtain comparable ratings to those achieved by Model S, there is no assurance this will occur.

***If we fail to scale our business operations and otherwise manage future growth effectively as we rapidly grow our company, especially internationally, we may not be able to produce, market, sell and service our products successfully.***

Any failure to manage our growth effectively could materially and adversely affect our business, prospects, operating results and financial condition. We continue to expand our operations significantly, especially internationally, including by a planned transition to high volume vehicle production and the worldwide sales and servicing of a significantly higher number of vehicles than our current vehicle fleet in the coming years, with the launch and ramp of Model 3. Furthermore, we are developing and growing our energy storage product and solar business worldwide, including in countries where we have limited or no previous operating experience in connection with our vehicle business. Our future operating results depend to a large extent on our ability to manage our expansion and growth successfully. We may not be successful in undertaking this global expansion if we are unable to control expenses and avoid cost overruns and other unexpected operating costs; establish sufficient worldwide sales, service and Supercharger facilities in a timely manner; adapt our products to meet local requirements; implement the required infrastructure, systems and processes; and find and hire a significant number of additional manufacturing, engineering, service, electrical installation, construction and administrative personnel.

***If we are unable to continue to reduce the manufacturing costs of Model S and Model X or control manufacturing costs for Model 3, our financial condition and operating results will suffer.***

As we have gradually ramped production of Model S and Model X, manufacturing costs per vehicle have decreased. While we expect ongoing cost reductions to be realized by both us and our suppliers, there is no guarantee we will be able to achieve sufficient cost savings to reach our gross margin and profitability goals. We incur significant costs related to procuring the materials required to manufacture our vehicles, assembling vehicles and compensating our personnel. We may also incur substantial costs or cost overruns in increasing the production capability of our vehicle manufacturing facilities, such as for Model 3. Furthermore, if we are unable to achieve production cost targets on our Model X and Model 3 vehicles pursuant to our plans, we may not be able to meet our gross margin and other financial targets.

Furthermore, many of the factors that impact our manufacturing costs are beyond our control, such as potential increases in the costs of our materials and components, such as lithium-ion battery cells or aluminum used to produce body panels. If we are unable to continue to control and reduce our manufacturing costs, our operating results, business and prospects will be harmed.

***We are significantly dependent upon revenue generated from the sale of a limited fleet of electric vehicles, which currently includes the Model S and Model X and which will also include Model 3 in the near term.***

We currently generate a significant percentage of our revenues from the sale of two products: Model S and Model X vehicles. Model 3, for which we are planning to achieve volume production and deliveries in second half of 2017, requires significant investment prior to commercial introduction, and there is no guarantee that it will be commercially successful. Historically, automobile customers have come to expect a variety of vehicles offered in a manufacturer's fleet and new and improved vehicle models to be introduced frequently. In order to meet these expectations, we may in the future be required to introduce on a regular basis new vehicle models as well as enhanced versions of existing vehicle models. To the extent our product variety and cycles do not meet consumer expectations, our future sales may be adversely affected.

***Our vehicles and energy storage products make use of lithium-ion battery cells, which have been observed to catch fire or vent smoke and flame, and such events have raised concerns, and future events may lead to additional concerns, about the batteries used in automotive applications.***

The battery packs that we produce make use of lithium-ion cells. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion cells.

While we have designed the battery pack to passively contain any single cell's release of energy without spreading to neighboring cells, there can be no assurance that a field or testing failure of our vehicles or other battery packs that we produce will not occur, which could subject us to lawsuits, product recalls, or redesign efforts, all of which would be time consuming and expensive. Also, negative public perceptions regarding the suitability of lithium-ion cells for automotive applications or any future incident involving lithium-ion cells such as a vehicle or other fire, even if such incident does not involve our vehicles, could seriously harm our business.

In addition, we store a significant number of lithium-ion cells at the Tesla Factory and plan to produce high volumes of cells and battery modules and packs at Gigafactory 1. Any mishandling of battery cells may cause disruption to the operation of our facilities. While we have implemented safety procedures related to the handling of the cells, there can be no assurance that a safety issue or fire related to the cells would not disrupt our operations. Such damage or injury could lead to adverse publicity and potentially a safety recall. Moreover, any failure of a competitor's electric vehicle or energy storage product may cause indirect adverse publicity for us and our products. Such adverse publicity could negatively affect our brand and harm our business, prospects, financial condition and operating results.

***Increases in costs, disruption of supply or shortage of materials, in particular for lithium-ion cells, could harm our business.***

We may experience increases in the cost or a sustained interruption in the supply or shortage of materials. Any such increase, supply interruption or shortage could materially and negatively impact our business, prospects, financial condition and operating results. We use various materials in our business including aluminum, steel, lithium, cobalt, nickel and copper, as well as lithium-ion cells from suppliers. The prices for these materials fluctuate, and their available supply may be unstable, depending on market conditions and global demand for these materials, including as a result of increased production of electric vehicles and energy storage products by our competitors, and could adversely affect our business and operating results. For instance, we are exposed to multiple risks relating to lithium-ion cells. These risks include:

- the inability or unwillingness of current battery manufacturers to build or operate battery cell manufacturing plants to supply the numbers of lithium-ion cells we require;
- disruption in the supply of cells due to quality issues or recalls by battery cell manufacturers or any issues that may arise with respect to cells manufactured at our own facilities;
- an increase in the cost, or decrease in the available supply, of materials used in the cells; and
- fluctuations in the value of the Japanese yen against the U.S. dollar as our battery cell purchases for Model S and Model X are currently denominated in Japanese yen.

Our business is dependent on the continued supply of battery cells for the battery packs used in our vehicles and energy storage products. While we believe several sources of the battery cells are available for such battery packs, and expect to eventually rely substantially on battery cells manufactured at our own facilities, we have to date fully qualified only a very limited number of suppliers for the cells used in such battery packs and have very limited flexibility in changing cell suppliers. In particular, we have fully qualified only one supplier for the cells used in battery packs for our current production vehicles. Any disruption in the supply of battery cells from such suppliers could disrupt production of our vehicles and of the battery packs we produce for other automobile manufacturers until such time as a different supplier is fully qualified. Furthermore, fluctuations or shortages in petroleum and other economic conditions may cause us to experience significant increases in freight charges and material costs. Substantial increases in the prices for our materials or prices charged to us, such as those charged by battery cell suppliers, would increase our operating costs, and could reduce our margins if we cannot recoup the increased costs through increased vehicle prices. Any attempts to increase vehicle prices in response to increased material costs could result in cancellations of vehicle orders and reservations and therefore materially and adversely affect our brand, image, business, prospects and operating results.

***We may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.***

Product liability claims could harm our business, prospects, operating results and financial condition. The automobile industry in particular experiences significant product liability claims and we face inherent risk of exposure to claims in the event our vehicles do not perform as expected resulting in personal injury or death. We also may face similar claims related to any misuse or failures of new technologies that we are pioneering, including autopilot in our vehicles. Finally, as our energy storage products and solar energy systems generate and store electricity, they have the potential to cause injury to people or property. A successful product liability claim against us could require us to pay a substantial monetary award. Our risks in this area are particularly pronounced given the limited number of vehicles and energy storage products delivered to date and limited field experience of our products. Moreover, a product liability claim could generate substantial negative publicity about our products and business and could have material adverse effect on our brand, business, prospects and operating results. In most jurisdictions, we generally self-insure against the risk of product liability claims, meaning that any product liability claims will likely have to be paid from company funds, not by insurance.

***The markets in which we operate are highly competitive, and we may not be successful in competing in these industries. We currently face competition from new and established domestic and international competitors and expect to face competition from others in the future, including competition from companies with new technology.***

The worldwide automotive market, particularly for alternative fuel vehicles, is highly competitive today and we expect it will become even more so in the future. There is no assurance that our vehicles will be successful in the respective markets in which they compete. Many established and new automobile manufacturers such as BMW, Daimler, General Motors and Toyota, as well as other companies, have entered or are reported to have plans to enter the alternative fuel vehicle market, including hybrid, plug-in hybrid and fully electric vehicles. Most of our current and potential competitors have significantly greater financial, technical, manufacturing, marketing and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products. Virtually all of our competitors have more extensive customer bases and broader customer and industry relationships than we do and almost all of these companies have longer operating histories and greater name recognition than we do. Increased competition could result in lower vehicle unit sales, price reductions, revenue shortfalls, loss of customers and loss of market share, which could harm our business, prospects, financial condition and operating results. In addition, upon the launch of our Model 3 vehicle, we will face competition from existing and future automobile manufacturers in the extremely competitive entry-level premium sedan market, including Audi, BMW, Lexus and Mercedes.

The solar and renewable energy industries are highly competitive within their markets, and also compete with large utilities. Decreases in the retail prices of electricity from the utilities or other renewable energy sources could harm our ability to offer competitive pricing and lead to an increased rate of customer defaults under our existing contracts. Moreover, solar panel prices have declined and are continuing to decline. As we increase our solar panel manufacturing, including at Gigafactory 2, future price declines may harm our ability to compete and produce solar panels at competitive prices.

***If we are unable to establish and maintain confidence in our long-term business prospects among consumers, analysts and within our industry, then our financial condition, operating results, business prospects and stock price may suffer materially.***

Consumers may be less likely to purchase our products now if they are not convinced that our business will succeed or that our service and support and other operations will continue for many years. Similarly, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with us if they are not convinced that our business will succeed. Accordingly, in order to build and maintain our business, we must maintain confidence among customers, suppliers, analysts and other parties in our liquidity and long-term business prospects. Maintaining such confidence may be particularly complicated by certain factors, such as our limited operating history, unfamiliarity with our products, competition and uncertainty regarding the future of electric vehicles or our other products and services and our quarterly production and sales performance compared with market expectations. Many of these factors are largely outside our control, and any negative perceptions about our long-term business prospects, even if exaggerated or unfounded, would likely harm our business and make it more difficult to raise additional funds if needed.

***Our plan to expand our network of Tesla stores, galleries, service centers and Superchargers will require significant cash investments and management resources and may not meet expectations with respect to additional sales or installations of our products or availability of Superchargers.***

Our plan to expand our network of Tesla stores, galleries, service centers and Superchargers will require significant cash investments and management resources and may not meet our expectations with respect to additional sales or installations of our products. This ongoing global expansion, which includes planned entry into markets in which we have limited or no experience selling, delivering, installing and/or servicing our products, and which may pose legal, regulatory, cultural and political challenges that we have not previously encountered, may not have the desired effect of increasing sales and installations and expanding our brand presence to the degree we are anticipating. Furthermore, the increasing number of Model S and Model X vehicles, as well as the significant increase in our vehicle fleet size that we expect from Model 3, will require us to continue to increase the number of our Supercharger stations significantly. If we fail to do so, our customers could become dissatisfied, which could adversely affect sales of our vehicles. We will also need to ensure we are in compliance with any regulatory requirements applicable to the sale, installation and service of our products, the sale of electricity generated through our solar energy systems, and operation of Superchargers in those jurisdictions, which could take considerable time and expense. If we experience any delays or cannot meet customer expectations in expanding our network of Tesla stores, galleries, service centers and Superchargers, this could lead to a decrease in sales or installations of our products and could negatively impact our business, prospects, financial condition and operating results.

***We face risks associated with our international operations and expansion, including unfavorable regulatory, political, tax and labor conditions, and with establishing ourselves in new markets, all of which could harm our business.***

We currently have international operations and subsidiaries in various countries and jurisdictions that are subject to legal, political, and regulatory requirements and social and economic conditions that may be very different from those affecting us domestically. Additionally, as part of our growth strategy, we will continue to expand our sales, service and Supercharger locations internationally. International expansion requires us to make significant expenditures, including the establishment of local operating entities, hiring of local employees and establishing facilities in advance of generating any revenue.

We are subject to a number of risks associated with international business activities that may increase our costs, impact our ability to sell our products and require significant management attention. These risks include conforming our products to various international regulatory and safety requirements as well as charging and other electric infrastructures, difficulty in establishing, staffing and managing foreign operations, challenges in attracting customers, foreign government taxes, regulations and permit requirements, our ability to enforce our contractual rights; trade restrictions, customs regulations, tariffs and price or exchange controls, and preferences of foreign nations for domestically manufactured products.

***If we fail to effectively grow and manage the residual, financing and credit risks related to our vehicle financing programs, our business may suffer.***

We offer vehicle financing arrangements through our local subsidiaries in the United States, Canada, Germany and the UK, including leasing directly through certain of those subsidiaries. The profitability of the leasing program depends on our ability to accurately project residual values, secure adequate financing and/or business partners to fund and grow this program, and screen for and manage customer credit risk. We expect the need for leasing and other financing options to be significantly higher with the volumes we expect for our vehicles in the future, especially Model 3, for which we also expect a higher proportion of uptake for such programs than for Model S or Model X. If we are unable to adequately fund our leasing program with internal funds, or partners or other external financing sources, and compelling alternative financing programs are not available for our customers, we may be unable to grow our sales. Furthermore, if our leasing business grows substantially, our business may suffer if we cannot effectively manage the greater levels of residual and credit risks resulting from growth. Finally, if we do not successfully monitor and comply with applicable national, state and/or local financial regulations and consumer protection laws governing lease transactions, we may become subject to enforcement actions or penalties, either of which may harm our business.

***Our resale value guarantee and leasing programs for our vehicles expose us to the risk that the resale values of vehicles returned to us are lower than our estimates and may result in lower revenues, gross margin, profitability and liquidity.***

We have provided resale value guarantees to many of our customers, under which such customers may sell their vehicles back to us at certain points in time at pre-determined resale values. Customers can lease our vehicles through both leasing partners and from us directly, through our captive finance companies. The resale values of any vehicles resold or returned to us pursuant to these programs may be lower than our estimates, which are based on a limited secondary market for our vehicles. If we incorrectly estimate the residual values of our vehicles, or the volume of vehicles returned to us is higher than our estimates and/or we are not able to resell them timely or at all, our profitability and/or liquidity could be negatively impacted. In cases where customers retain their vehicles past the guarantee period, our gross margin will be negatively impacted as all remaining revenues and costs related to the vehicle will be recognized at no gross profit.

We apply lease accounting on sales of vehicles with a resale value guarantee and on leases made directly by us or by our leasing partners. Under lease accounting, we recognize the associated revenues and costs of the vehicle sale over time rather than fully upfront at vehicle delivery. As a result, these programs generate lower revenues in the period the car is delivered and higher gross margins during the period of the resale value guarantee as compared to purchases in which the resale value guarantee does not apply. A higher than anticipated prevalence of these programs could therefore have an adverse impact on our near term revenues and operating results. Moreover, unlike the sale of a vehicle with a resale value guarantee or programs with leasing partners which do not impact our cash flows and liquidity at the time of vehicle delivery, under a lease held directly by us, we may receive only a very small portion of the total vehicle purchase price at the time of lease, followed by a stream of payments over the term of the lease. To the extent we expand our leasing program without securing external financing or business partners to support such expansion, our cash flow and liquidity could also be negatively impacted.

***The unavailability, reduction or elimination of, or unfavorable determinations with respect to, government and economic incentives in the United States and abroad supporting the development and adoption of electric vehicles or solar energy could have some impact on demand for our products and services.***

We currently benefit from certain government and economic incentives supporting the development and adoption of electric vehicles. In the United States and abroad, such incentives include, among other things, tax credits or rebates that encourage the purchase of electric vehicles. In Norway, for example, the purchase of electric vehicles is not currently subject to import taxes, taxes on non-recurring vehicle fees, the 25% value added tax or the purchase taxes that apply to the purchase of gas-powered vehicles. Notably, the quantum of incentive programs promoting electric vehicles is a tiny fraction of the amount of incentives that are provided to gas-powered vehicles through the oil and gas industries. Nevertheless, even the limited benefits from such programs could be reduced, eliminated or exhausted. For example, on January 1, 2016, a previously available incentive in Denmark that favored the purchase of electric vehicles expired and was replaced with a newly phased-in incentive that is less generous than the incentive that it replaced. Moreover, under current regulations, a \$7,500 federal tax credit available in the United States for the purchase of qualified electric vehicles with at least 17 kWh of battery capacity, such as our vehicles, will begin to phase out with respect to any vehicles delivered in the second calendar quarter following the quarter in which we deliver our 200,000<sup>th</sup> qualifying vehicle in the United States. In addition, California implemented regulations phasing out a \$2,500 cash rebate on qualified electric vehicles for high-income consumers, which became effective in March 2016. In certain circumstances, there is pressure from the oil and gas lobby or related special interests to bring about such developments, which could have some negative impact on demand for our vehicles.

In addition, certain governmental rebates, tax credits and other financial incentives that are currently available with respect to our solar and energy storage product businesses allow us to lower our installation costs, cost of capital and encourage investors to invest in our solar financing funds. However, these incentives may expire on a particular date, end when the allocated funding is exhausted or be reduced or terminated as solar energy adoption rates increase, often without warning. For example, the federal government currently offers a 30% investment tax credit ("ITC") for the installation of solar power facilities and if installed concurrently, for energy storage systems, which are currently scheduled to decline to 10%, and expire altogether for residential systems, by January 2022. Likewise, in jurisdictions where net energy metering is currently available, our customers receive bill credits from utilities for energy that their solar energy systems generate and export to the grid in excess of the electric load they use. Several jurisdictions have reduced or eliminated the benefit available under net energy metering, or have proposed to do so. Such reductions in or termination of governmental incentives could adversely impact our results of operations by increasing our cost of capital, making us less competitive for potential customers, and adversely impact our ability to attract investment partners and to form new financing funds for our solar assets.

Moreover, we and our fund investors claim the ITC in amounts based on the fair market value of our solar energy systems. Although we obtain independent appraisals to support the claimed fair market values, the relevant governmental authorities have audited such values and in certain cases have determined that they should be lower, and they may do so in the future. Such determinations may result in adverse tax consequences and/or our obligation to make indemnification or other payments, or contribute additional assets, to our funds or fund investors.

***If we are unable to integrate SolarCity successfully into our business, we may not realize the anticipated benefits of our acquisition of SolarCity.***

We have devoted to date, and continue to devote, substantial attention and resources to integrating into our company the business and operations of SolarCity, which we acquired in November 2016. Our company has no prior experience integrating a business of the size and scale of SolarCity. If the integration process takes longer than expected or is more costly than expected, we may fail to realize some or all of the anticipated benefits of the acquisition.



Potential difficulties we may encounter in the integration process include the following:

- the inability to successfully combine our business with that of SolarCity in a manner that permits the combined company to achieve the synergies we expect from the acquisition, which would result in the anticipated benefits of the acquisition not being realized partly or wholly in the time frame currently anticipated or at all;
- complexities associated with managing the combined businesses;
- integrating personnel from the two companies;
- creation of uniform standards, controls, procedures, policies and information systems; and
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the acquisition.

***Any failure by us to realize the expected benefits of our substantial investments and commitments with respect to the manufacture of PV cells, including if we are unable to comply with the terms of our agreement with the Research Foundation for the State University of New York relating to our Gigafactory 2, could result in negative consequences for our business.***

As part of our acquisition of SolarCity, we acquired certain PV cell manufacturing and technology assets, and a build-to-suit lease arrangement with the Research Foundation for the State University of New York (the "Foundation"). This agreement with the Foundation provides for the construction of Gigafactory 2 in Buffalo, New York, which at full capacity we expect will be capable of producing 1 gigawatt of PV cells, including for our solar roof. Under this agreement, we are obligated to, among other things, employ specified minimum numbers of personnel in the State of New York during the 10-year period following the arrival of manufacturing equipment, the receipt of certain permits and other specified items at Gigafactory 2, and spend or incur approximately \$5 billion in combined capital, operational expenses, costs of goods sold and other costs in the State of New York during the 10-year period following the achievement of full production output at Gigafactory 2. If we fail in any year over the course of the term of the agreement to meet these obligations, we would be obligated to pay a "program payment" of \$41.2 million to the Foundation in such year. Any inability on our part to comply with the requirements of this agreement may result in the payment of significant amounts to the Foundation, the termination of our lease at Gigafactory 2, and/or the need to secure an alternative supply of PV cells for products such as our solar roof. Moreover, if we are unable to utilize the other manufacturing and technology assets that were acquired in the SolarCity acquisition in accordance with our expectations, we may have to recognize accounting charges pertaining to the write-off of such assets. Any of the foregoing events could have a material adverse effect on our business, prospects, financial condition and operating results.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial results.***

Our revenues and costs denominated in foreign currencies are not completely matched. As we have increased Model S deliveries in markets outside of the United States, we have much higher revenues than costs denominated in other currencies such as the euro, Chinese yuan, Norwegian kroner, British pound and Canadian dollar. Any strengthening of the U.S. dollar would tend to reduce our revenues as measured in U.S. dollars, as we have historically experienced. In addition, a portion of our costs and expenses have been, and we anticipate will continue to be, denominated in foreign currencies, including the Japanese yen. If we do not have fully offsetting revenues in these currencies and if the value of the U.S. dollar depreciates significantly against these currencies, our costs as measured in U.S. dollars as a percent of our revenues will correspondingly increase and our margins will suffer. Moreover, while we undertake limited hedging activities intended to offset the impact of currency translation exposure, it is impossible to predict or eliminate such impact. As a result, our operating results could be adversely affected.

***If we are unable to attract and/or retain key employees and hire qualified personnel, our ability to compete could be harmed.***

The loss of the services of any of our key employees could disrupt our operations, delay the development and introduction of our vehicles and services, and negatively impact our business, prospects and operating results. In particular, we are highly dependent on the services of Elon Musk, our Chief Executive Officer, and Jeffrey B. Straubel, our Chief Technical Officer.

None of our key employees is bound by an employment agreement for any specific term and we may not be able to successfully attract and retain senior leadership necessary to grow our business. Our future success depends upon our ability to attract and retain executive officers and other key technology, sales, marketing, engineering, manufacturing and support personnel and any failure to do so could adversely impact our business, prospects, financial condition and operating results.

Key talent may leave Tesla due to various factors, such as a very competitive labor market for talented individuals with automotive experience. Currently in California, there is increasing competition for talented individuals with the specialized knowledge of electric vehicles, software engineers, manufacturing engineers and other skilled employees. This competition affects both our ability to retain key employees and hire new ones. Our continued success depends upon our continued ability to hire new employees in a timely manner, especially to support our expansion plans and ramp to high-volume manufacture of vehicles, and retain current employees. Additionally, we compete with both mature and prosperous companies that have far greater financial resources than we do and start-ups and emerging companies that promise short-term growth opportunities. Difficulties in retaining current employees or recruiting new ones could have an adverse effect on our performance.

***We are highly dependent on the services of Elon Musk, our Chief Executive Officer.***

We are highly dependent on the services of Elon Musk, our Chief Executive Officer, Chairman of our Board of Directors and largest stockholder. Although Mr. Musk spends significant time with Tesla and is highly active in our management, he does not devote his full time and attention to Tesla. Among other commitments, Mr. Musk also currently serves as Chief Executive Officer and Chief Technical Officer of Space Exploration Technologies, a developer and manufacturer of space launch vehicles.

***We are subject to various environmental and safety laws and regulations that could impose substantial costs upon us and negatively impact our ability to operate our manufacturing facilities.***

As a manufacturing company, including with respect to facilities such as the Tesla Factory, Gigafactory 1 and Gigafactory 2, we are subject to complex environmental, health and safety laws and regulations at numerous jurisdictional levels in the United States and abroad, including laws relating to the use, handling, storage, disposal and human exposure to hazardous materials. The costs of compliance, including remediating contamination if any is found on our properties and any changes to our operations mandated by new or amended laws, may be significant. We may also face unexpected delays in obtaining permits and approvals required by such laws in connection with our manufacturing facilities, which would hinder our operation of these facilities. Such costs and delays may adversely impact our business prospects and operating results. Furthermore, any violations of these laws may result in substantial fines and penalties, remediation costs, third party damages, or a suspension or cessation of our operations.

***Our business may be adversely affected by any disruptions caused by union activities.***

It is common for employees at companies with significant manufacturing operations such as us to belong to a union, which can result in higher employee costs and increased risk of work stoppages. Moreover, regulations in some jurisdictions outside of the United States mandate employee participation in industrial collective bargaining agreements and work councils with certain consultation rights with respect to the relevant companies' operations. Although we work diligently to provide the best possible work environment for our employees, they may still decide to join or seek recognition to form a labor union, or we may be required to become a union signatory. Furthermore, we are directly or indirectly dependent upon companies with unionized work forces, such as parts suppliers and trucking and freight companies, and work stoppages or strikes organized by such unions could have a material adverse impact on our business, financial condition or operating results. If a work stoppage occurs, it could delay the manufacture and sale of our products and have a material adverse effect on our business, prospects, operating results or financial condition.

***Our products and services are subject to substantial regulations, which are evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and operating results.***

Motor vehicles are subject to substantial regulation under international, federal, state, and local laws. We incur significant costs in complying with these regulations, and may be required to incur additional costs to comply with any changes to such regulations. We are subject to laws and regulations applicable to the import, sale and service of automobiles internationally. For example, in countries outside of the United States, we are required to meet vehicle-specific safety standards that are often materially different from requirements in the United States, thus resulting in additional investment into the vehicles and systems to ensure regulatory compliance in those countries. This process may include official review and certification of our vehicles by foreign regulatory agencies prior to market entry, as well as compliance with foreign reporting and recall management systems requirements.

Additionally, our vehicles are equipped with a range of autopilot features that assist drivers, relieving them of certain tedious and potentially dangerous aspects of road travel. Autopilot is a recently-introduced feature with which domestic and foreign regulators have limited experience. Any current or future proposed regulations in this area, if passed, could impact whether and how our customers are able to use our vehicles equipped for autopilot, and which, depending on the severity of the regulations, could adversely affect our business.

Moreover, as a provider of electricity generated by the solar energy systems we install for customers, we are impacted by federal, state and local regulations and policies concerning electricity pricing, the interconnection of customer-generated electricity with the electric grid, and the sale of electricity generated by third-party owned systems. For example, existing or proposed regulations and policies would permit utilities to limit the amount of electricity generated by our customers with their solar energy systems, charge fees and penalties to our customers relating to the purchase of energy other than from the grid, adjust electricity rate designs such that the price of our solar products may not be competitive with that of electricity from the grid, restrict us and our customers from transacting under our power purchase agreements or qualifying for government incentives and benefits that apply to solar power, and limit or eliminate net energy metering. If such regulations and policies remain in effect or are adopted in other jurisdictions, or if other regulations and policies that facilitate the connection of our solar energy systems to the grid are modified or eliminated, they could deter potential customers from purchasing our solar products, threaten the economics of our existing contracts and cause us to cease solar energy system sales and operations in the relevant jurisdictions, which could harm our business, prospects, financial condition and results of operations.

***We are subject to various privacy and consumer protection laws.***

Our privacy policy is posted on our website, and any failure by us or our vendor or other business partners to comply with it or with federal, state or international privacy, data protection or security laws or regulations could result in regulatory or litigation-related actions against us, legal liability, fines, damages and other costs. We may also incur substantial expenses and costs in connection with maintaining compliance with such laws, in particular data protection laws in the EU, which are currently in a state of transition. Although we take steps to protect the security of our customers' personal information, we may be required to expend significant resources to comply with data breach requirements if third parties improperly obtain and use the personal information of our customers or we otherwise experience a data loss with respect to customers' personal information. A major breach of our network security and systems could have negative consequences for our business and future prospects, including possible fines, penalties and damages, reduced customer demand for our vehicles, and harm to our reputation and brand.

***We may be compelled to undertake product recalls or take other actions, which could adversely affect our brand image and financial performance.***

Any product recall in the future may result in adverse publicity, damage our brand and adversely affect our business, prospects, operating results and financial condition. For example, we initiated a Model S recall in November 2015 after we discovered a single field unit with a front seat belt issue, and a Model X recall in April 2016 after an internal test revealed unintended movement in the third row seats during a collision. None of our past recalls have been related to our electric powertrain. In the future, we may at various times, voluntarily or involuntarily, initiate a recall if any of our products or our electric vehicle powertrain components that we provide to other vehicle OEMs, including any systems or parts sourced from our suppliers, prove to be defective or noncompliant with applicable laws and regulations, such as federal motor vehicle safety standards. Such recalls, whether voluntary or involuntary or caused by systems or components engineered or manufactured by us or our suppliers, could involve significant expense and could adversely affect our brand image in our target markets, as well as our business, prospects, financial condition and results of operations.

***Our current and future warranty reserves may be insufficient to cover future warranty claims which could adversely affect our financial performance.***

Subject to separate limited warranties for the supplemental restraint system, battery and drive unit, we provide four year or 50,000 mile limited warranties for the purchasers of new Model S and Model X vehicles and pre-owned Model S vehicles certified and sold by us. The limited warranty for the battery and drive unit covers the drive unit for eight years, as well as the battery for a period of eight years (or for certain older vehicles, 125,000 miles if reached sooner than eight years), although the battery's charging capacity is not covered under any of our warranties or Extended Service plans. In addition, customers of new Model S and Model X vehicles have the opportunity to purchase an Extended Service plan for the period after the end of the limited warranty for their new vehicles to cover additional services for up to an additional four years or 50,000 miles, provided it is purchased within a specified period of time.

For energy storage products, we provide limited warranties against defects and to guarantee certain levels of minimum energy retention. For example, we guarantee that each Powerwall 2 product will maintain at least 70-80% of its stated capacity after 10 years, and that each Powerpack 2 product will retain specified minimum energy capacities in each of its first 10 years of use (subject to stated throughput caps). We also offer extended warranties for periods of up to 20 years at additional cost at the time of purchase, including a "capacity maintenance agreement" available for the Powerpack 2, as well as workmanship warranties and system availability guarantees to customers who elect to have us install their systems or perform preventative maintenance services, respectively.

Finally, customers who buy energy from us under solar energy system leases or power purchase agreements are covered by warranties equal to the length of the agreement term, which is typically 20 years. Systems purchased for cash are covered by a warranty of up to 10 years, with extended warranties available at additional cost. In addition, we pass through to our customers the inverter and panel manufacturers' warranties, which generally range from 5 to 25 years, subjecting us to the risk that the manufacturers may later cease operations or fail to honor their underlying warranties. Finally, we provide a performance guarantee with our leased solar energy systems that compensates a customer on an annual basis if their system does not meet the electricity production guarantees set forth in their lease.

If our warranty reserves are inadequate to cover future warranty claims on our products, our business, prospects, financial condition and operating results could be materially and adversely affected. Warranty reserves include management's best estimate of the projected costs to repair or to replace items under warranty. These estimates are based on actual claims incurred to-date and an estimate of the nature, frequency and costs of future claims. Such estimates are inherently uncertain and changes to our historical or projected experience, especially with respect to products such as Model 3 that are new and/or that we expect to produce at significantly greater volumes than our past products, may cause material changes to our warranty reserves in the future.

***We are currently expanding and improving our information technology systems and use security measures designed to protect our systems against breaches and cyber-attacks. If these efforts are not successful, our business and operations could be disrupted and our operating results and reputation could be harmed.***

We are currently expanding and improving our information technology systems, including implementing new internally developed systems, to assist us in the management of our business. In particular, our volume production of multiple vehicles necessitates continued development, maintenance and improvement of our information technology systems in the United States and abroad, which include product data management, procurement, inventory management, production planning and execution, sales, service and logistics, dealer management, financial, tax and regulatory compliance systems. The implementation, maintenance and improvement of these systems require significant management time, support and cost. Moreover, there are inherent risks associated with developing, improving and expanding our core systems as well as implementing new systems, including the disruption of our data management, procurement, manufacturing execution, finance, supply chain and sales and service processes. These risks may affect our ability to manage our data and inventory, procure parts or supplies or manufacture, sell, deliver and service vehicles, or achieve and maintain compliance with, or realize available benefits under, tax laws and other applicable regulations. We also maintain information technology measures designed to protect us against system security risks, data breaches and cyber-attacks.

We cannot be sure that these systems or their required functionality will be effectively implemented, maintained or expanded as planned. If we do not successfully implement, maintain or expand these systems as planned, our operations may be disrupted, our ability to accurately and/or timely report our financial results could be impaired, and deficiencies may arise in our internal control over financial reporting, which may impact our ability to certify our financial results. Moreover, our proprietary information could be compromised and our reputation may be adversely affected. If these systems or their functionality do not operate as we expect them to, we may be required to expend significant resources to make corrections or find alternative sources for performing these functions.

***Our insurance strategy may not be adequate to protect us from all business risks.***

We may be subject, in the ordinary course of business, to losses resulting from products liability, accidents, acts of God and other claims against us, for which we may have no insurance coverage. While we currently maintain general liability, automobile, property, workers' compensation, and directors' and officers' insurance policies, as a general matter, we do not maintain as much insurance coverage as many other companies do, and in some cases, we do not maintain any at all. Additionally, the policies that we do have may include significant deductibles, and we cannot be certain that our insurance coverage will be sufficient to cover all future claims against us. A loss that is uninsured or which exceeds policy limits may require us to pay substantial amounts, which could adversely affect our financial condition and operating results.

***Our financial results may vary significantly from period-to-period due to fluctuations in our operating costs.***

We expect our period-to-period financial results to vary based on our operating costs which we anticipate will increase significantly in future periods as we, among other things, design, develop and manufacture Model 3, energy storage and solar products and other future products, increase the production capacity at our manufacturing facilities to produce vehicles at higher volumes, including ramping up the production of Model S and Model X, expand Gigafactory 1, open new Tesla stores and service centers with maintenance and repair capabilities, open new Supercharger locations, develop Gigafactory 2, increase our sales and marketing activities, and increase our general and administrative functions to support our growing operations. As a result of these factors, we believe that quarter-to-quarter comparisons of our financial results, especially in the short-term, are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our financial results may not meet expectations of equity research analysts or investors. If any of this occurs, the trading price of our stock could fall substantially, either suddenly or over time.

***Any unauthorized control or manipulation of our vehicles' systems could result in loss of confidence in us and our vehicles and harm our business.***

Our vehicles contain complex information technology systems. For example, our vehicles are designed with built-in data connectivity to accept and install periodic remote updates from us to improve or update the functionality of our vehicles. We have designed, implemented and tested security measures intended to prevent unauthorized access to our information technology networks, our vehicles and their systems. However, hackers have reportedly attempted, and may attempt in the future, to gain unauthorized access to modify, alter and use such networks, vehicles and systems to gain control of, or to change, our vehicles' functionality, user interface and performance characteristics, or to gain access to data stored in or generated by the vehicle. We encourage reporting of potential vulnerabilities in the security of our vehicles via our security vulnerability reporting policy, and we aim to remedy any reported and verified vulnerabilities. Accordingly, we have received reports of potential vulnerabilities in the past and have attempted to remedy them. However, there can be no assurance that vulnerabilities will not be identified in the future, or that our remediation efforts are or will be successful.

Any unauthorized access to or control of our vehicles or their systems or any loss of data could result in legal claims or proceedings. In addition, regardless of their veracity, reports of unauthorized access to our vehicles, their systems or data, as well as other factors that may result in the perception that our vehicles, their systems or data are capable of being "hacked," could negatively affect our brand and harm our business, prospects, financial condition and operating results. We have been the subject of such reports in the past.

***Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness.***

As of December 31, 2016, we had outstanding in aggregate principal amounts \$205 million of the 2018 Notes, \$920 million of the 2019 Notes and \$1.38 billion of the 2021 Notes (collectively, the "Tesla Convertible Notes"). In addition, we have established a senior secured asset based revolving credit agreement (the "Credit Agreement") that allows us to borrow, under certain circumstances, up to \$1.2 billion. As of December 31, 2016, we had \$969 million in borrowings under the credit facility pursuant to the Credit Agreement. We are also party to a warehouse credit facility with lender commitments of \$600 million (the "Warehouse Facility"), of which we had borrowed \$390 million as of December 31, 2016. Moreover, as of December 31, 2016, our subsidiary SolarCity Corporation, together with its subsidiaries, had total outstanding indebtedness of \$3.6 billion, including under its credit facilities (the "SolarCity Credit Facilities"). Such outstanding indebtedness included \$364 million drawn under a secured revolving credit facility with lender commitments of \$418.5 million as of December 31, 2016 (including commitments expiring as of such date), which matures in December 2017, as well as \$230 million in aggregate principal amount of 2.75% convertible senior notes due 2018, \$566 million in aggregate principal amount of 1.625% convertible senior notes due 2019 and \$113 million in aggregate principal amount of zero coupon convertible senior notes due 2020 (collectively, the "SolarCity Convertible Notes"). Our substantial consolidated indebtedness may increase our vulnerability to any generally adverse economic and industry conditions, and we and our subsidiaries may, subject to the limitations in the terms of our existing and future indebtedness, incur additional debt, secure existing or future debt or recapitalize our debt.

Pursuant to their terms, holders may convert their Tesla Convertible Notes at their option prior to the scheduled maturities of the respective Tesla Convertible Notes under certain circumstances. The 2018 Notes have been convertible at their holders' option during each quarter commencing with the fourth quarter of 2013, except the first quarter of 2014. Upon conversion of the applicable Tesla Convertible Notes, we will be obligated to make cash payments in respect of the principal amounts thereof, and we may also have to deliver cash and/or shares of our common stock, in respect of the conversion value in excess of such principal amounts on such Tesla Convertible Notes. For example, as of December 31, 2016, we have repaid in cash approximately \$455 million in aggregate principal amount of the 2018 Notes due to early conversions. The SolarCity Convertible Notes are also currently convertible into shares of our common stock at conversion prices ranging from \$300.00 to \$759.36 per share. In addition, holders of the Tesla Convertible Notes and the SolarCity Convertible Notes will have the right to require us to repurchase their notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change purchase date.

Our ability to make scheduled payments of the principal and interest on our indebtedness when due or to make payments upon conversion or repurchase demands with respect to our convertible notes, or to refinance our indebtedness as we may need or desire, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under our existing indebtedness, and any future indebtedness we may incur, and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance existing or future indebtedness will depend on the capital markets and our financial condition at such time. In addition, our ability to make payments may be limited by law, by regulatory authority or by agreements governing our future indebtedness. We may not be able to engage in any of these activities or engage in these activities on desirable terms or at all, which could result in a default on our existing or future indebtedness and have a material adverse effect on our business, results of operations and financial condition.

***Our debt agreements contain covenant restrictions that may limit our ability to operate our business.***

The terms of our Credit Facility and/or certain of the SolarCity Credit Facilities contain, and any of our other future debt agreements may contain, covenant restrictions that limit our ability to operate our business, including restrictions on our ability to, among other things, incur additional debt or issue guarantees, create liens, repurchase stock or make other restricted payments, and make certain voluntary prepayments of specified debt. In addition, under certain circumstances we are required to comply with a fixed charge coverage ratio. As a result of these covenants, our ability to respond to changes in business and economic conditions and engage in beneficial transactions, including to obtain additional financing as needed, may be restricted. Furthermore, our failure to comply with our debt covenants could result in a default under our debt agreements, which could permit the holders to accelerate our obligation to repay the debt. If any of our debt is accelerated, we may not have sufficient funds available to repay it.

***The classification of our convertible notes may have an effect on our reported financial results.***

Our 2018 Notes and the SolarCity Convertible Notes have been historically, and our 2019 Notes and 2021 Notes may become in the future, convertible at the option of their holders prior to their scheduled terms under certain circumstances. Even if holders do not elect to convert their convertible notes, if such notes become convertible prior to their scheduled maturity dates, we would be required to reclassify such notes and the related debt issuance costs as current liabilities and certain portions of our equity outside of equity to mezzanine equity, which would have an adverse impact on our reported financial results for such quarter, and could have an adverse impact on the market price of our common stock.

***We may need or want to raise additional funds and these funds may not be available to us when we need them. If we cannot raise additional funds when we need or want them, our operations and prospects could be negatively affected.***

The design, manufacture, sale, installation and/or servicing of automobiles, energy storage products and solar products is a capital intensive business. Until we are consistently generating positive free cash flows, we may need or want to raise additional funds through the issuance of equity, equity-related or debt securities or through obtaining credit from financial institutions to fund, together with our principal sources of liquidity, the costs of developing and manufacturing our current or future vehicles, energy storage products and/or solar products, to pay any significant unplanned or accelerated expenses or for new significant strategic investments, or to refinance our significant consolidated indebtedness, even if not required to do so by the terms of such indebtedness. We need sufficient capital to fund our ongoing operations, continue research and development projects, establish sales and service centers, build and deploy Superchargers, expand Gigafactory 1, develop Gigafactory 2 and to make the investments in tooling and manufacturing capital required to introduce new vehicles, energy storage products and solar products. We cannot be certain that additional funds will be available to us on favorable terms when required, or at all. If we cannot raise additional funds when we need them, our financial condition, results of operations, business and prospects could be materially and adversely affected.

Additionally, we use capital from third-party fund investors to reduce the cost of capital of our solar energy system installations, improve our margins, offset future reductions in government incentives and maintain the price competitiveness of our solar energy systems. The availability of this tax-advantaged financing depends upon many factors, including the confidence of the investors in the solar energy industry and the quality and mix of our customer contracts, any regulatory changes impacting the economics of our existing customer contracts, changes in legal and tax advantages or risks or government incentives associated with these financings, and our ability to compete with other renewable energy companies for the limited number of potential fund investors. Moreover, interest rates are at historically low levels. If the rate of return required by investors rises as a result of a rise in interest rates, it will reduce the present value of the customer payment streams underlying, and therefore the total value of, our financing structures, increasing our cost of capital. If we are unable to establish new financing funds on favorable terms for third-party ownership arrangements to enable our customers' access to our solar energy systems with little or no upfront cost, we may be unable to finance installation of our customers' systems, or our cost of capital could increase and our liquidity may be negatively impacted, any of which would have an adverse effect on our business, financial condition and results of operations.

***We may face regulatory limitations on our ability to sell vehicles directly which could materially and adversely affect our ability to sell our electric vehicles.***

We sell our vehicles directly to consumers. We may not be able to sell our vehicles through this sales model in each state in the United States as some states have laws that may be interpreted to impose limitations on this direct-to-consumer sales model. In certain states in which we are not able to obtain dealer licenses, we have opened galleries, which are not full retail locations.

The application of these state laws to our operations continues to be difficult to predict. Laws in some states have limited our ability to obtain dealer licenses from state motor vehicle regulators and may continue to do so.

In addition, decisions by regulators permitting us to sell vehicles may be subject to challenges by dealer associations and others as to whether such decisions comply with applicable state motor vehicle industry laws. We have prevailed in many of these lawsuits and such results have reinforced our continuing belief that state laws were not designed to prevent our distribution model. In some states, there have also been regulatory and legislative efforts by vehicle dealer associations to propose bills and regulations that, if enacted, would prevent us from obtaining dealer licenses in their states given our current sales model. A few states have passed legislation that clarifies our ability to operate, but at the same time limits the number of dealer licenses we can obtain or stores that we can operate. We have also filed a lawsuit in federal court in Michigan challenging the constitutionality of the state's prohibition on direct sales as applied to our business.

Internationally, there may be laws in jurisdictions we have not yet entered or laws we are unaware of in jurisdictions we have entered that may restrict our sales or other business practices. Even for those jurisdictions we have analyzed, the laws in this area can be complex, difficult to interpret and may change over time.

***We may need to defend ourselves against intellectual property infringement claims, which may be time-consuming and could cause us to incur substantial costs.***

Others, including our competitors, may hold or obtain patents, copyrights, trademarks or other proprietary rights that could prevent, limit or interfere with our ability to make, use, develop, sell or market our products and services, which could make it more difficult for us to operate our business. From time to time, the holders of such intellectual property rights may assert their rights and urge us to take licenses, and/or may bring suits alleging infringement or misappropriation of such rights. We may consider the entering into licensing agreements with respect to such rights, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur, and such licenses could significantly increase our operating expenses. In addition, if we are determined to have infringed upon a third party's intellectual property rights, we may be required to cease making, selling or incorporating certain components or intellectual property into the goods and services we offer, to pay substantial damages and/or license royalties, to redesign our products and services, and/or to establish and maintain alternative branding for our products and services. In the event that we were required to take one or more such actions, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs, negative publicity and diversion of resources and management attention.

***Our facilities or operations could be damaged or adversely affected as a result of disasters.***

Our corporate headquarters, the Tesla Factory and Gigafactory 1 are located in seismically active regions in Northern California and Nevada. If major disasters such as earthquakes or other events occur, or our information system or communications network breaks down or operates improperly, our headquarters and production facilities may be seriously damaged, or we may have to stop or delay production and shipment of our products. We may incur expenses relating to such damages, which could have a material adverse impact on our business, operating results and financial condition.

**Risks Related to the Ownership of our Common Stock**

***The trading price of our common stock is likely to continue to be volatile.***

The trading price of our common stock has been highly volatile and could continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. Our common stock has experienced an intraday trading high of \$287.39 per share and a low of \$178.19 per share over the last 52 weeks. The stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of companies' stock, including ours, regardless of actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. For example, a shareholder litigation like this was filed against us in 2013. While the plaintiffs' complaint was dismissed with prejudice, any future shareholder litigation could result in substantial costs and a diversion of our management's attention and resources.

***We may fail to meet our publicly announced guidance or other expectations about our business, which could cause our stock price to decline.***

We occasionally provide guidance regarding our expected financial and business performance, such as projections regarding sales and production, as well as anticipated future revenues, gross margins, profitability and cash flows. Correctly identifying key factors affecting business conditions and predicting future events is inherently an uncertain process and our guidance may not ultimately be accurate. Our guidance is based on certain assumptions such as those relating to anticipated production and sales volumes and average sales prices, supplier and commodity costs, and planned cost reductions. If our guidance is not accurate or varies from actual results due to our inability to meet our assumptions or the impact on our financial performance that could occur as a result of various risks and uncertainties, the market value of our common stock could decline significantly.

***Transactions relating to our convertible notes may dilute the ownership interest of existing stockholders, or may otherwise depress the price of our common stock.***

The conversion of some or all of the Tesla Convertible Notes or the SolarCity Convertible Notes would dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of such notes. Our 2018 Notes and the SolarCity Convertible Notes have been historically, and the other Tesla Convertible Notes may become in the future, convertible at the option of their holders prior to their scheduled terms under certain circumstances. If holders elect to convert their convertible notes, we could be required to deliver to them a significant number of shares of our common stock. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the convertible notes may encourage short selling by market participants because the conversion of such notes could be used to satisfy short positions, or anticipated conversion of such notes into shares of our common stock could depress the price of our common stock.

Moreover, in connection with each issuance of the Tesla Convertible Notes, we entered into convertible note hedge transactions, which are expected to reduce the potential dilution and/or offset potential cash payments we are required to make in excess of the principal amount upon conversion of the applicable Tesla Convertible Notes. We also entered into warrant transactions with the hedge counterparties, which could separately have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants on the applicable expiration dates. In addition, the hedge counterparties or their affiliates may enter into various transactions with respect to their hedge positions, which could also cause or prevent an increase or a decrease in the market price of our common stock or the convertible notes.

***Elon Musk has pledged shares of our common stock to secure certain bank borrowings. If Mr. Musk were forced to sell these shares pursuant to a margin call that he could not avoid or satisfy, such sales could cause our stock price to decline.***

Certain banking institutions have made extensions of credit to Elon Musk, our Chief Executive Officer, a portion of which was used to purchase shares of common stock in certain of our public offerings and private placements at the same prices offered to third party participants in such offerings and placements. We are not a party to these loans, which are partially secured by pledges of a portion of the Tesla common stock currently owned by Mr. Musk. If the price of our common stock were to decline substantially and Mr. Musk were unable to avoid or satisfy a margin call with respect to his pledged shares, Mr. Musk may be forced by one or more of the banking institutions to sell shares of Tesla common stock in order to remain within the margin limitations imposed under the terms of his loans. Any such sales could cause the price of our common stock to decline further.

***Anti-takeover provisions contained in our governing documents, applicable laws and our convertible notes could impair a takeover attempt.***

Our certificate of incorporation and bylaws afford certain rights and powers to our board of directors that could contribute to the delay or prevention of an acquisition that it deems undesirable. We are also subject to Section 203 of the Delaware General Corporation Law and other provisions of Delaware law that limit the ability of stockholders in certain situations to effect certain business combinations. In addition, the terms of our convertible notes require us to repurchase such notes in the event of a fundamental change, including a takeover of our company. Any of the foregoing provisions and terms that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



**ITEM 2. PROPERTIES**

The following table sets forth the location, approximate size and primary use of our principal leased and owned facilities:

Location	Approximate Size (Building) in Square Feet	Primary Use	Lease Expiration Date
Fremont, California	5,400,000	Manufacturing, administration, engineering services, parts warehousing, and vehicle service	Owned building
Sparks, Nevada	1,100,000	* Gigafactory 1 for production of lithium ion battery cells and Model 3 drive units	Owned building
Fremont, California	1,067,000	Future expansion of manufacturing facilities	Owned land
Livermore, California	635,533	Warehouse	October 2026
Fremont, California	506,490	Administration and manufacturing	September 2029
Tilburg, Netherlands	499,710	Administration, engineering services, powertrain development services, parts warehousing, final vehicle assembly and vehicle service	November 2023
Lathrop, California	430,770	Manufacturing	Owned building
Livermore, California	367,734	Warehouse	October 2016
Palo Alto, California	350,000	Corporate headquarters, administration, engineering services and powertrain development services	January 2020
Sparks, Nevada	304,200	Warehouse	December 2019
Fremont, California	302,400	R&D and engineering	March 2028
Lathrop, California	271,075	Manufacturing	May 2025
Hawthorne, California	132,250	Vehicle engineering and design services	December 2022
Lathrop, California	92,400	Warehouse	September 2019
Amsterdam, Netherlands	71,142	Administration, sales and service center	February 2024
Beijing, China	24,003	Administration, sales and marketing services	June 2017

\* Gigafactory 1 is partially constructed with current occupancy of approximately 1.1 million square feet.

In addition to the properties included in the table above, we also lease a large number of properties in North America, Europe and Asia for our retail and service locations, Supercharger sites and solar installation and maintenance warehouses.

SolarCity has its corporate headquarters and executive offices in San Mateo, California, where it occupies approximately 68,025 square feet of office space under a lease that expires in December 2021, with a renewal option. SolarCity also leases a regional headquarters in Salt Lake City, Utah, and larger offices in San Francisco, San Rafael and Fremont, California. In addition, SolarCity leases sales offices, warehouses and manufacturing facilities, including Gigafactory 2 in Buffalo, New York, across the United States and in Mexico and China. SolarCity also leases sales and support offices in Ontario, Canada.

Our properties are used to support both of our reporting segments. We currently intend to add new facilities or expand our existing facilities as we add employees and expand our network of stores and galleries, service locations and Supercharger sites. We believe that suitable additional or alternative space will be available in the future on commercially reasonable terms to accommodate our foreseeable future expansion.

**ITEM 3. LEGAL PROCEEDINGS****Securities Litigation**

In November 2013, a putative securities class action lawsuit was filed against Tesla in U.S. District Court, Northern District of California, alleging violations of, and seeking remedies pursuant to, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5. The complaint made claims against Tesla and our CEO, Elon Musk, sought damages and attorney's fees on the basis of allegations that, among other things, Tesla and Mr. Musk made false and/or misleading representations and omissions, including with respect to the safety of Model S. This case was brought on behalf of a putative class consisting of certain persons who purchased Tesla's securities between August 19, 2013 and November 17, 2013. On September 26, 2014, the trial court, upon the motion of Tesla and Mr. Musk, dismissed the complaint with prejudice, and thereafter issued a formal written order to that effect. The plaintiffs appealed from the trial court's order, and on December 21, 2016, the Court of Appeals affirmed the trial court's decision dismissing the complaint with prejudice.

On March 28, 2014, a purported stockholder class action was filed in the United States 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 SolarCity's favor on August 9, 2016. The plaintiffs have filed a notice of appeal. We believe that the claims are without merit and intend to defend against this lawsuit vigorously. We are unable to estimate the possible loss, if any, associated with this lawsuit.

On August 15, 2016, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against SolarCity, two of its officers and a former officer. The complaint alleges that SolarCity made projections of future sales and installations that it failed to achieve and that these projections were fraudulent when made. The plaintiffs claim violations of federal securities laws and seek unspecified compensatory damages and other relief on behalf of a purported class of purchasers of SolarCity's securities from May 5, 2015 to February 16, 2016. We believe that the claims are without merit and intend to defend against them vigorously. We are unable to estimate the possible loss, if any, associated with this lawsuit.

#### **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 Tesla's acquisition of SolarCity. On October 10, the Court entered orders consolidating these lawsuits and appointing lead plaintiffs and lead counsel. The consolidated lawsuit is captioned as *In re Tesla Motors, Inc., Stockholders Litigation*, C.A. No. 12711-VCS. It names as defendants the members of Tesla's board of directors and alleges, among other things, that the members of Tesla's board of directors breached their fiduciary duties in connection with the SolarCity acquisition. It asserts claims derivatively on behalf of Tesla and directly on behalf of a putative class of Tesla stockholders. It seeks, among other relief, damages in an unspecified amount and attorneys' fees and costs. On January 27, 2017, defendants filed a motion to dismiss the operative complaint. After receiving the motion, plaintiffs indicated that they intend to file an amended complaint rather than respond to the defendants' motion to dismiss. Tesla believes that the lawsuit is without merit.

#### **Proceedings Relating to United States Treasury**

In July 2012, SolarCity, along with other companies in the solar energy industry, received a subpoena from the U.S. Treasury Department's Office of the Inspector General to deliver certain documents in SolarCity's possession that were dated, created, revised or referred to after January 1, 2007 and that relate to SolarCity's applications for U.S. Treasury grants or communications with certain other solar energy development companies or with certain firms that appraise solar energy property for U.S Treasury grant application purposes. The Inspector General and the Civil Division of the U.S. Department of Justice are investigating the administration and implementation of the U.S Treasury grant program relating to the fair market value of the solar energy systems that SolarCity submitted in U.S. Treasury grant applications. SolarCity has accrued a reserve for its potential liability associated with this ongoing investigation as of December 31, 2016.

In February 2013, two of SolarCity's financing funds filed a lawsuit in the United States Court of Federal Claims against the United States government, seeking to recover approximately \$14.0 million that the United States Treasury was obligated to pay, but failed to pay, under Section 1603 of the American Recovery and Reinvestment Act of 2009. In February 2016, the government filed a motion seeking leave to assert a counterclaim against the two plaintiff funds on the grounds that the government, in fact, paid them more, not less, than they were entitled to as a matter of law. We believe that the government's claims are without merit and expect the plaintiff funds to litigate the case vigorously. Trial in the case is set for the latter half of 2017. We are unable to estimate the possible loss, if any, associated with this lawsuit.

#### **Other Matters**

From time to time, we have received requests for information from regulators and governmental authorities, such as the National Highway Traffic Safety Administration, the National Transportation Safety Board and the Securities and Exchange Commission. We are also subject to various other legal proceedings that arise from the normal course of business activities. In addition, from time to time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations, prospects, cash flows, financial position and brand.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock has traded on The NASDAQ Global Select Market under the symbol "TSLA" since it began trading on June 29, 2010. Our initial public offering was priced at \$17.00 per share on June 28, 2010. The following table sets forth, for the time period indicated, the high and low closing sales price of our common stock as reported on The NASDAQ Global Select Market.

	2016		2015	
	High	Low	High	Low
First Quarter	\$ 238.32	\$ 143.67	\$ 225.48	\$ 181.40
Second Quarter	265.42	193.15	271.41	186.05
Third Quarter	234.79	194.47	286.65	195.00
Fourth Quarter	219.74	181.45	249.84	202.00

Holders

As of January 31, 2017, there were 1,109 holders of record of our common stock. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

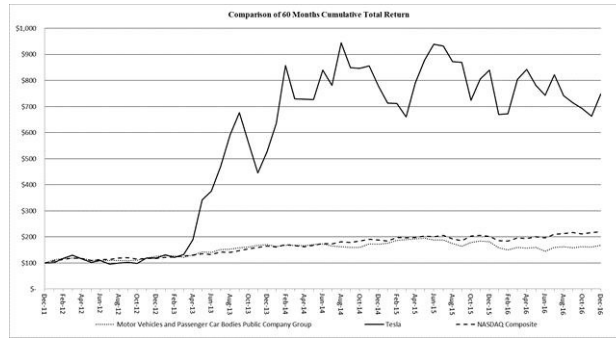
Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

**Stock Performance Graph**

*This performance graph shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Tesla, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.*

The following graph shows a comparison from January 1, 2012 through December 31, 2016, of the cumulative total return for our common stock, the NASDAQ Composite Index, and a group of all public companies sharing the same SIC code as us which is SIC code 3711, "Motor Vehicles and Passenger Car Bodies" (Motor Vehicles and Passenger Car Bodies Public Company Group). Such returns are based on historical results and are not intended to suggest future performance. Data for The NASDAQ Composite Index and the Motor Vehicles and Passenger Car Bodies Public Company Group assumes an investment of \$100 on January 1, 2012 and reinvestment of dividends. We have never declared or paid cash dividends on our capital stock nor do we anticipate paying any such cash dividends in the foreseeable future.



**Unregistered Sales of Equity Securities**

None.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K (in thousands, except per share data).

	Year Ended December 31,				
	2016 (2)	2015	2014	2013	2012
<b>Consolidated Statements of Operations Data:</b>					
Total revenues	\$ 7,000,132	\$ 4,046,025	\$ 3,198,356	\$ 2,013,496	\$ 413,256
Gross profit	1,599,257	923,503	881,671	456,262	30,067
Loss from operations	(667,340)	(716,629)	(186,689)	(61,283)	(394,283)
Net loss attributable to common stockholders	\$ (674,914)	\$ (888,663)	\$ (294,040)	\$ (74,014)	\$ (396,213)
Net loss per share of common stock attributable to common stockholders, basic and diluted (1)	\$ (4.68)	\$ (6.93)	\$ (2.36)	\$ (0.62)	\$ (3.69)
Weighted average shares used in computing net loss per share of common stock, basic and diluted (1)	144,212	128,202	124,539	119,421	107,349

- (1) Diluted net loss per share of common stock is computed excluding common stock subject to repurchase, and, if dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of stock options to purchase shares of our common stock, the conversion of our convertible senior notes (using the treasury stock method), warrants to purchase shares of our common stock issued in connection with our 2018 Notes, 2019 Notes, as defined in Note (1) below, and 2021 Notes, as defined in Note (1) below, (using the treasury stock method), warrants to purchase shares of our convertible preferred stock (using the treasury stock method) and the conversion of our convertible preferred stock and convertible notes payable (using the if-converted method). For purposes of these calculations, potential shares of common stock have been excluded from the calculation of diluted net loss per share of common stock as their effect is antidilutive since we generated a net loss in each period.
- (2) We acquired SolarCity on November 21, 2016. The results of SolarCity have been included in our results of operation from the date of acquisition. See Note 3, *Acquisition of SolarCity*, of the Notes to Consolidated Financial Statements for additional information regarding this transaction.

	As of December 31,				
	2016 (3)	2015	2014	2013	2012
<b>Consolidated Balance Sheet Data:</b>					
Working capital (deficit) (1)	\$ 432,791	\$ (29,029)	\$ 1,072,907	\$ 585,665	\$ (14,340)
Total assets (1)	22,664,076	8,067,939	5,830,667	2,411,186	1,114,190
Total long-term obligations (1)(2)	10,923,162	4,125,915	2,753,595	1,069,535	450,382

- (1) In May 2013, we issued \$660.0 million aggregate principal amount of 2018 Notes in a public offering. In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the 2018 Notes from the host debt instrument and initially recorded the conversion option of \$82.8 million in equity. The holders of 2018 Notes may convert their notes during a quarter if the closing price of our common stock exceeded 130% of the applicable conversion price of our 2018 Notes on at least 20 of the last 30 consecutive trading days of the preceding quarter. As of December 31, 2016, December 31, 2015 and December 31, 2014 our 2018 Notes have met the conversion criteria; consequently the carrying value of our 2018 Notes of \$196.2 million, \$612.5 million and \$594.3 million have been presented as current liabilities, respectively.
- In March 2014, we issued \$800.0 million principal amount of 0.25% convertible senior notes due 2019 ("2019 Notes") and \$1.20 billion principal amount of 1.25% convertible senior notes due 2021 ("2021 Notes") in a public offering. In April 2014, we issued an additional \$120.0 million aggregate principal amount of 2019 Notes and \$180.0 million aggregate principal amount of 2021 Notes, pursuant to the exercise in full of the overallocation options of the underwriters of our March 2014 public offering. In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the notes from the host debt instrument and recorded the conversion option of \$188.1 million for the 2019 Notes and \$369.4 million for the 2021 Notes in stockholders' equity as of December 31, 2014.
- (2) As of August 31, 2012, we had fully drawn down our \$465.0 million under our Department of Energy loan facility. In May 2013, we used a portion of the Notes offering proceeds to repay all outstanding loan amounts under this 1 facility.
- (3) We acquired SolarCity on November 21, 2016. The financial position of SolarCity have been included in our consolidated financial statements from the date of acquisition. See Note 3, *Acquisition of SolarCity*, of the Notes to Consolidated Financial Statements for additional information regarding this transaction.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes that appear elsewhere in this Annual Report on Form 10-K.*

**Overview and 2016 Highlights**

Our mission is to accelerate the world's transition to sustainable energy. We design, develop, manufacture, lease and sell high-performance fully electric vehicles, as well as provide energy storage through the offering of Powerpack and Powerwall. In addition, through our acquisition of SolarCity Corporation, we also provide solar energy systems to residential and commercial customers.

As a result of our acquisition of SolarCity, we have reclassified the presentation of our historic energy storage products revenue and cost of revenue from services and other to energy generation and storage.

*Automotive*

We produce and sell our Model S sedan and our Model X sport utility vehicle. We continue to enhance our vehicle offerings with all-wheel drive capability, autopilot options, Internet connectivity and free over-the-air software updates. Starting in the fourth quarter of 2016, we introduced second generation of autopilot which has improved hardware and enhanced functionalities including better safety and performance.

In 2016, our production capability continued to scale and gain operational efficiencies. During 2016, our production volume increased by 64% year-over-year.

In the fourth quarter of 2015, we began delivering Model X sport utility vehicle. In 2016, we greatly ramped the production and deliveries of Model X. Also, in the first quarter of 2016, we unveiled Model 3, a lower priced sedan designed for the mass market, which received significant interest. To date, we have substantially completed the design and prototypes of Model 3 and are projecting to start production and deliveries in the second half of 2017.

*Energy Generation and Storage*

Through our acquisition of SolarCity Corporation, or SolarCity, on November 21, 2016, we lease and sell solar energy systems and sell renewable energy to our customers, typically at prices below utility rates. Our long-term agreements with our customers generate a predictable and reliable stream of cash flows. The operating results of SolarCity from the acquisition date of November 21, 2016 through December 31, 2016 are included in our Consolidated Statements of Operations. Also in 2016, we introduced solar roof, which we plan to begin selling and installing later in 2017.

In addition to solar energy systems, we also sell energy storage products, which consists of the Powerwall for residential applications and the Powerpack for commercial, industrial and utility-scale applications. In 2016, we completed several of our grid-scale energy storage projects, including the Southern California Edison Mira Loma substation and the American Samoa Island installation.

**Management Opportunities, Challenges and Risks and 2017 Outlook**

*Automotive Demand, Production and Deliveries*

During 2016, we improved our existing Model S sedan and Model X sport utility vehicle by introducing new variants that improve range, performance, safety and value. We introduced several new features, including updating the front fascia of Model S in the second quarter of 2016, to expanding offerings of our battery size to cater to a wider range of consumers. We expect to introduce further new vehicle variants and over-the-air-functionality over time. We also expect that the demand for our vehicles will continue to increase as we improve our vehicles, and expand our retail, service and charging infrastructure and as we develop new products. In addition, the introduction of Model 3 would also generate incremental demand by offering a less expensive alternative.

During the third quarter of 2016, we discontinued our resale value guarantee program in North America. The resale value guarantee was originally introduced in 2013 to help to reassure customers that Tesla vehicles would retain value over time.

We continue to make progress in increasing vehicle production. For the year ended December 31, 2016, we produced approximately 84,000 vehicles, an increase of 64% from the prior year. This increase was achieved despite the fact that we faced challenges in 2016 with Model X production, including part shortages. In January 2017, we completed the acquisition of Grohmann Engineering GmbH, a German manufacturing company with expertise in automated production. We expect this acquisition will facilitate and expand vehicle production.

In the first quarter of 2016, we announced our target to increase overall vehicle production level to 500,000 vehicles in 2018. Increasing production will require additional capital. We have started the installation of Model 3 manufacturing equipment in Fremont and at Gigafactory 1, and we are on track to support volume production and deliveries in the second half of 2017.

In addition to expanding our vehicle production and deliveries, we expect to continue to lower the cost of manufacturing our vehicles over the next several quarters due to economies of scale, material cost reductions and more efficient manufacturing. The decreasing trend in cost of manufacturing vehicles is expected to improve total automotive gross margin over time and mitigate some of the higher ramp up costs associated with the launch of Model 3. We have achieved cost improvements through material cost reductions from both engineering and commercial actions and increased manufacturing efficiencies including better inventory control over utilization and minimization of scrapping materials. This is also evident through increased product reliability including vehicle, battery and drive units that resulted in a reduction of our warranty expense. In addition, we expect that the acquisition of Grohmann will further increase our production automation and efficiency.

In order to accommodate a much larger fleet of customer vehicles as we increase deliveries and to provide timely customer service, we are expanding our sales, service and charging infrastructure worldwide. In particular, we continue to open new Tesla retail and service locations around the world. As of December 31, 2016, we had a total of 265 sales and service locations, and expect our long-term vehicle sales outside of North America to be over half of our worldwide total automotive revenue. As we have less experience in international markets, we may face difficulties meeting our future international expansion plans with respect to timing and expected sales.

#### *Energy Generation and Storage Demand*

We believe that demand for our energy products will continue to increase. We plan to reduce customer acquisition costs by cutting advertising spend and increasingly selling solar products in Tesla stores. In the fourth quarter of 2016, we revealed the solar roof product, of which we expect to begin production and installation later in 2017. In addition, in the fourth quarter of 2016, we also announced our second generation energy storage products, Powerpack 2 and Powerwall 2, which offer significant price advantage per kWh and higher energy density.

#### *Trends in Cash Flow, Capital Expenditures and Operating Expenses*

We plan to build 500,000 vehicles in 2018. Given this plan, we continue to invest heavily in capital expenditures. Our capital expenditure needs include expenditures for the tooling, production equipment and construction of the Model 3 production lines, equipment to support cell production at the Gigafactory 1, as well as new retail locations, service centers and Supercharger locations. We expect to invest between \$2.0 billion and \$2.5 billion in capital expenditures ahead of the start of Model 3 production in 2017.

As of December 31, 2016 and 2015, the net book value of our Supercharger network was \$207.2 million and \$166.6 million, respectively, and as of December 31, 2016, our Supercharger network included 790 locations globally. We plan to continue investing in our Supercharger network for the foreseeable future, including in North America, Europe and Asia, and expect such spending to continue to be a minimal portion of total capital spending. During 2017, we expect that this investment will grow our Supercharger network greatly. We allocate Supercharger related expenses to cost of total automotive revenues and selling, general, and administrative expenses. These costs were immaterial for all periods presented.

We expect operating expenses to grow in 2017, driven by engineering, design, and testing expenses related to Model 3, supplier contracts and higher sales and service costs associated with expanding our worldwide geographic presence. In addition, we expect operating expenses to increase as a result of the increased selling, general and administrative expenses incurred by our energy generation and storage segment. We expect selling, general and administrative expenses to continue to increase in absolute dollars but decline over time as a percentage of revenue as we focus on increasing operational efficiency while continuing to expand our customer and corporate infrastructure. Over time, we also expect total operating expenses to decrease as a percentage of revenue.

#### *Automotive Financing Options*

We offer loans and leases for our vehicles in certain markets in North America, Europe and Asia primarily through various financial institutions. We offer a resale value guarantee in connection with certain loans offered by financial institutions. During 2016, we discontinued the resale value guarantee in North America, but continue to offer it in selected European and Asian markets. Resale value guarantees available for exercise during fiscal year 2017 total \$179.5 million in value.

Vehicle deliveries with the resale value guarantee do not impact our near-term cash flows and liquidity, since we receive the full amount of cash for the vehicle sales price at delivery. However, this program requires the deferral of revenues and costs into future periods as they are considered leases for accounting purposes. While we do not assume any credit risk related to the customer, if a customer exercises the option to return the vehicle to us, we are exposed to liquidity risk that the resale value of vehicles under these programs may be lower than our guarantee, or the volume of vehicles returned to us may be higher than our estimates, or we may be unable to resell the used cars in a timely manner, all of which could adversely impact our cash flows. Based on current market demand for our cars, we estimate the resale prices for our vehicles will continue to be above our resale value guarantee amounts. Should market values of our vehicles or customer demand decrease, these estimates may be impacted materially.

We currently offer vehicle leases in the U.S. directly from Tesla Finance, our captive financing entity, as well as through a leasing partner. Leasing through Tesla Finance is now available in 39 states and the District of Columbia. We also offer financing arrangements through our entities in Canada, Germany and the U.K. Leasing through both our captive financing entities and our leasing partners exposes us to residual value risk and will adversely impact our near-term operating results by requiring the deferral of revenues and costs into future periods under lease accounting. In addition, for leases offered directly from our captive financing entities (but not for those offered through our leasing partner), we only receive a limited portion of cash for the vehicle price at delivery and will assume customer credit risk. We plan to continue expanding our financing offerings, including our lease financing options and the financial sources to support them, and to support the overall financing needs of our customers. To the extent that we are unable to arrange such options for our customers on terms that are attractive, our sales, financial results, and cash flow could be negatively impacted.

#### *Energy Generation and Storage Financing options*

Through SolarCity, we offer Solar Loans, whereby a third-party lender provides financing directly to a qualified customer to enable the customer to purchase and own a solar energy system installed by us. We enter into a standard solar energy system sale agreement with the customer. Separately, the customer enters into a loan agreement with one of the third-party lenders, who finances the full purchase price. We are not a party to the loan agreement between the customer and the third-party lender, and the third-party lender has no recourse against us with respect to the loan. If we are unable to continue to offer third-party financing or other financing alternatives to our customers on competitive terms, our growth may slow and our financial and operating results may be adversely impacted.

#### *Gigafactory 1 and Manufacturing*

We are developing Gigafactory 1 as a facility where we work together with our suppliers to integrate production of battery material, cells, modules and battery packs in one location for both vehicles and energy storage products. We broke ground on Gigafactory 1 in June 2014, began assembling our energy storage products in the first portion of the facility in the fourth quarter of 2015, and began production of lithium-ion battery cells for our energy storage products in the first quarter of 2017. We continue to invest in construction of the building at Gigafactory and in production equipment for battery, module and pack production.

Panasonic has agreed to partner with us on Gigafactory 1 with investments in production equipment that it will use to manufacture and supply us with battery cells. Under our arrangement with Panasonic, we plan to purchase the full output from their production equipment located at Gigafactory 1 at negotiated prices. As these terms convey a right to use the production related assets as defined within ASC 840, *Leases*, we will consider these leased assets beginning with the start of cell production in early 2017. This will result in us recording the value of such assets within property, plant and equipment, net, in our Consolidated Balance Sheet with a corresponding liability recorded to financing obligations. For all suppliers and partners for which we plan to purchase the full output from their production equipment located at Gigafactory 1, we will record the value of such assets on our Consolidated Balance Sheet. Based on our current assessment, as of December 31, 2016, approximately \$300 million is expected to be recorded on our Consolidated Balance Sheet during the first quarter of 2017.

Although we continue to remain on track with our progress at Gigafactory 1, given the size and complexity of this undertaking, it is possible that future events could result in the cost of building and operating Gigafactory 1 exceeding our current expectations and Gigafactory 1 taking longer to expand than we currently anticipate. In addition, we continue to expand production capacity at our Fremont Factory and are exploring additional production capacity in Asia and Europe.



#### *Gigafactory 2 and Manufacturing*

Through our acquisition of SolarCity, we have an agreement with the Research Foundation for the State University of New York for the construction of an approximately 1 million square foot manufacturing facility capable of producing 1 gigawatt of solar panels annually on an approximately 88.24 acre site located in Buffalo, New York, referred to as Gigafactory 2. In December 2016, we entered into a Production Pricing Agreement: Phases 1-3 (the Phase 1-3 Agreement) with Panasonic Corporation, Panasonic Corporation of North America and Sanyo Electronic Co., Ltd (collectively, Panasonic). This agreement provides that Panasonic will manufacture custom photovoltaic (PV) cells and modules for us, primarily at Gigafactory 2, and that we will purchase certain amounts of PV cells and modules from Panasonic during the 10-year term, with the intent to produce PV cells and modules totaling approximately 1 gigawatt annually beginning in 2019.

The terms of our agreement with the Research Foundation for the State University of New York, among other things, require us to comply with a number of covenants during the term of the agreement. Any failure to comply with these covenants could obligate us to pay significant amounts to the Foundation and result in termination of the agreement. Although we continue to remain on track with our progress at Gigafactory 2, our expectations as to the cost of building the facility, acquiring manufacturing equipment and supporting our manufacturing operations may prove incorrect, which could subject us to significant expenses to achieve the desired benefits.

#### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience, as appropriate, and on various other assumptions that we believe to be reasonable under the circumstances. Changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the following critical accounting policies involve a greater degree of judgment and complexity than our other accounting policies. Accordingly, these are the policies we believe are the most critical to understanding and evaluating our consolidated financial condition and results of operations.

##### *Revenue Recognition*

We recognize revenue for products and services when: (i) a persuasive evidence of an arrangement exists; (ii) delivery has occurred and there are no uncertainties regarding customer acceptance; (iii) pricing or fees are fixed or determinable; and (iv) collection is reasonably assured.

##### *Automotive Segment*

Automotive revenue includes revenues related to deliveries of new vehicles, sales of regulatory credits to other automotive manufacturers, and specific other elements that meet the definition of a deliverable under multiple-element accounting guidance including free internet connectivity, free access to our Supercharger network, and free future over the air software updates. These deliverables are valued on a stand-alone basis and we recognize their revenue over our performance period, which is generally the eight-year life of the vehicle, except for internet connectivity which is over the free four year period. If we sell a deliverable separately, we use that pricing to determine its fair value; otherwise, we use our best estimated selling price by considering costs used to develop and deliver the service, third party pricing of similar options, and other information which may be available.

Starting in the third quarter of 2016, we started to separately present automotive leasing revenue and related cost of revenue. All prior periods have been reclassified to conform to this presentation. Automotive leasing revenue includes revenue recognized under lease accounting guidance for our direct leasing programs as well as programs with resale value guarantees. See "Vehicle sales to customers with a resale value guarantee," "Vehicle sales to leasing partners with a resale value guarantee" and "Direct Vehicle Leasing Program" for further details.

Services and other revenue consists of repair and maintenance services, service plans and merchandise, sales of pre-owned Tesla vehicles, sales of electric vehicle powertrain components and systems to other manufacturers, and sales of non-Tesla vehicle trade-ins.

*Vehicle sales to customers with a resale value guarantee*

We offered resale value guarantees or similar buy-back terms to all customers who purchase vehicles and who financed their vehicle through one of our specified commercial banking partners. Subsequent to June 30, 2016, this program is available only in certain international markets. Under this program, customers have the option of selling their vehicle back to us during the guarantee period for a determined resale value. Guarantee periods generally range from 36 to 39 months. Although we receive full payment for the vehicle sales price at the time of delivery, we are required to account for these transactions as operating leases. 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 our Consolidated Balance Sheets as operating lease vehicles, net, and depreciate their value, less salvage value, to cost of automotive leasing revenue over the same period.

In cases when customer retains 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 are settled to automotive leasing revenue and the net book value of the leased vehicle is expensed to costs of automotive leasing revenue. In cases when customers return the vehicle back to us during the guarantee period, we purchase the vehicle from the customer at 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 our balance sheet to pre-owned vehicle inventory. As of December 31, 2016, \$179.5 million of guarantees are exercisable by customers within the next twelve months.

*Vehicle sales to leasing partners with a resale value guarantee*

We also offer resale value guarantees in connection with automobile sales to certain bank leasing partners. As we have guaranteed the value of these vehicles and as the vehicles are leased to end-customers, we account for these transactions as interest bearing collateralized borrowings as required under Accounting Standards Codification (ASC) 840 - Leases. Under this program, cash is received for the full price of the vehicle and is recorded within resale value guarantee for the long-term portion and deferred revenue for the current portion. We accrete the deferred revenue amount to automotive leasing revenue on a straight line basis over the guarantee period and accrue interest expense based on our borrowing rate. We capitalize vehicles under this program to leased vehicles on our Consolidated Balance Sheets and record depreciation from these vehicles to cost of automotive leasing revenues 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 borrowings within cash flows from financing activities in our Consolidated Statements 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 resale value guarantee amount, or paying a shortfall to the guarantee 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 bank retains ownership of the vehicle after the end of our guarantee period, we expense the net value of the leased vehicle to costs of automotive leasing revenue. The maximum cash we could be required to pay under this program, assuming we repurchase of all vehicles under this program is \$855.9 million at December 31, 2016.

As of December 31, 2016 and December 31, 2015, we had \$1.18 billion and \$527.5 million of such borrowings recorded in the resale value guarantee liability and \$289.1 million and \$120.5 million recorded in deferred revenue liability.

At least annually, we assess the estimated market values of vehicles under our resale value guarantee program to determine if we have sustained a loss on any of these contracts. As we accumulate more data related to the resale values of our vehicles or as market conditions change, there may be significant changes to their estimated values.

*Direct Vehicle Leasing Program*

We offer a vehicle leasing program in certain locations in the North America and Europe. Qualifying customers are permitted to lease a vehicle directly from Tesla for up to 48 months. 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 and recognize leasing revenues over the contractual term and record the depreciation of these vehicles to cost of automotive revenues. As of December 31, 2016 and 2015, we had deferred \$67.2 million and \$25.8 million of lease-related upfront payments which will be recognized on a straight-line basis over the contractual term of the individual leases.

#### *Maintenance and Service Plans*

We offer a prepaid maintenance program for our vehicles, which includes plans covering maintenance for up to eight years or up to 100,000 miles, provided these services are purchased within a specified period of time. The maintenance plans cover annual inspections and the replacement of wear and tear parts, excluding tires and the battery. Payments collected in advance of the performance of service are initially recorded in deferred revenues on the consolidated balance sheets and recognized in automotive sales as we fulfill our performance obligations.

We also offer an extended service plan, which covers the repair or replacement of vehicle parts for an additional four years or up to an additional 50,000 miles, after the end of our initial New Vehicle Limited Warranty, provided they are purchased within a specified period of time. Payments collected in advance of the performance of service are initially recorded in deferred revenues on the consolidated balance sheets and recognized in automotive sales ratably over the service coverage periods.

#### *Energy Generation and Storage Segment*

For solar energy systems and components sales wherein customers pay the full purchase price, either directly or through the Solar Loan program, revenue is recognized when we install a solar energy system and the solar energy system passes inspection by the utility or the authority having jurisdiction, provided all other revenue recognition criteria have been met. In instances where there are multiple deliverables in a single arrangement, we allocate the arrangement consideration to the various elements in the arrangement based on the relative selling price method. Costs incurred on residential installations before the solar energy systems are completed are included in inventories as work in progress in our 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 solar energy systems and components sales revenue, in accordance with ASC 605-50, *Customer Payments and Incentives*. Revenue for energy storage product sale is recognized when the product is delivered or installed, provided all other revenue recognition criteria have been met.

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 are 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 our Consolidated Balance Sheets.

For solar energy systems where customers purchase electricity from us under power purchase agreements, we have determined that these agreements should be accounted for, in substance, 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 capitalize initial direct costs from the origination of solar energy system leases or power purchase agreements (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.

#### *Inventory Valuation*

Inventories are stated at the lower of cost or market. Cost is computed using standard cost for vehicles and energy storage products, which approximates actual cost on a first-in, first-out basis. In addition, cost for solar energy systems are recorded using actual cost. We record inventory write-downs for excess or obsolete inventories based upon assumptions about on current and future demand forecasts. If our inventory on hand is in excess of our future demand forecast, the excess amounts are written off.

We also review inventory to determine whether its carrying value exceeds the net amount realizable upon the ultimate sale of the inventory. This requires us to determine the estimated selling price of our vehicles less the estimated cost to convert inventory on hand into a finished product. Once inventory is written-down, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Should our estimates of future selling prices or production costs change, additional and potentially material increases to this reserve may be required. A small change in our estimates may result in a material charge to our reported financial results.

#### *Warranties*

We provide a manufacturer's warranty on all vehicles, production powertrain components and systems, and energy generation and storage products we sell. At the time of delivery, we accrue for a manufacturer's warranty which includes our best estimate of the projected costs to repair or to replace items under warranty. 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 and changes to our historical or projected warranty experience may cause material changes to our warranty reserve in the future. For the solar energy systems that we sell, we provide a warranty on the installation and components for periods typically between 10 to 30 years. The manufacturer's warranty on the solar energy systems' components, which is typically passed-through to customers, ranges from 5 to 30 years. The portion of the warranty provision expected to be incurred within 12 months is classified as a current liability.

Our warranty reserves do not include projected warranty costs associated with our vehicles and solar energy systems accounted for as operating leases or collateralized debt arrangements. Any costs to repair these vehicles and systems are expensed as incurred. Warranty expense is recorded as a component of cost of automotive revenue for Automotive related sale and cost of energy generation and storage revenue for solar energy and storage systems.

#### *Stock-Based Compensation*

We use the fair value method of accounting for our stock options and restricted stock units (RSUs) granted to employees and our Employee Stock Purchase Plan (ESPP) to measure the cost of employee services received in exchange for the stock-based awards. The fair value of stock options and ESPP are estimated on the grant date and offering date using the Black-Scholes option-pricing model. The fair value of RSUs is measured on the grant date based on the closing fair market value of our common stock. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the awards, usually the vesting period which is generally four years for stock options and RSUs and six months for the ESPP. Stock-based compensation expense is recognized on a straight-line basis, net of estimated forfeitures.

The Black-Scholes option-pricing model requires inputs such as the risk-free interest rate, expected term and expected volatility. Further, the forfeiture rate also affects the amount of aggregate compensation. These inputs are subjective and generally require significant judgment.

We estimate our forfeiture rate based on an analysis of our actual forfeiture experience and will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior and other factors. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the consolidated financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the consolidated financial statements.

As we accumulate additional employee stock-based awards data over time and as we incorporate market data related to our common stock, we may calculate significantly different volatilities, expected lives and forfeiture rates, which could materially impact the valuation of our stock-based awards and the stock-based compensation expense that we will recognize in future periods. Stock-based compensation expense is recorded in our cost of revenues, research and development expenses, and selling, general and administrative expenses.

In August 2012, our Board of Directors granted 5,274,901 stock options to our CEO (the "2012 CEO Grant"). The 2012 CEO Grant consists of ten vesting tranches with a vesting schedule based entirely on the attainment of both performance conditions and market conditions, assuming continued employment and service to us through each vesting date.

Each of the ten vesting tranches requires a combination of one of the ten pre-determined performance milestones and an incremental increase in our market capitalization of \$4.0 billion, as compared to the initial market capitalization of \$3.2 billion measured at the time of the 2012 CEO Grant.

The term of the 2012 CEO Grant is ten years, so any tranches that remain unvested at the expiration of the 2012 CEO Grant will be forfeited. In addition, unvested options will be forfeited if our CEO is no longer in that role, whether for cause or otherwise.

We measured the fair value of the 2012 CEO Grant using a Monte Carlo simulation approach with the following assumptions: risk-free interest rate of 1.65%, expected term of ten years, expected volatility of 55% and dividend yield of 0%.

Stock-based compensation expense associated with the 2012 CEO Grant is recognized for each pair of performance and market conditions over the longer of the expected achievement period of the performance and market conditions, beginning at the point in time that the relevant performance condition is considered probable of being met.

As of December 31, 2016, the market conditions for seven vesting tranches and the following performance milestones were achieved and approved by our Board of Directors, and therefore five of ten tranches of the 2012 CEO Grant were vested as of such date:

- 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 vehicle production of 100,000 vehicles; and
- Successful completion of the Model 3 Alpha Prototype.

As of December 31, 2016, the following performance milestones were considered probable of achievement:

- Successful completion of the Model 3 Beta Prototype;
- Completion of the first Model 3 Production Vehicle;
- Aggregate vehicle production of 200,000 vehicles; and
- Aggregate vehicle production of 300,000 vehicles.

We expect that the next performance milestone to be achieved will be the successful completion of the Model 3 Beta Prototype, which would be achieved upon the determination by our Board of Directors that an eligible prototype has been completed. Candidates for such prototype are among the vehicles that we are currently building as part of our ongoing testing of our Model 3 vehicle design and manufacturing processes.

As the above four performance milestones were considered probable of achievement, we recorded stock-based compensation expense of \$15.8 million, \$10.6 million and \$25.0 million for the years ended December 31, 2016, 2015 and 2014.

Additionally, no cash compensation has ever been received by our CEO for his services to the Company.

#### *Income Taxes*

We are subject to federal and state taxes in the United States and in many foreign jurisdictions. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We make these estimates and judgments about our future taxable income that are based on assumptions that are consistent with our future plans. Tax laws, regulations, and administrative practices may be subject to change due to economic or political conditions including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., many countries in the European Union, and a number of other countries are actively considering changes in this regard. As of December 31, 2016, we had recorded a full valuation allowance on our net U.S. deferred tax assets because we expect that it is more likely than not that our U.S. deferred tax assets will not be realized in the foreseeable future. Should the actual amounts differ from our estimates, the amount of our valuation allowance could be materially impacted.

Furthermore, significant judgment is required in evaluating our tax positions. In the ordinary course of business, there are many transactions and calculations for which the ultimate tax settlement is uncertain. As a result, we recognize the effect of this uncertainty on our tax attributes based on our estimates of the eventual outcome. These effects are recognized when, despite our belief that our tax return positions are supportable, we believe that it is more likely than not that those positions may not be fully sustained upon review by tax authorities. We are required to file income tax returns in the United States and various foreign jurisdictions, which requires us to interpret the applicable tax laws and regulations in effect in such jurisdictions. Such returns are subject to audit by the various federal, state and foreign taxing authorities, who may disagree with respect to our tax positions. We believe that our consideration is adequate for all open audit years based on our assessment of many factors, including past experience and interpretations of tax law. We review and update our estimates in light of changing facts and circumstances, such as the closing of a tax audit, the lapse of a statute of limitations or a change in estimate. To the extent that the final tax outcome of these matters differs from our expectations, such differences may impact income tax expense in the period in which such determination is made. The eventual impact on our income tax expense depends in part if we still have a valuation allowance recorded against our deferred tax assets in the period that such determination is made.

#### *Principles of Consolidation*

Our consolidated financial statements reflect our accounts and operations and those of our subsidiaries in which we have a controlling financial interest. In accordance with the provisions of Financial Accounting Standards Board, or FASB, ASC 810 *Consolidation*, we consolidate any variable interest entity, or VIE, of which we are the primary beneficiary. We form VIEs with our financing fund investors in the ordinary course of business in order to facilitate the funding and monetization of certain attributes associated with our solar energy systems. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. We do not consolidate a VIE in which we have a majority ownership interest when we are not considered the primary beneficiary. We have determined that we are the primary beneficiary of a number of VIEs. We evaluate our relationships with all the VIEs on an ongoing basis to ensure that we continue to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

#### *Noncontrolling Interests and Redeemable Noncontrolling Interests*

Noncontrolling interests and redeemable noncontrolling interests represent third-party interests in the net assets under certain funding arrangements, or funds, that SolarCity enters into to finance the costs of solar energy systems under operating leases. We have determined that the contractual provisions of the funds represent substantive profit sharing arrangements. We have further determined that the appropriate methodology for calculating the noncontrolling interest and redeemable noncontrolling interest balances that reflects the substantive profit sharing arrangements is a balance sheet approach using the HLBV method. We, therefore, determine the amount of the noncontrolling interests and redeemable noncontrolling interests in the net assets of the funds at each balance sheet date using the HLBV method, which is presented on our Consolidated Balance Sheets as noncontrolling interests in subsidiaries and redeemable noncontrolling interests in subsidiaries. Under the HLBV method, the amounts reported as noncontrolling interests and redeemable noncontrolling interests in our consolidated balance sheets represent the amounts the third-parties would hypothetically receive at each balance sheet date under the liquidation provisions of the funds, assuming the net assets of the funds were liquidated at their recorded amounts determined in accordance with GAAP and distributed to the third-parties. The third-parties' interests in the results of operations of the funds are determined as the difference in the noncontrolling interest and redeemable noncontrolling interest balances in our Consolidated Balance Sheets between the start and end of each reporting period, after taking into account any capital transactions between the funds and the third-parties. However, the redeemable noncontrolling interest balance is at least equal to the redemption amount. The redeemable noncontrolling interest balance is presented as temporary equity in the mezzanine section of our Consolidated Balance Sheets since these third-parties have the right to redeem their interests in the funds for cash or other assets.

#### *Business Combinations*

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. The excess of the fair values of these identifiable assets and liabilities over the fair value of purchase consideration is recorded as gain from bargain purchase in other income and expense, net in our Consolidated Statements of Operations. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets and certain tangible assets such as solar energy systems acquired as part of our SolarCity acquisition.

Critical estimates in valuing certain tangible and intangible assets include but are not limited to future expected cash flows from the underlying assets and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 3 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

## Results of Operations

### Revenues

(Dollars in thousands)	Year Ended December 31,			Change 2016 vs. 2015		Change 2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
<b>Automotive</b>							
Automotive	\$ 5,589,007	\$ 3,431,587	\$ 2,874,448	\$ 2,157,420	63%	\$ 557,139	19%
Automotive leasing	761,759	309,386	132,564	452,373	146%	176,822	133%
Services and other	467,972	290,575	187,136	177,397	61%	103,439	55%
Total automotive revenue	6,818,738	4,031,548	3,194,148	2,787,190	69%	837,400	26%
<b>Energy generation and storage</b>							
Energy generation and storage	181,394	14,477	4,208	166,917	1153%	10,269	244%
<b>Total revenues</b>	<b>\$ 7,000,132</b>	<b>\$ 4,046,025</b>	<b>\$ 3,198,356</b>	<b>\$ 2,954,107</b>	<b>73%</b>	<b>\$ 847,669</b>	<b>27%</b>

### Automotive Segment

Automotive revenue includes revenues related to sale of new Model S and Model X vehicles, including internet connectivity, Supercharger access, and specified software updates for cars equipped with autopilot hardware, as well as sales of regulatory credits to other automotive manufacturers. Automotive leasing revenue includes the amortization of revenue for Model S and Model X vehicles sold with resale value guarantees accounted for as operating leases under lease accounting.

Services and other revenue consists of sales of electric vehicle powertrain components and systems to other manufacturers, maintenance services and sales of pre-owned vehicles.

#### 2016 compared to 2015

Automotive revenue increased \$2.16 billion, or 63% to \$5.59 billion during the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily related to a 55% increase in vehicle deliveries to approximately 50,700. The increase in volume is primarily due to a full year of Model X deliveries in 2016, as well as increased production and sales of Model S. Further, there was an overall increase in average selling price of 6.1% primarily due to the introduction of Model X which are higher priced vehicles compared to Model S. In addition, there is an increase of \$133.4 million to \$302.3 million of the sale of regulatory credits from the year ended December 31, 2015 to the corresponding period in 2016. These increases were partially offset by negative impact from the movement of foreign currency exchange rates.

Automotive leasing revenue increased \$452.4 million, or 146%, to \$761.8 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase was primarily due to an 83% increase in cumulative vehicle deliveries under leasing programs and programs with a resale value guarantee from the year ended December 31, 2015 to the year ended December 31, 2016. In addition, during the year ended December 31, 2016, we recognized \$112.6 million in automotive leasing revenue upon the expiration of resale value guarantees.

Service and other revenue increased \$177.4 million, or 61%, to \$468.0 million during the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to an increase of \$117.4 million in pre-owned vehicle sales as we received more trade-ins and an increase in maintenance service revenue of \$66.6 million as our fleet continues to grow.

#### 2015 compared to 2014

Automotive revenue during the years ended December 31, 2015 and 2014 were \$3.43 billion and \$2.87 billion. Automotive leasing revenue during the years ended December 31, 2015 and 2014 were \$309.4 million and \$132.6 million. The increase of automotive revenue and automotive leasing revenue was primarily driven by the ramp in vehicle deliveries.

Service and other revenue during the years ended December 31, 2015 and 2014 were \$290.6 million and \$187.1 million, related primarily to increases in pre-owned vehicle sales and maintenance service revenue.

### Energy Generation and Storage Segment

Energy generation and storage revenue includes sale of solar energy systems and energy storage products, leasing revenue from solar energy systems under operating leases and power purchase agreements and the sale of solar energy systems incentives.

Energy generation and storage revenue increased \$166.9 million, or 1,153%, primarily due to \$84.1 million as a result of the inclusion of revenue from SolarCity from the acquisition date of November 21, 2016 through December 31, 2016, as well as an increase of \$82.8 million in energy storage revenue as we ramped up our energy storage sales effort and completed several utility scale projects such as Southern California Edison Mira Loma substation.

**Cost of Revenues and Gross Profit**

(Dollars in thousands)	Year Ended December 31,			Change 2016 vs. 2015		Change 2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
<b>Cost of revenues</b>							
<b>Automotive</b>							
Automotive	\$ 4,268,087	\$ 2,639,926	\$ 2,058,344	\$ 1,628,161	62%	\$ 581,582	28%
Automotive leasing	481,994	183,376	87,405	298,618	163%	95,971	110%
Services and other	472,462	286,933	166,931	185,529	65%	120,002	72%
Total Automotive cost of revenue	5,222,543	3,110,235	2,312,680	2,112,308	68%	797,555	34%
<b>Energy generation and storage</b>							
Energy generation and storage cost of revenue	178,332	12,287	4,005	166,045	1351%	8,282	207%
Total cost of revenues	\$ 5,400,875	\$ 3,122,522	\$ 2,316,685	\$ 2,278,353	73%	\$ 805,837	35%
Gross profit total automotive	\$ 1,596,195	\$ 921,313	\$ 881,468				
Gross margin total automotive	23.4%	22.9%	27.6%				
Gross profit energy generation and storage	3,062	2,190	203				
Gross margin energy generation and storage	1.7%	15.1%	4.8%				
Total gross profit	\$ 1,599,257	\$ 923,503	\$ 881,671				
Total gross margin	22.8%	22.8%	27.6%				

**Automotive Segment**

Cost of automotive revenue includes direct parts, material and labor costs, manufacturing overhead, including depreciation costs of tooling and machinery, shipping and logistic costs, vehicle connectivity costs, allocations of electricity and infrastructure costs related to our Supercharger network, and reserves for estimated warranty expenses. Cost of automotive revenues also includes adjustments to warranty expense and charges to write down the carrying value of our inventory when it exceeds its estimated net realizable value and to provide for obsolete and on-hand inventory in excess of forecasted demand.

Cost of automotive leasing revenue includes primarily the amortization of operating lease vehicles over the lease term, as well as warranty expenses recognized as incurred. Cost of services and other revenue includes direct parts, material and labor costs, manufacturing overhead associated with the sales of electric vehicle powertrain components and systems to other manufacturers and energy products, costs associated with providing maintenance services, and costs to acquire and certify pre-owned vehicles.

**2016 compared to 2015**

Cost of automotive revenues increased \$1.63 billion, or 62%, to \$4.27 billion during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase was primarily due to a 55% increase in vehicle deliveries as a result of a full year of Model X deliveries as well as increased deliveries for Model S. In addition, the increase is due to product mix as Model X has a higher cost structure than Model S. The increase in cost of automotive revenue is partially offset by a reduction of warranty expense of \$20.0 million resulting from better vehicle reliability.

Cost of automotive leasing revenue increased \$298.6 million, or 163%, to \$482.0 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase is primarily due to an 83% increase in cumulative vehicle deliveries under leasing programs and programs with resale value guarantees from the year ended December 31, 2015 to the year ended December 31, 2016. In addition, during the year ended December 31, 2016, we recognized \$114.3 million in cost of automotive leasing revenues upon the expiration of resale value guarantees.

Cost of services and other revenue increased \$185.5 million, or 65%, to \$472.5 million during the year ended December 31, 2016 compared to the year ended December 31, 2015, primarily due to an increase of \$120.8 million in cost of pre-owned vehicle sales due to increase in volume, and an increase of \$64.9 million in cost to provide maintenance service as our fleet continues to grow.



Gross profit for the Automotive segment increased from \$921.3 million for the year ended December 31, 2015 to \$1.60 billion for the year ended December 31, 2016. Automotive gross margin increased from 22.9% for the year ended December 31, 2015, to 23.4% for the year ended December 31, 2016. The increase was primarily due to lower material and manufacturing costs as we further improve our production processes, partially offset by a negative impact from the movement in foreign exchange and increased expenditures to build out our service centers and provide maintenance.

#### 2015 Compared to 2014

Cost of automotive revenues increased \$581.6 million, or 28%, to \$2.64 billion during the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase in cost of automotive revenues was driven primarily by increased Model S deliveries.

Cost of automotive leasing revenue increased \$96.0 million, or 110%, to \$183.4 million during the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase is primarily due to an increase in cumulative vehicle deliveries under leasing programs and programs with resale value guarantees as volume of Model S increased.

For the years ended December 31, 2015 and 2014, costs of services and other revenue were \$286.9 million and \$166.9 million. The increase in cost of services and other revenues was driven primarily by greater pre-owned vehicle sales and increased maintenance and repair services.

Gross profit for the automotive segment increased from \$881.5 million from the year ended December 31, 2014 to \$921.3 million for the year ended December 31, 2015. Gross margin for the years ended December 31, 2015 and 2014 were 22.9% and 27.6%. The lower margin in 2015 as compared to 2014 was primarily due to product and regional mix shift, as a greater percentage of sales were derived from vehicle models with lower average selling prices, and increased manufacturing costs related to the ramp in production of the small drive unit for dual motor Model S vehicles and start of Model X production, obsolete inventory and lower ZEV credits revenue. This margin decrease was partially offset by an increasing amount of revenues from vehicles accounted for as leases including direct lease vehicles and those under our resale value guarantee programs which have a significantly higher gross margin and from material cost savings. Services and other gross margin were also down year over year, primarily driven by a planned price reduction for powertrain sales to Daimler.

#### Energy Generation and Storage Segment

Cost of energy generation and storage revenue includes direct material and labor costs, overhead of solar energy systems and energy storage products and the depreciation expense and maintenance costs associated with leased solar energy systems.

Cost of energy generation and storage revenue increased \$166.0 million to \$178.3 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase is due to an increase of \$67.0 million as a result of the inclusion of SolarCity's financial results from the acquisition date of November 21, 2016 to December 31, 2016. The remaining increase was due to increase in the sale of energy storage products and increased expenditures to increase the capacity of energy storage products.

Cost of energy generation and storage revenue in 2014 was insignificant. Gross profit and related margin for energy generation and storage was also insignificant in all periods presented.

#### Research and Development Expenses

(Dollars in thousands)	Year Ended December 31,			Change 2016 vs. 2015		Change 2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
Research and development	\$ 834,408	\$ 717,900	\$ 464,700	116,508	16%	253,200	54%
As a percentage of revenues	11.9%	17.7%	14.5%				

Research and development (R&D) expenses consist primarily of personnel costs for our teams in engineering and research, supply chain, quality, manufacturing engineering and manufacturing test organizations, prototyping expense, contract and professional services and amortized equipment expense.

R&D expenses increased \$116.5 million, or 16%, to \$834.4 million during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase of \$116.5 million was primarily due to a \$78.2 million increase in employee and labor related expenses due to a 15% headcount increase as we expanded our vehicle business in the U.S. and internationally, and a \$65.0 million increase in stock-based compensation expense related to an increase in headcount and number of employee stock awards granted for new hire and refresher employee stock grants. This is partially offset by a \$25.9 million decrease in expensed materials related to our Model X development, which was primarily incurred in 2015. The overall increase also includes \$11.0 million related to SolarCity.

R&D expenses increased \$253.2 million, or 54%, to \$717.9 million during the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase in R&D expenses consisted primarily of a \$93.9 million increase in expensed materials primarily to support our Model X development and Model S improvements, a \$75.9 million increase in employee compensation expenses, a \$30.6 million increase in facilities and depreciation costs, a \$20.1 million increase in costs related to Model X, autopilot and dual motor powertrain engineering, design and testing activities and a \$22.8 million increase in stock-based compensation expense related to increased headcount and increasing values of awards granted.

**Selling, General and Administrative Expenses**

(Dollars in thousands)	Year Ended December 31,			Change 2016 vs. 2015		Change 2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
Selling, general and administrative	\$ 1,432,189	\$ 922,232	\$ 603,660	509,957	55%	318,572	53%
As a percentage of revenues	20.5%	22.8%	18.9%				

Selling, general and administrative (SG&A) expenses consist primarily of personnel and facilities costs related to our stores, marketing, sales, executive, finance, human resources, information technology and legal organizations, as well as litigation settlements and fees for professional and contract services.

SG&A expenses increased \$510.0 million, or 55%, to \$1.43 billion during the year ended December 31, 2016 compared to the year ended December 31, 2015. The increase in SG&A expenses was primarily due to a \$247.2 million increase in employee and labor related expenses due to a 61.3% increase in headcount as we expanded our business in the U.S. and internationally, a \$91.0 million increase in office, information technology and facilities-related costs to support the growth of our business as well as sales and marketing activities to handle our expanding market presence, and a \$58.1 million increase in stock-based compensation expense related to increased number of employee stock awards granted for new hire and existing employees. The increase includes \$74.3 million related to SolarCity.

SG&A expenses increased \$318.6 million, or 53%, to \$922.2 million during the year ended December 31, 2015 compared to the year ended December 31, 2014. The increase in our SG&A expenses consisted primarily of a \$138.4 million increase in employee compensation expenses related to higher sales, service and marketing headcount to support sales activities worldwide and higher general and administrative headcount to support the expansion of the business, \$126.1 million increase in office, information technology and facilities-related costs to support the growth of our business as well as sales and marketing activities to handle our expanding market presence, a \$41.8 million increase in professional and outside services costs, and a \$12.2 million increase in stock based compensation.

**Interest Expense**

(Dollars in thousands)	Year Ended December 31,			Change 2016 vs. 2015		Change 2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
Interest expense	\$ (198,810)	\$ (118,851)	\$ (100,886)	(79,959)	67%	(17,965)	18%
As a percentage of revenues	-2.8%	-2.9%	-3.2%				

Interest expense for the year ended December 31, 2016 increased \$80.0 million, or 67%, from the year ended December 31, 2015. The increase as compared to the year ended December 31, 2015 consisted primarily of a \$33.1 million increase in interest expense on vehicles sales that we account for as collateralized borrowing, a \$28.5 million increase in interest expense on build-to-suit leases and a \$22.0 million increase in interest expense associated with SolarCity's indebtedness, financing obligations and capital lease obligations.

Interest expense for the year ended December 31, 2015 was \$118.9 million, as compared to \$100.9 million during the year ended December 31, 2014. The increase as compared to the same periods in 2014 was due to the issuance of \$920.0 million aggregate principal amount of 2019 Notes and \$1.38 billion aggregate principal amount of 2021 Notes during the first half of 2014.

**Other Income (Expense), Net**

(Dollars in thousands)	Year Ended December 31,			Change 2016 vs. 2015		Change 2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
Other income (expense), net	\$ 111,272	\$ (41,652)	\$ 1,813	152,924	-367%	(43,465)	-2397%
As a percentage of revenues	1.6%	-1.0%	*				

\* = less than 1%

Other income (expense), net, consists primarily of foreign exchange gains and losses related to our foreign currency-denominated assets and liabilities. We expect our foreign exchange gains and losses will vary depending upon movements in the underlying exchange rates. Additionally, other income (expense), net, includes a gain from the acquisition of SolarCity for the year ended December 31, 2016.

Other income, net, was \$111.3 million in the year ended December 31, 2016, as compared to other expense, net, of \$41.7 million during the same period in 2015, representing increases of \$152.9 million. During the year ended December 31, 2016, we recognized a gain from the acquisition of SolarCity of \$88.7 million and a loss on conversion of our 2018 Notes of \$7.2 million. The remainder of the change in other income (expense), net, was primarily result of fluctuations in gains (losses) from foreign currency exchange.

Other expense was \$41.7 million in the year ended December 31, 2015, as compared to an income of \$1.8 million during the same period in 2014. Fluctuations in other income (expense) from 2014 to 2015 are primarily the result of gains (losses) from foreign currency exchange of (\$45.6) million and \$2.0 million for the years ended December 31, 2015 and 2014. Foreign currency losses during 2015 related primarily to changes in the exchange rates of euro, Norwegian krone, Canadian dollars, and Chinese yuan.

#### **Provision for Income Taxes**

(Dollars in thousands)	Year Ended December 31,			Change 2016 vs. 2015		Change 2015 vs. 2014	
	2016	2015	2014	\$	%	\$	%
Provision for income taxes	\$ 26,698	\$ 13,039	\$ 9,404	13,659	105%	3,635	39%
As a percentage of loss before income taxes	-3.6%	-1.5%	-3.3%				

Our provision for income taxes for the years ended December 31, 2016, 2015, and 2014 was \$26.7 million, \$13.0 million, and \$9.4 million. The increases in the provision for income taxes were due primarily to the increase in taxable income in our international jurisdictions.

#### **Net loss attributable to noncontrolling interests and redeemable noncontrolling interests**

The net loss allocation to noncontrolling interests and redeemable noncontrolling interests for the year ended December 31, 2016 was \$98.1 million and was related to SolarCity's financing arrangements.

#### **Liquidity and Capital Resources**

##### **Liquidity**

As of December 31, 2016, we had \$3.39 billion in principal sources of liquidity available from our cash and cash equivalents, which included \$2.2 billion of money market funds. This balance included \$969.0 million drawn under our asset based line of credit and \$390.0 million drawn under our Warehouse Agreement which we entered into in August 2016 to support the Tesla Finance direct leasing program. In addition, the balance included \$213.5 million of cash assumed as part of the SolarCity acquisition. Amounts held in foreign currencies had a U.S. dollar equivalent of \$827.1 million as of December 31 2016, and consisted primarily of Euro, Chinese yuan and Canadian dollars.

Sources of cash are predominately from our deliveries of vehicles, proceeds from retail financing activities, and sales of energy generation and storage products. In addition, through our acquisition of SolarCity, we expect to generate additional liquidity through the sale of solar energy systems to customers and financing funds created to monetize the cash flows, tax attributes and other incentives generated by solar energy systems deployed under operating leases or power purchase agreements. We expect that our current sources of liquidity, including cash and cash equivalents, together with our current projections of cash flow from operating activities, will provide us with adequate liquidity over at least the next 12 months based on our current plans. We may raise funds in the future, including through potential equity or debt offerings, subject to market conditions and recognizing that we cannot be certain that additional funds would be available to us on favorable terms or at all. The amount and timing of funds that we may raise is undetermined and will vary based on a number of factors, including our liquidity needs as well as access to current and future sources of liquidity.

These current sources of liquidity and cash flows enable us to fund our ongoing operations and research and development projects, the initial investments in tooling and manufacturing capital for our planned Model 3; the continued construction of Gigafactory 1; and the expansion of our retail stores, service centers and Supercharger network. We are planning to produce 500,000 total vehicles in 2018, which is approximately double our prior growth plan. We continually evaluate our capital expenditure needs. We expect to invest between \$2.0 billion and \$2.5 billion in capital expenditures ahead of the start of Model 3 production in 2017.

As part of the SolarCity acquisition, we have an agreement to spend or incur approximately \$5.0 billion in combined capital, operational expenses, costs of goods sold and other costs in the State of New York during the 10-year period following full production at Gigafactory 2. We anticipate meeting these obligations through our operations at Gigafactory 2 and other operations within the State of New York over the 10-year term of the agreement, and we do not believe that we face a significant risk of default.

#### Capital Resources

As of December 31, 2016, we have the following credit facilities available:

- Senior secured asset-based revolving Credit Agreement (the "Credit Agreement") up to the lesser of \$1.20 billion, or the value of the secured assets as determined monthly pursuant to the Credit Agreement, reduced by the amount of letters of credit outstanding issued under the Credit Agreement. As of December 31, 2016, the outstanding amount under the Credit Agreement is \$969.0 million.
- Loan and Security Agreement ("Warehouse Agreement") up to the lesser of \$600.0 million or the amount based on the securitization value of certain vehicle leases originated by Tesla. As of December 31, 2016, the securitization value of such leases was sufficient to support an outstanding amount under the Warehouse Agreement of \$390.0 million.

In addition, as a result of the acquisition of SolarCity, additional credit facilities are included in our Consolidated Financial Statements as of December 31, 2016. SolarCity has financing fund commitments from several fund investors that can be drawn in the future upon the achievement of specific funding criteria. As of December 31, 2016, SolarCity had entered into 63 financing funds that had a total of \$481.4 million of undrawn committed capital.

For additional details regarding our and SolarCity's recourse and non-recourse indebtedness, refer to Note 13, Convertible and Long-term Debt Obligations, to our Consolidated Financial Statements included elsewhere in this annual report on Form 10-K.

#### Summary of Cash Flows

(Dollars in thousands)	Year Ended December 31,		
	2016	2015	2014
Net cash used in operating activities	\$ (123,829)	\$ (524,499)	\$ (57,337)
Net cash used in investing activities	(1,416,430)	(1,673,551)	(990,444)
Net cash provided by financing activities	3,743,976	1,523,523	2,143,130

#### Cash Flows from Operating Activities

Our cash flows from operating activities are significantly affected by our cash investments to support the growth of our business in areas such as manufacturing, research and development and selling, general and administrative. Our operating cash flows are also affected by our working capital needs to support growth and fluctuations in inventory, personnel related expenditures, accounts payable and other current assets and liabilities.

Our operating cash inflows include cash from sales and leases of our vehicles, customer deposits for vehicles, including Model 3, sales of regulatory credits, sales of powertrain components and systems, and energy generation and storage products. These cash inflows are offset by payments we make to our suppliers for production materials and parts used in our manufacturing process, employee compensation, operating leases and interest expense on our financings.

During the year ended December 31, 2016, cash used in operating activities was \$123.8 million and was primarily a result of net loss incurred of \$773.0 million, an increase in accounts payable and accrued liabilities of \$750.6 million as our business expands, an increase in deferred revenue of \$383.0 million as the number of vehicle deliveries with resale value guarantee increased, an increase in customer deposits of 388.4 million primarily as a result of Model 3 reservations and an increase in resale value guarantees of \$326.9 million. These increases were partially offset by an increase in inventories and operating lease vehicles of \$2.47 billion as we expand our program for direct lease and vehicles with resale value guarantees. Cash used in operating activities also included non-cash adjustments of \$1.34 billion, which primarily consisted of depreciation expense of \$947.1 million and stock-based compensation of \$334.2 million. In addition, during the fourth quarter of 2016, we recognized a gain of \$88.7 million related to the SolarCity acquisition.

During the year ended December 31, 2015, cash used in operating activities was \$524.5 million and was primarily a result of net loss incurred of \$888.7 million, and an increase of inventories and operating lease vehicles of \$1.57 billion as we expanded our program for direct lease and vehicles with resale value guarantee. These decreases were partially offset by an increase in resale value guarantees of \$442.3 million and deferred revenue of \$322.2 million as the number vehicles with resale value guarantee increased. Cash used by operating activities also included non-cash adjustments of \$857.5 million.

During the year ended December 31, 2014, cash used in operating activities was \$57.3 million and was primarily a result of net loss incurred of \$294.0 million, and an increase of inventories and operating lease vehicles of \$1.05 billion as we expanded our program for direct lease and vehicles with resale value guarantee. These decreases were partially offset by an increase in resale value guarantee of \$249.5 million and deferred revenue of \$209.7 million as the number vehicles with resale value guarantee increased. Cash used by operating activities also included non-cash adjustments of \$493.5 million. The decrease in operating cash flows in 2015 as compared to 2014 was due to an increase in overall inventory to support growth, and increase in operating lease vehicles, partially offset by proceeds from sales, and higher operating expenses in R&D and SG&A.

#### ***Cash Flows from Investing Activities***

Cash flows from investing activities primarily relate to capital expenditures to support our growth in operations, including investments in manufacturing equipment and tooling, the continued construction of our Gigafactory, and our stores, service centers and Supercharger network infrastructure. Cash used in investing activities was \$1.42 billion, \$1.67 billion and \$990.4 million for the years ended December 31, 2016, 2015 and 2014. Cash flows from investing activities and variability between each year related primarily to capital expenditures, which were \$1.28 billion, \$1.63 billion and \$969.9 million for 2016, 2015 and 2014. In addition, we increased our restricted cash of \$206.1 million as a result of the assumed restricted cash from the SolarCity acquisition. The decreases in cash flows from investing activities in 2016 was partially offset by the assumed cash of \$213.5 million as a result of the SolarCity acquisition.

In 2014, we began construction of Gigafactory 1 in Nevada. In 2016, we used cash of \$455.3 million towards Gigafactory 1 construction and expect to spend a total of approximately \$770.0 million during 2017.

#### ***Cash Flows from Financing Activities***

During the years ended December 31, 2016, 2015 and 2014, net cash provided by financing activities was \$3.74 billion, \$1.52 billion and \$2.14 billion. Cash flows from financing activities during the year ended December 31, 2016 consisted primarily of \$1.70 billion net proceeds from our May 2016 public offering of 7,915,004 shares of common stock, \$995.4 million of proceeds from issuance of debt, net of repayments, and proceeds from collateralized borrowing of \$769.7 million. The net proceeds from issuance of debt during 2016 primarily consisted of the following: \$834.0 million of net borrowing under the Asset-Based Credit Facility, \$390.0 million borrowing under the Warehouse Agreement Facility, partially offset by settlement of \$454.7 million for certain conversion of our 2018 Notes. Further, we also received \$201.5 million of proceeds from investment by fund investors and paid distributions to fund investors of \$21.3 million.

Cash flows from financing activities during the year ended December 31, 2015 consisted primarily of \$738.3 million net proceeds from August 2015 public offering of 3,099,173 shares of common stock and \$568.7 million received from vehicle sales to our bank leasing partners. The decrease in cash provided from financing in 2015 as compared to 2014 was primarily due to \$2.1 billion in net proceeds received in 2014 from the issuance of our 2019 and 2021 Notes.

#### ***Common Stock Offering***

In May 2016, we completed a public offering of common stock and sold a total of 7,915,004 shares of our common stock for total cash proceeds of approximately \$1.7 billion, net of underwriting discounts and offering costs.

In August 2015, we completed a public offering of common stock and sold a total of 3,099,173 shares of our common stock for total cash proceeds of approximately \$738.3 million (which includes 82,645 shares or \$20.0 million sold to Elon Musk, our Chief Executive Officer (CEO)), net of underwriting discounts and offering costs.

#### ***Contractual Obligations***

We are party to contractual obligations involving commitments to make payments to third parties, including certain debt financing arrangements and leases, primarily for stores, service centers, certain manufacturing and corporate offices. These also include, as part of our normal business practices, contracts with suppliers for purchases of certain raw materials, components, and services to facilitate adequate supply of these materials and services and capacity reservation contracts.

The following table sets forth, as of December 31, 2016 certain significant obligations that will affect our future liquidity (in thousands):

	Year Ended December 31,						Thereafter
	Total	2017	2018	2019	2020	2021	
Operating lease obligations (1)	\$ 925,977	\$ 165,457	\$ 150,925	\$ 125,148	\$ 102,804	\$ 88,950	\$ 292,693
Capital lease obligations, including interest	122,573	38,712	33,730	23,793	7,333	2,746	16,259
Purchase obligations (2)(3)	7,293,507	2,755,762	92,625	79,239	3,871	3,831	15,471
Long-term debt (4)(5)	8,198,241	1,074,553	1,333,675	1,817,434	1,229,656	1,634,897	1,108,026
<b>Total</b>	<b>\$ 16,540,298</b>	<b>\$ 4,034,484</b>	<b>\$ 1,610,955</b>	<b>\$ 2,045,614</b>	<b>\$ 1,343,664</b>	<b>\$ 1,730,424</b>	<b>\$ 1,432,449</b>

- (1) The operating lease obligations amount includes \$257.5 million recorded as other long-term liabilities in our Consolidated Balance Sheets in accordance with built-to-suit accounting.
- (2) Amounts do not include future cash payments for purchase obligations which were recorded in Accounts payable or Accrued liabilities as of December 31, 2016.
- (3) These totals represent a quantification of aggregate amounts pursuant to purchase orders issued under binding and enforceable agreements with all vendors as of December 31, 2016, as well as any other estimable and calculable purchase obligations pursuant to such agreements, including any additional amounts we may have to pay vendors if we do not meet certain minimum purchase obligations. In cases where no purchase orders were outstanding under binding and enforceable agreements as of December 31, 2016, we have included estimated amounts based on our best estimates and assumptions or discussions with the relevant vendors as of such date, and/or amounts or assumptions included in such agreements for purposes of discussion or reference. In certain cases, such estimated amounts were subject to unsatisfied market conditions and contingent events. Where the timing of payments are not known or estimable, we have included the amount only in the total column. If contracts where no purchase orders were outstanding under binding and enforceable agreements were terminated on or prior to December 31, 2016, our obligations under such contracts would have been substantially lower.
- (4) During the fourth quarter of 2016, the closing price of our common stock exceeded 130% of the applicable conversion price of our 2018 Notes on at least 20 of the last 30 consecutive trading days of the quarter; therefore, holders of 2018 Notes may convert their notes during the first quarter of 2017. As such, we classified the \$205.0 million principal balance of our 2018 Notes as current liabilities on our Consolidated Balance Sheet as of December 31, 2016 and have included related contractual payments in the year ended December 31, 2017 category in the table above.
- (5) Long-term debt reported above includes SolarCity's total consolidated indebtedness of \$3.58 billion as of December 31, 2016, representing outstanding recourse indebtedness of \$1.62 billion and non-recourse indebtedness of \$1.95 billion. Long-term debt reported above also includes our remaining non-recourse indebtedness of \$457.3 million. Recourse debt refers to debt that is recourse to the general assets of the debt issuer. Non-recourse debt refers to debt that is recourse only to specified assets of the debt issuer and/or its subsidiaries. SolarCity's non-recourse credit facilities have been structured to be supported solely by the solar assets that are pledged as collateral, and, to date, have not experienced any failure to pay such non-recourse indebtedness.

The contractual obligations table above excludes uncertain tax benefits of approximately \$198.3 million that are disclosed in Note 16 in the notes to our Consolidated Financial Statements because these uncertain tax positions, if recognized, would be an adjustment to the deferred tax assets.

#### Off-Balance Sheet Arrangements

During the periods presented, we did not have relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### Foreign Currency Risk

We transact business globally in multiple currencies. Our international revenues, as well as costs and expenses denominated in foreign currencies, expose us to the risk of fluctuations in foreign currency exchange rates against the functional currencies of our foreign subsidiaries and against the U.S. dollar. Upon consolidation, as foreign exchange rates vary, revenues and expenses may be significantly impacted and we may record significant gains or losses on the remeasurement of monetary assets and liabilities, including intercompany balances. As of December 31, 2016, our largest currency exposures are from the Euro, Japanese yen, and British Pounds. We recorded foreign exchange gain of \$26.1 million in other income (expense), net, for the year ended December 31, 2016 related to the impact of changes in exchange rates on foreign currency denominated monetary assets and liabilities.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 10% for all currencies could be experienced in the near term. These reasonably possible adverse changes in exchange rates of 10% were applied to total monetary assets and liabilities denominated in currencies other than the functional currencies as of December 31, 2016 to compute the adverse impact these changes would have had on our income before income taxes in the near term. These changes would have resulted in an adverse impact on income before income taxes of approximately \$41.6 million, recorded to other income (expense), net, principally from intercompany and cash balances.

In November 2015, we implemented a program to hedge the foreign currency exposure risk related to certain forecasted inventory purchases denominated in Japanese yen. The derivative instruments we use are foreign currency forward contracts and are designated as cash flow hedges with maturity dates of 12 months or less. We do not enter into derivative contracts for trading or speculative purposes. We document each hedge relationship and assess its initial effectiveness at the inception of the hedge contract and we measure its ongoing effectiveness on a quarterly basis using regression analysis. During the term of an effective hedge contract, we record gains and losses within accumulated other comprehensive loss. We reclassify these gains or losses to costs of automotive sales in the period the related finished goods inventory is sold or over the depreciation period for those sales accounted for as leases. Although our contracts are considered effective hedges, we may experience small amounts of ineffectiveness due to timing differences between our actual inventory purchases and the settlement date of the related foreign currency forward contracts. Ineffectiveness related to the hedges is immaterial as of December 31, 2016. As of December 31, 2016, we have no outstanding foreign currency forward contracts, and had recorded a cumulative gain of \$5.6 million to AOCI related to our outstanding foreign currency cash flow hedges.

#### **Interest Rate Risk**

We had cash and cash equivalents totaling \$3.4 billion as of December 31, 2016. A significant portion of our cash equivalents were invested in money market funds. Cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. We do not have any material exposure to changes in the fair value of our cash equivalents as a result of changes in interest rates due to the short-term nature of our cash equivalents.

We are exposed to interest rate risk for our borrowings that bear interest at floating rates plus a specified margin. Pursuant to our risk management policies, in certain cases, we utilize derivative instruments to manage some of our exposures to fluctuations in interest rates on certain floating-rate debt. We do not enter into any derivative instruments for trading or speculative purposes. In particular, a hypothetical 10% change in our interest rates would have immaterial impact on interest expense for the year ended December 31, 2016.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The sections entitled "Report of Independent Registered Public Accounting Firm," "Consolidated Balance Sheets," "Consolidated Statements of Operations," "Consolidated Statements of Equity," "Consolidated Statements of Cash Flows" and "Notes to Consolidated Financial Statements" in Part II, Item 8 of the Annual Report on Form 10-K of SolarCity Corporation (File No. 001-35758) for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission on March 1, 2017, are hereby incorporated by reference into this Annual Report on Form 10-K and are filed as Exhibit 99.1 hereto.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Tesla, Inc.

In our opinion, based on our audits and, with respect to the December 31, 2016 balance sheet, the report of other auditors, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of redeemable noncontrolling interests and equity and of cash flows present fairly, in all material respects, the financial position of Tesla, Inc. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We did not audit the pre-acquisition historical basis balance sheet of SolarCity Corporation, a wholly owned subsidiary, as of December 31, 2016, which reflects total assets and total liabilities of \$9.1 billion and \$6.9 billion, respectively, as of December 31, 2016. The pre-acquisition historical basis balance sheet of SolarCity Corporation was audited by other auditors whose report thereon has been furnished to us, and our opinion on the financial statements expressed herein, insofar as it relates to the pre-acquisition historical basis amounts included for SolarCity Corporation as of December 31, 2016, is based solely on the report of the other auditors. We audited the adjustments necessary to convert the December 31, 2016 pre-acquisition historical basis balance sheet of SolarCity Corporation to the basis reflected in the Company's consolidated financial statements. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded SolarCity Corporation from its assessment of internal control over financial reporting as of December 31, 2016 because it was acquired by the Company in a purchase business combination during 2016. We have also excluded SolarCity Corporation from our audit of internal control over financial reporting. SolarCity Corporation is a wholly-owned subsidiary whose total assets and total revenues represent \$8.78 billion (of which \$352.9 million represents intangible assets subject to management's assessment and our audit of internal control over financial reporting) and \$84.1 million, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2016.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
March 1, 2017

**Tesla, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except per share data)

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,393,216	\$ 1,196,908
Restricted cash	105,519	22,628
Accounts receivable, net	499,142	168,965
Inventory	2,067,454	1,277,838
Prepaid expenses and other current assets	194,465	115,667
Total current assets	6,259,796	2,782,006
Operating lease vehicles, net	3,134,080	1,791,403
Solar energy systems, leased and to be leased, net	5,919,880	—
Property, plant and equipment, net	5,982,957	3,403,334
Intangible assets, net	376,145	12,816
MyPower customer notes receivable, net of current portion	506,302	—
Restricted cash, net of current portion	268,165	31,522
Other assets	216,751	46,858
<b>Total assets</b>	<b>\$ 22,664,076</b>	<b>\$ 8,067,939</b>
<b>Liabilities and Equity</b>		
Current liabilities		
Accounts payable	\$ 1,860,341	\$ 916,148
Accrued liabilities and other	1,210,028	422,798
Deferred revenue	763,126	423,961
Resale value guarantees	179,504	136,831
Customer deposits	663,859	283,370
Current portion of long-term debt and capital leases	984,211	627,927
Current portion of solar bonds issued to related parties	165,936	—
Total current liabilities	5,827,005	2,811,035
Long-term debt and capital leases, net of current portion	5,860,049	2,021,093
Solar bonds issued to related parties, net of current portion	99,164	—
Convertible senior notes issued to related parties	10,287	—
Deferred revenue, net of current portion	851,790	446,105
Resale value guarantees, net of current portion	2,210,423	1,293,741
Other long-term liabilities	1,891,449	364,976
<b>Total liabilities</b>	<b>16,750,167</b>	<b>6,936,950</b>
Commitments and contingencies (Note 17)		
Redeemable noncontrolling interests in subsidiaries	367,039	—
Convertible senior notes (Notes 13)	8,784	47,285
<b>Stockholders' equity:</b>		
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 as of December 31, 2016 and 2015; 161,561 and 131,425 shares issued and outstanding as of December 31, 2016 and 2015, respectively	161	131
Additional paid-in capital	7,773,727	3,409,452
Accumulated other comprehensive loss	(23,740)	(3,556)
Accumulated deficit	(2,997,237)	(2,322,323)
<b>Total stockholders' equity</b>	<b>4,732,911</b>	<b>1,083,704</b>
Noncontrolling interests in subsidiaries	785,175	—
<b>Total liabilities and equity</b>	<b>\$ 22,664,076</b>	<b>\$ 8,067,939</b>

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

**Tesla, Inc.**  
**Consolidated Statements of Operations**  
(in thousands, except per share data)

	Year Ended December 31,		
	2016	2015	2014
<b>Revenues</b>			
Automotive	\$ 5,589,007	\$ 3,431,587	\$ 2,874,448
Automotive leasing	761,759	309,386	132,564
Total automotive revenue	6,350,766	3,740,973	3,007,012
Energy generation and storage	181,394	14,477	4,208
Services and other	467,972	290,575	187,136
Total revenues	7,000,132	4,046,025	3,198,356
<b>Cost of revenues</b>			
Automotive	4,268,087	2,639,926	2,058,344
Automotive leasing	481,994	183,376	87,405
Total automotive cost of revenues	4,750,081	2,823,302	2,145,749
Energy generation and storage	178,332	12,287	4,005
Services and other	472,462	286,933	166,931
Total cost of revenues	5,400,875	3,122,522	2,316,685
<b>Gross profit</b>	1,599,257	923,503	881,671
<b>Operating expenses</b>			
Research and development	834,408	717,900	464,700
Selling, general and administrative	1,432,189	922,232	603,660
Total operating expenses	2,266,597	1,640,132	1,068,360
<b>Loss from operations</b>	(667,340)	(716,629)	(186,689)
Interest income	8,530	1,508	1,126
Interest expense	(198,810)	(118,851)	(100,886)
Other income (expense), net	111,272	(41,652)	1,813
<b>Loss before income taxes</b>	(746,348)	(875,624)	(284,636)
Provision for income taxes	26,698	13,039	9,404
<b>Net loss</b>	(773,046)	(888,663)	(294,040)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(98,132)	—	—
<b>Net loss attributable to common stockholders</b>	\$ (674,914)	\$ (888,663)	\$ (294,040)
Net loss per share of common stock attributable to common stockholders, basic and diluted	\$ (4.68)	\$ (6.93)	\$ (2.36)
Weighted average shares used in computing net loss per share of common stock, basic and diluted	144,212	128,202	124,539

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

**Tesla, Inc.**  
**Consolidated Statements of Comprehensive Loss**  
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
Net loss attributable to common stockholders	\$ (674,914)	\$ (888,663)	\$ (294,040)
Other comprehensive gain (loss), net of tax:			
Unrealized gains (losses) on derivatives and short-term marketable securities:			
Change in net unrealized gain (loss)	43,220	7,443	—
Less: Reclassification adjustment for net (gains) losses into net loss	(44,904)	22	(22)
Net unrealized gain (loss) on derivatives and short-term marketable securities	(1,684)	7,465	(22)
Foreign currency translation adjustment	(18,500)	(10,999)	—
Other comprehensive loss	(20,184)	(3,534)	(22)
Comprehensive loss	\$ (695,098)	\$ (892,197)	\$ (294,062)

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

Tesla, Inc.

Consolidated Statements of Redeemable Noncontrolling Interests and Equity  
(in thousands, except per share data)

	Redeemable Noncontrolling Interests	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Noncontrolling Interests in Subsidiaries	Total Equity
		Shares	Amount						
<b>Balance as of December 31, 2013</b>	\$ —	123,091	\$ 123	\$ 1,806,617	\$ (1,139,620)	\$ —	\$ 667,120	—	\$ 667,120
Conversion feature of convertible senior notes due 2019 and 2021	—	—	—	548,603	—	—	548,603	—	548,603
Purchase of bond hedges	—	—	—	(693,428)	—	—	(693,428)	—	(693,428)
Sales of warrant	—	—	—	389,160	—	—	389,160	—	389,160
Reclass from equity to mezzanine equity	—	—	—	(58,199)	—	—	(58,199)	—	(58,199)
Common stock issued, net of shares withheld for employee taxes	—	2,597	3	100,434	—	—	100,437	—	100,437
Stock-based compensation	—	—	—	162,079	—	—	162,079	—	162,079
Net loss	—	—	—	—	(294,040)	—	(294,040)	—	(294,040)
Other comprehensive loss	—	—	—	—	—	(22)	(22)	—	(22)
<b>Balance as of December 31, 2014</b>	—	125,688	126	2,345,266	(1,433,660)	(22)	911,710	—	911,710
Reclass from mezzanine equity to equity for 2018 Notes	—	—	—	10,910	—	—	10,910	—	10,910
Issuance of common stock in August 2015 secondary public offering at \$242 per share, net of issuance costs of \$11,122	—	3,099	3	738,405	—	—	738,408	—	738,408
Common stock issued, net of shares withheld for employee taxes	—	2,638	2	106,533	—	—	106,535	—	106,535
Stock-based compensation	—	—	—	208,338	—	—	208,338	—	208,338
Net loss	—	—	—	—	(888,663)	—	(888,663)	—	(888,663)
Other comprehensive loss	—	—	—	—	—	(3,534)	(3,534)	—	(3,534)
<b>Balance as of December 31, 2015</b>	—	131,425	131	3,409,452	(2,322,323)	(3,556)	1,083,704	—	1,083,704
Reclass from mezzanine equity to equity for 2018 Notes	—	—	—	38,501	—	—	38,501	—	38,501
Exercise of conversion feature of convertible senior notes due 2018	—	—	—	(15,056)	—	—	(15,056)	—	(15,056)
Common stock issued, net of shares withheld for employee taxes	—	11,096	11	163,817	—	—	163,828	—	163,828
Issuance of common stock in May 2016 public offering at \$215.00 per share, net of issuance costs of \$14,295	—	7,915	8	1,687,139	—	—	1,687,147	—	1,687,147
Issuance of common stock upon acquisition of SolarCity and assumed awards	—	11,125	11	2,145,977	—	—	2,145,988	—	2,145,988
Stock-based compensation	—	—	—	347,357	—	—	347,357	—	347,357
Assumption of capped call	—	—	—	(3,460)	—	—	(3,460)	—	(3,460)
Assumption of noncontrolling interests through acquisition	315,943	—	—	—	—	—	—	750,574	1,066,517
Contributions from noncontrolling interests through acquisition	100,996	—	—	—	—	—	—	100,531	201,527
Distributions to noncontrolling interests through acquisition	(7,137)	—	—	—	—	—	—	(10,561)	(17,698)
Net loss	(42,763)	—	—	—	(674,914)	—	(674,914)	(35,369)	(773,046)
Other comprehensive loss	—	—	—	—	—	(20,184)	(20,184)	—	(20,184)
<b>Balance as of December 31, 2016</b>	\$ 367,039	161,561	\$ 161	\$ 7,773,727	\$ (2,997,237)	\$ (23,740)	\$ 4,752,911	\$ 785,175	\$ 5,905,125

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

**Tesla, Inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Year Ended December 31,		
	2016	2015	2014
<b>Cash Flows From Operating Activities</b>			
Net loss	\$ (773,046)	\$ (888,663)	\$ (294,040)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	947,099	422,590	231,931
Stock-based compensation	334,225	197,999	156,496
Amortization of discount on convertible debt	87,286	72,063	69,734
Inventory write-downs	65,520	44,940	15,609
Loss on disposal of property and equipment	34,633	37,723	14,178
Foreign currency transaction (gain) loss	(29,183)	55,765	(1,891)
Gain on the acquisition of SolarCity	(88,727)	—	—
Non-cash interest and other operating activities	(7,775)	26,373	7,471
Changes in operating assets and liabilities, net of effect of business combinations			
Accounts receivable	(216,565)	46,267	(183,658)
Inventories and operating lease vehicles	(2,465,703)	(1,573,860)	(1,050,264)
Prepaid expenses and other current assets	56,806	(29,595)	(60,637)
MyPower notes receivable	3,468	—	—
Other assets	(52,821)	(24,362)	(4,493)
Accounts payable and accrued liabilities	750,640	263,345	414,856
Deferred revenue	382,962	322,203	209,681
Customer deposits	388,361	36,721	106,230
Resale value guarantee	326,934	442,295	249,492
Other long-term liabilities	132,057	23,697	61,968
Net cash used in operating activities	(123,829)	(524,499)	(57,337)
<b>Cash Flows From Investing Activities</b>			
Purchases of property and equipment excluding capital leases, net of sales	(1,280,802)	(1,634,850)	(969,885)
Purchase of solar energy system, leased to be leased	(159,669)	—	—
Purchases of short-term investments and marketable securities	—	—	(205,841)
Maturities of short-term marketable securities	16,667	—	—
Maturities of short-term marketable securities	—	—	189,131
Increase in other restricted cash	(206,149)	(26,441)	(3,849)
Cash acquired through (used in) business combinations	213,523	(12,260)	—
Net cash used in investing activities	(1,416,430)	(1,673,551)	(990,444)
<b>Cash Flows From Financing Activities</b>			
Proceeds from issuance of common stock in public offering	1,701,734	730,000	—
Proceeds from issuance of convertible and other debt	2,852,964	318,972	2,300,000
Repayments of convertible and other debt	(1,857,594)	—	—
Collateralized lease borrowing	769,709	568,745	3,271
Proceeds from exercise of stock options and other stock issuances	163,817	106,611	100,455
Principal payments on capital leases	(46,889)	(203,780)	(11,179)
Common stock and debt issuance costs	(20,042)	(17,025)	(35,149)
Proceeds from issuance of warrants	—	—	389,160
Proceeds from issuance of common stock in private placement	—	20,000	—
Purchase of convertible note hedges	—	—	(603,428)
Proceeds from investment by noncontrolling interests in subsidiaries	201,527	—	—
Distributions paid to noncontrolling interests in subsidiaries	(21,250)	—	—
Net cash provided by financing activities	3,743,976	1,523,523	2,143,130
Effect of exchange rate changes on cash and cash equivalents	(7,409)	(34,278)	(35,525)
Net increase (decrease) in cash and cash equivalents	2,196,308	(708,805)	1,059,824
Cash and cash equivalents at beginning of year	1,196,908	1,905,713	845,889
Cash and cash equivalents at end of year	\$ 3,393,216	\$ 1,196,908	\$ 1,905,713
<b>Supplemental noncash investing activities</b>			
Shares issued in connection of business combination and assumed vested awards	\$ 2,145,977	—	—
Acquisition of property and equipment included in accounts payable and accrued liabilities	663,771	267,334	254,393
Estimated fair value of facilities under build-to-suit lease	307,879	174,749	50,076
<b>Supplemental Disclosures</b>			
Cash paid during the period for interest	\$ 38,693	\$ 32,060	\$ 20,539
Cash paid during the period for taxes, net of refunds	16,385	9,461	3,120

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

**Note 1 - Overview of the Company**

Tesla, Inc. ("Tesla", the "Company", "we", "us" or "our") was incorporated in the state of Delaware on July 1, 2003. We design, develop, manufacture and sell high-performance fully electric vehicles and energy products. In addition, as a result of our acquisition of SolarCity Corporation ("SolarCity") on November 21, 2016, we also are engaged in the design, manufacture, installation and sale or lease of solar energy systems to residential and commercial customers, or sale of electricity generated by our solar energy systems to customers. As a result of the acquisition, the Company's Chief Executive Officer, as the chief operating decision maker ("CODM"), has organized the company, manages resource allocations, and measures performance of the Company's activities among two segments: (i) automotive and (ii) energy generation and storage. We have wholly-owned subsidiaries in North America, Europe and Asia.

**Note 2 - Summary of Significant Accounting Policies****Basis of Presentation and Preparation***Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, and reflect the accounts and operations of Company and those of our subsidiaries in which we have a controlling financial interest. In accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 810, *Consolidation*, we consolidate any variable interest entity, or VIE, of which we are the primary beneficiary. SolarCity forms VIEs with financing fund investors in the ordinary course of business in order to facilitate the funding and monetization of certain attributes associated with solar energy systems. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. We do not consolidate a VIE in which we have a majority ownership interest when we are not considered the primary beneficiary. We have determined that we are the primary beneficiary of a number of VIEs (see Note 3, *Acquisitions*, and Note 18, *VIE Arrangements*). We evaluate our relationships with all the VIEs on an ongoing basis to reassess if we continue to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

*Reclassifications*

Certain prior period balances have been reclassified to conform to the current period presentation in our consolidated financial statements and the accompanying notes. Such reclassifications had no effect on previously reported results of operations or accumulated deficit. Starting in Q4, we have reclassified the revenue and cost of revenue of our energy storage products from 'services and other' into 'energy generation and storage' for all periods presented.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities and accompanying notes. Estimates are used for, but not limited to, determining the selling price of products and services in multiple element revenue arrangements and determining the amortization period of these elements, the collectability of accounts receivable, inventory valuation, fair value of long-lived assets, fair value of financial instruments, residual value of operating lease vehicles, depreciable lives of property and equipment and solar energy systems, the fair value and residual value of solar energy systems subject to leases, warranty liabilities, income taxes, contingencies, the accrued liability for solar energy system performance guarantees, the determination of lease pass-through financing obligations, the discount rates used to determine the fair value of investment tax credits, income taxes, the valuation of build-to-suit lease assets and the fair value of interest rate swaps, and inputs used to value stock-based compensation. In addition, estimates and assumptions are used for the accounting for business combinations, including the fair value and useful lives of acquired tangible and intangible assets, including solar energy systems, leased and to be leased, the fair value of assumed debt, and the fair value of noncontrolling interests. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from those estimates.

## Summary of Significant Accounting Policies

### Revenue Recognition

We recognize revenue for products and services when: (i) a persuasive evidence of an arrangement exists; (ii) delivery has occurred and there are no uncertainties regarding customer acceptance; (iii) pricing or fees are fixed or determinable; and (iv) collection is reasonably assured.

#### Automotive Revenue

Automotive revenue includes revenues related to deliveries of new vehicles, sales of regulatory credits to other automotive manufacturers, and specific other elements that meet the definition of a deliverable under multiple-element accounting guidance including free access to our Supercharger network, free internet connectivity, and future free over-the-air software updates. These deliverables are valued on a stand-alone basis and we recognize their revenue over our performance period, which is generally the eight-year life of the vehicle, except for internet connectivity which is over the free four year period. If we sell a deliverable separately, we use that pricing to determine its fair value; otherwise, we use third party pricing of similar options, our best estimated selling price by considering costs used to develop and deliver the service, and other information which may be available.

As of December 31, 2016, and 2015 we had deferred \$291.2 million and \$138.2 million related to the purchase of vehicle maintenance and service plans, access to our Supercharger network, internet connectivity, autopilot and over-the-air software updates.

At the time of revenue recognition, we record a reserve against revenue for estimated future product returns. Such estimates are based on historical experience and are immaterial in all periods presented.

#### Automotive Leasing Revenue

Automotive leasing revenue includes revenue recognized under lease accounting guidance for our direct leasing programs as well as programs with resale value guarantees. See "Resale Value Guarantees and Other Financing Programs" and "Direct Vehicle Leasing Program" for further details.

#### Resale Value Guarantees and Other Financing Programs

##### Vehicle sales to customers with a resale value guarantee

We offered resale value guarantees or similar buy-back terms to all customers who purchase vehicles and who financed their vehicle through one of our specified commercial banking partners. Subsequent to June 30, 2016, this program is available only in certain international markets. Under this program, customers have the option of selling their vehicle back to us during the guarantee period for a determined resale value. Guarantee periods generally range from 36 to 39 months. Although we receive full payment for the vehicle sales price at the time of delivery, we are required to account for these transactions as operating leases. 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 our Consolidated Balance Sheets as operating lease vehicles, net, and depreciate their value, less salvage value, to cost of automotive leasing revenue over the same period.

In cases when 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 costs of automotive leasing revenue. In cases when customers return the vehicle back 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 our balance sheet to pre-owned vehicle inventory. As of December 31, 2016 and December 31, 2015, \$179.5 million and \$136.8 million of the guarantees were exercisable by customers within the next twelve months.



*Vehicle sales to leasing partners with a resale value guarantee*

We also offer resale value guarantees in connection with automobile sales to certain leasing partners. As we have guaranteed the value of these vehicles and as the vehicles are leased to end-customers, we account for these transactions as interest bearing collateralized borrowings as required under *ASC 840 - Leases*. Under this program, cash is received for the full price of the vehicle and is recorded within resale value guarantees for the long-term portion and deferred revenue for the current portion. We accrete the deferred revenue amount to automotive leasing revenue on a straight-line basis over the guarantee period and accrue interest expense based on our borrowing rate. We capitalize vehicles under this program to operating lease vehicles, net, on our Consolidated Balance Sheets and we record depreciation from these vehicles to cost of automotive leasing revenues 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 borrowings within cash flows from financing activities in our Consolidated Statements 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 resale value guarantee amount, or paying a shortfall to the guarantee 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 guarantee period, we expense the net value of the leased vehicle to costs of automotive leasing revenue. The maximum cash we could be required to pay under this program, should we decide to repurchase all vehicles is \$855.9 million at December 31, 2016.

As of December 31, 2016 and December 31, 2015, we had \$1.18 billion and \$527.5 million of such borrowings recorded in resale value guarantees and \$289.1 million and \$120.5 million recorded in deferred revenue liability, respectively. As of December 31, 2016 and December 31, 2015, we had a total of \$57.0 million and \$33.6 million in account receivables from our leasing partners.

On a quarterly basis, we assess the estimated market values of vehicles under our resale value guarantee program to determine if we have sustained a loss on any of these contracts. As we accumulate more data related to the resale values of our vehicles or as market conditions change, there may be material changes to their estimated values.

Account activity related to our resale value guarantee and similar programs consisted of the following for the periods presented (in thousands):

	Year ended December 31,	
	2016	2015
<b>Operating Lease Vehicles</b>		
Operating lease vehicles—beginning of period	\$ 1,556,529	\$ 684,590
Net increase in operating lease vehicles	1,355,128	1,047,220
Depreciation expense recorded in cost of automotive leasing revenues	(255,167)	(130,355)
Additional depreciation expense recorded in cost of automotive leasing revenues as a result of early cancellation of resale value guarantee	(13,495)	(21,487)
Additional depreciation expense recorded in cost of automotive leasing revenues result of expiration	(114,264)	—
Increases to inventory from vehicles returned under our trade-in program and exercises of resale value guarantee	(66,670)	(23,439)
Operating lease vehicles—end of period	<u>\$ 2,462,061</u>	<u>\$ 1,556,529</u>
<b>Deferred Revenue</b>		
Deferred revenue—beginning of period	\$ 679,132	\$ 381,096
Net increase in deferred revenue from new vehicle deliveries and reclassification of collateralized borrowing from long-term to short-term	715,011	553,765
Amortization of deferred revenue and short-term collateralized borrowing recorded in automotive leasing revenue	(457,113)	(229,624)
Additional revenue recorded in automotive leasing revenue as a result of early cancellation of resale value guarantee	(5,192)	(12,352)
Recognition of deferred revenue resulting from return of vehicle under trade-in program, expiration, and exercises of resale value guarantee	(15,186)	(13,753)
Deferred revenue—end of period	<u>\$ 916,652</u>	<u>\$ 679,132</u>
<b>Resale Value Guarantee</b>		
Resale value guarantee liability—beginning of period	\$ 1,430,573	\$ 487,880
Increase in resale value guarantee	1,267,445	1,013,733
Reclassification from long-term to short-term collateralized borrowing	(116,078)	(29,612)
Additional revenue recorded in automotive leasing revenue as a result of early cancellation of resale value guarantee	(16,543)	(11,042)
Release of resale value guarantee resulting from return of vehicle under trade-in program and exercises	(62,919)	(30,386)
Release of resale value guarantee resulting from expiration of resale value guarantee	(112,551)	—
Resale value guarantee liability—end of period	<u>\$ 2,389,927</u>	<u>\$ 1,430,573</u>

#### *Direct Vehicle Leasing Program*

We offer a leasing program in the United States, Canada, the UK and Germany. Qualifying customers are permitted to lease a vehicle directly from Tesla generally for 36 or 48 months. At the end of the lease term, customers have the option of either returning the vehicle to us or purchasing it for a determined residual value. We account for these leasing transactions as operating leases and recognize leasing revenues over the contractual term and record the depreciation of these vehicles to cost of automotive leasing revenues. As of December 31, 2016 and December 31, 2015, we had deferred \$67.2 million and \$25.8 million of lease-related upfront payments which will be recognized on a straight-line basis over the contractual term of the individual leases. Lease revenues are recorded in automotive leasing revenue and for the years ended December 31, 2016, 2015 and 2014, we recognized \$112.7 million and \$41.2 million and \$4.4 million.

#### *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 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 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.

We recognize revenue on the sale of these credits at the time legal title to the credits is transferred to the purchasing party as automotive revenue in our Consolidated Statements of Operations. Revenue from the sale of regulatory credits totaled \$302.3 million, \$168.7 million, and \$216.3 million for the years ended December 31, 2016, 2015 and 2014.

Additionally, we have entered into agreements with the State of Nevada and Storey County in Nevada that will provide abatements for sales and use taxes, real and personal property taxes, and employer excise taxes, discounts to the base tariff energy rates, and transferable tax credits. These incentives are available for the applicable periods beginning on October 17, 2014 and ending on June 30, 2034, subject to capital investments by Tesla and its partners for Gigafactory 1 of at least \$3.5 billion in the aggregate on or before June 30, 2024, and certain other conditions specified in the agreements. If we do not satisfy one or more conditions under the agreement, Tesla will be required to repay to the respective taxing authorities the amounts of the tax incentives incurred, plus interest. As of December 31, 2016, we have earned \$45 million of transferable tax credits under these agreements. We record these credits as earned when we have evidence there is a market for their sale. Credits are applied as a cost offset to either employee expense or to capital assets, depending on the source of the credits. Credits earned from employee hires or capital spending by our partners at Gigafactory 1 are recorded as a reduction to operating expenses.

#### *Energy Generation and Storage Revenue*

For solar energy systems and components sales wherein customers pay the full purchase price, either directly or through the Solar Loan program, revenue is recognized when we install a solar energy system and the solar energy system passes inspection by the utility or the authority having jurisdiction, provided all other revenue recognition criteria have been met. In instances where there are multiple deliverables in a single arrangement, we allocate the arrangement consideration to the various elements in the arrangement based on the relative selling price method. Costs incurred on residential installations before the solar energy systems are completed are included in inventories as work in progress in our 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 solar energy systems and components sales revenue, in accordance with ASC 605-50, *Customer Payments and Incentives*.

For revenue arrangements where we are the lessor under operating lease agreements for solar energy systems, 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 are 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 our Consolidated Balance Sheets.

For solar energy systems where customers purchase electricity from us under power purchase agreements, we have determined that these agreements should be accounted for, in substance, 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. 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 well as the fees charged for remote monitoring service, which is recognized as revenue ratably over the respective customer contract term. As of December 31, 2016, deferred revenue related to such customer payments amounted to \$268.2 million. As of December 31, 2016, deferred revenue from rebates and incentives was not material.

We capitalize initial direct costs from the origination of solar energy system leases or power purchase agreements (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.

#### *Service and Other Revenue*

Services and other revenue consists of vehicle repair and maintenance services, vehicle service plans and merchandise, sales of pre-owned Tesla vehicles, sales of electric vehicle powertrain components and systems to other manufacturers, and sales of non-Tesla vehicle trade-ins.

#### *Cost of Revenue*

##### *Automotive*

Cost of automotive revenues includes direct parts, material and labor costs, manufacturing overhead, including amortized tooling costs, shipping and logistic costs, vehicle internet connectivity costs, allocations of electricity and infrastructure costs related to our Supercharger network, and reserves for estimated warranty expenses. Cost of revenues also includes adjustments to warranty expense and charges to write down the carrying value of our inventory when it exceeds its estimated net realizable value and to provide for on-hand inventory that is either obsolete or is in excess of forecasted demand.

##### *Automotive Leasing*

Cost of automotive leasing revenue includes primarily the amortization of operating lease vehicles over the lease term, as well as warranty expenses recognized as incurred.

##### *Energy Generation and Storage*

Energy generation and storage cost of revenue includes direct and direct material and labor costs, warehouse rent, freight, warranty expense, other overhead costs and amortization of certain acquired intangible assets. In addition, where the arrangement is accounted for as operating leases, the cost of revenue is primarily comprised of depreciation of the cost of leased solar energy systems, maintenance costs associated with those systems, and amortization of any initial direct costs.

##### *Services and Other*

Cost of services and other revenue includes direct parts, material and labor costs, manufacturing overhead associated with the sales of electric vehicle powertrain components and systems to other manufacturers, costs associated with providing maintenance and development-services, and cost associated with sales of pre-owned vehicles.

##### *Sales and other Use Taxes*

Taxes assessed by various government entities, such as sales, use and value-added taxes, collected at the time of sale are excluded from Automotive net sales and revenue.

##### *Transportation Costs*

Amounts billed to customers related to shipping and handling are classified as automotive revenue, and related transportation costs are included in total cost of automotive revenues.

#### *Research and Development Costs*

Research and development costs are expensed as incurred.

#### *Marketing, Promotional and Advertising Costs*

Marketing, promotional and advertising costs are expensed as incurred and are included as an element of selling, general and administrative expense in our Consolidated Statements of Operations. We incurred marketing, promotional and advertising costs of \$48.0 million, \$58.3 million and \$48.9 million for the year ended December 31, 2016, 2015 and 2014, respectively.

#### *Income Taxes*

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

We record liabilities related to uncertain tax positions when, despite our belief that our tax return positions are supportable, we believe that it is more likely than not that those positions may not be fully sustained upon review by tax authorities. Accrued interest and penalties related to unrecognized tax benefits are classified as income tax expense.

#### *Comprehensive Income (Loss)*

Comprehensive Income (loss) is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on derivatives, our available-for-sale marketable securities, and foreign currency translation adjustment that have been excluded from the determination of net loss.

#### *Stock-based Compensation*

We recognize compensation expense for costs related to all share-based payments, including stock options, restricted stock units (RSUs) and our employee stock purchase plan (the ESPP). The fair value of stock options and the ESPP are estimated on the grant date and offering date using an option pricing model, respectively. The fair value of RSUs is measured on the grant date based on the closing fair market value of our common stock. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period, net of estimated forfeitures. Stock-based compensation associated with assumed awards as a result of the SolarCity acquisition is measured as of the acquisition date using the relevant assumptions and recognized on a straight-line basis over the remaining requisition service period, net of estimated forfeitures.

For performance-based awards, stock-based compensation expense is recognized over the expected performance achievement period of individual performance milestones when the achievement of each individual performance milestone becomes probable.

For performance-based awards with a vesting schedule based entirely on the attainment of both performance and market conditions, the stock-based compensation expense is recognized for each pair of performance and market conditions over the longer of the expected achievement period of the performance and market conditions, beginning at the point in time that the relevant performance condition is considered probable of being met (see Note 15 - *Equity Incentive Plans*).

#### *Noncontrolling Interests and Redeemable Noncontrolling Interests*

Noncontrolling interests and redeemable noncontrolling interests represent third-party interests in the net assets under certain funding arrangements, or funds, that SolarCity enters into to finance the costs of solar energy systems under operating leases. We have determined that the contractual provisions of the funds represent substantive profit sharing arrangements. We have further determined that the appropriate methodology for calculating the noncontrolling interest and redeemable noncontrolling interest balances that reflects the substantive profit sharing arrangements is a balance sheet approach using the Hypothetical Liquidation Book Value (HLBV) method. Under the HLBV method, the amounts reported as noncontrolling interests and redeemable noncontrolling interests in our Consolidated Balance Sheets represent the amounts the third-parties would hypothetically receive at each balance sheet date under the liquidation provisions of the funds, assuming the net assets of the funds were liquidated at their recorded amounts determined in accordance with GAAP and distributed to the third-parties. The third-parties' interests in the results of operations of the funds are determined as the difference in the noncontrolling interest and redeemable noncontrolling interest balances in our Consolidated Balance Sheets between the start and end of each reporting period, after taking into account any capital transactions between the funds and the third-parties. However, the redeemable noncontrolling interest balance is at least equal to the redemption amount. The redeemable noncontrolling interest balance is presented as temporary equity in the mezzanine section of our Consolidated Balance Sheets since these third-parties have the right to redeem their interests in the funds for cash or other assets.

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

Our basic and diluted 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 number of shares underlying outstanding stock options and warrants as well as our Convertible Senior Notes, including the assumed awards and convertible notes from the SolarCity acquisition, using the treasury stock method or the if-converted method, as applicable, are not included when their effect is antidilutive.

The following table presents the potential weighted common shares outstanding that were excluded from the computation of basic and diluted net loss per share of common stock attributable to common stockholders for the periods, related to the following securities:

	Year Ended December 31,		
	2016	2015	2014
Employee share based awards	12,091,473	15,592,736	14,729,749
Convertible senior notes	841,191	2,431,265	2,344,998
Warrants issued May 2013	262,702	1,049,791	921,985

#### *Business Combinations*

We account for business acquisitions under ASC 805, *Business Combinations*. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities assumed at the acquisition date. Costs that are directly attributable to the acquisition are expensed as incurred. Identifiable assets, including intangible assets, liabilities assumed, including contingent liabilities, in an acquisition are measured initially at their fair values at the acquisition date. Any noncontrolling interests in the acquired business are also initially measured at fair value. We recognize goodwill if the aggregate fair value of the total purchase consideration and the noncontrolling interests is in excess of the aggregate fair value of the identifiable assets acquired and the liabilities assumed. We recognize a bargain purchase gain in other income and expense, net, in our Consolidated Statement of Operations, if the aggregate fair value of the identifiable assets acquired and the liabilities assumed is in excess of the fair value of the total purchase consideration. We include the results of operations of the business that we acquire as of the respective date of acquisition.

#### *Cash and Cash Equivalents*

All highly liquid investments with an original maturity of three months or less at the date of purchase are considered to be cash equivalents. We currently invest our cash equivalents primarily in money market funds.

#### *Restricted Cash and Deposits*

We maintain certain cash amounts restricted as to withdrawal or use. Current and noncurrent restricted cash as of December 31, 2016, and 2015 was comprised primarily of cash as collateral related to our sales to lease partners with a resale value guarantee and for letters of credit including for our real estate leases, and insurance policies. In addition, restricted cash as of December 31, 2016, includes cash received from certain fund investors that had not been released for use by us, cash held to service certain payments under various secured debt facilities, including management fees, principal and interest payments, and balances collateralizing outstanding letters of credit, outstanding credit card borrowing facilities and obligations under certain operating leases.

#### *Accounts Receivable and Allowance for Doubtful Accounts*

Accounts receivable primarily include amounts related to sales of powertrain systems, sale of energy generation and storage products, receivables from financial institutions and leasing companies offering various financing products to our customers, regulatory credits to other automotive manufacturers, and from maintenance services on vehicles owned by leasing companies. We provide an allowance against amounts receivable to the amount we reasonably believe will be collected. We write off accounts receivable when they are deemed uncollectible.

We typically do not carry accounts receivable related to our vehicle and related sales as customer payments are due prior to vehicle delivery, except for the amounts due from commercial financial institutions for approved financing arrangements between our customers and the financial institutions.

#### *Customer Notes Receivable*

As part of the SolarCity acquisition, we acquired certain customer notes receivable under the legacy MyPower loan program. The outstanding balances, net of any allowance for potentially uncollectible amounts, are presented on our Consolidated Balance Sheets as a component of prepaid expenses and other current assets for the current portion and as MyPower customer notes receivable, net of current portion, for the long-term portion. In determining the allowance and credit quality for customer notes receivable, we identify significant customers with known disputes or collection issues and also consider our historical level of credit losses and current economic trends that might impact the level of future credit losses. Customer notes receivable that are individually impaired are charged-off as a write-off of allowance for losses. As of December 31, 2016, there were no significant customers with known disputes or collection issues, and the amount of potentially uncollectible amounts was insignificant. Accordingly, we did not establish an allowance for losses against customer notes receivable. In addition, there were no material non-accrual or past due customer notes receivable as of December 31, 2016.

## *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, customer notes receivable and interest rate swaps. Our cash equivalents are primarily invested in money market funds with high credit quality financial institutions in the United States. At times, these deposits and securities may be in excess of insured limits.

As of December 31, 2016, and 2015, our accounts receivable were derived primarily from amounts to be received from financial institutions and leasing companies offering various financing products to our customers, sales of regulatory credits, as well as the development and sales of powertrain components and systems to automotive original equipment manufacturers (OEMs). In addition, our accounts receivable were also derived from the sale of our energy generation and storage products, including any receivables from leasing solar energy systems as well as power purchase agreements. The associated risk of concentration is mitigated by placing liens on the related solar energy systems. The associated risk of concentration for interest rate swaps is mitigated by transacting with several highly rated multinational banks. We maintain reserves for any amounts that we consider to be uncollectable.

At December 31, 2016, one customer represented approximately 10% of our total accounts receivable balance. At December 31, 2015, the same customer represented approximately 15% of our total accounts receivable balance.

### *Supply Risk*

The majority of our suppliers are currently single source suppliers, despite efforts to qualify and obtain components from multiple sources whenever feasible. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to vehicle design changes, increased costs and delays in vehicle deliveries to our customers, which could hurt our relationships with our customers and result in negative publicity, damage to our brand and a material and adverse effect on our business, prospects, financial condition and operating results.

### *Inventory Valuation*

Inventories are stated at the lower of cost or market. Cost is computed using standard cost for vehicles and energy storage products, which approximates actual cost on a first-in, first-out basis. In addition, cost for solar energy systems are recorded using actual cost. We record inventory write-downs for excess or obsolete inventories based upon assumptions about on current and future demand forecasts. If our inventory on hand is in excess of our future demand forecast, the excess amounts are written off.

We also review inventory to determine whether its carrying value exceeds the net amount realizable upon the ultimate sale of the inventory. This requires us to determine the estimated selling price of our vehicles less the estimated cost to convert inventory on hand into a finished product. Once inventory is written-down, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Should our estimates of future selling prices or production costs change, additional and potentially material increases to this reserve may be required. A small change in our estimates may result in a material charge to our reported financial results.

### *Operating Lease Vehicles*

Vehicles delivered under our resale value guarantee program, vehicles that are leased as part of our leasing programs as well as any vehicles that are sold with a significant buy-back guarantee are classified as operating lease vehicles as the related revenue transactions are treated as operating leases. Operating lease vehicles are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the expected operating lease term. The total cost of operating lease vehicles recorded in the Consolidated Balance Sheets as of December 31, 2016 and 2015 was \$3.53 billion and \$2.00 billion. Accumulated depreciation related to leased vehicles as of December 31, 2016, and 2015 was \$399.5 million and \$216.5 million.

### *Solar Energy Systems, Leased and To Be Leased*

We, through the acquisition of SolarCity, are the operating lessor of the solar energy systems under leases that qualify as operating leases. Our leases are accounted for in accordance with ASC 840, *Leases*. To determine lease classification, we evaluate lease terms to determine whether there is a transfer of ownership or bargain purchase option at the end of the lease, whether the lease term is greater than 75% of the useful life, or whether the present value of minimum lease payments exceed 90% of the fair value at lease inception. We utilize periodic appraisals to estimate useful life and fair values at lease inception, and residual values at lease termination. Solar energy systems are stated at cost, less accumulated depreciation.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Solar energy systems leased to customers	30 to 35 years
Initial direct costs related to customer solar energy system lease acquisition costs	Lease term (20 years)

Solar energy systems held for lease to customers are installed systems pending interconnection with the respective utility companies and will be depreciated as solar energy systems leased to customers when the respective systems have been interconnected and placed in service. Solar energy systems under construction represents systems that are under installation, which will be depreciated as solar energy systems leased to customers when the respective systems are completed, interconnected and subsequently leased to customers. Initial direct costs related to customer solar energy system lease acquisition costs are capitalized and amortized over the term of the related customer lease agreements.

*Property, Plant and Equipment*

Property, plant and equipment, including leasehold improvements, are recognized at cost less accumulated depreciation and amortization. Depreciation is generally computed using the straight-line method over the estimated useful lives of the related assets as follows:

Machinery, equipment, vehicles and office furniture	2 to 12 years
Building and building improvements	20 to 30 years
Computer equipment and software	3 to 10 years

Depreciation for tooling is computed using the units-of-production method whereby capitalized costs are amortized over the total estimated productive life of the related assets. As of December 31, 2016, the estimated productive life for tooling was 250,000 vehicles based on our current estimates of production.

Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related lease.

Upon the retirement or sale of our property, plant and equipment, the cost and related accumulated depreciation are removed from our Consolidated Balance Sheets and the resulting gain or loss is reflected in our Consolidated Statements of Operations. Maintenance and repair expenditures are expensed as incurred, while major improvements that increase the functionality, output or expected life of the asset are capitalized and depreciated ratably to expense over the identified useful life. Land is not depreciated.

Interest expense on outstanding debt is capitalized during the period of significant capital asset construction. Capitalized interest on construction in progress is included in property, plant and equipment, net and is amortized over the life of the related assets.

Furthermore, we are deemed to be the owner, for accounting purposes, during the construction phase of certain long-lived assets under build-to-suit lease arrangements because of our involvement with the construction, our exposure to any potential cost overruns and our other commitments under the arrangements. In these cases, we recognize a build-to-suit lease asset under construction and a corresponding build-to-suit lease liability on our Consolidated Balance Sheets.

*Long-Lived Assets Including Acquired Intangible Assets*

We review property and equipment, long-term prepayments and intangible assets, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset (or asset group) may not be recoverable. We measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds their fair value. We have made no material adjustments to our long-lived assets in any of the years presented.

Intangible assets with definite lives are amortized over their estimated useful lives. We amortize our acquired intangible assets on a straight-line basis with definite lives over periods ranging from two to thirty years.

In-process research and development (IPR&D) is an intangible asset accounted as an indefinite-lived asset until the completion or abandonment of the associated research and development effort. During the development period, we conduct an IPR&D impairment test annually and whenever events or changes in facts and circumstances indicate that it is more likely than not that the IPR&D is impaired. Events which might indicate impairment include, but are not limited to, adverse cost factors, deteriorating



financial performance, strategic decisions made in response to economic, market, and competitive conditions, the impact of the economic environment on us and our customer base, and/or other relevant events such as changes in management, key personnel, litigations, or customers.

*Capitalization of Software Costs*

For costs incurred in development of internal use software, we capitalize costs incurred during the application development stage. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life of three to ten years. We evaluate the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

*Foreign Currency*

We determine the functional and reporting currency of each of our international subsidiaries and their operating divisions based on the primary currency in which they operate. In cases where the functional currency is not the US dollar, we recognize a cumulative translation adjustment created by the different rates we apply to accumulated deficits, including current period income or loss, and the balance sheet. For each subsidiary, we apply daily functional currency rate to their income or loss and the month end functional currency rate to translate the balance sheet.

Beginning January 1, 2015, the functional currency of each of our foreign subsidiaries changed to their local country's currency. This change was based on the culmination of facts and circumstances that have developed as we expanded our foreign operations over the past year. The adjustment of \$10.0 million attributable to the current rate translation of non-monetary assets as of the date of the change is included in accumulated other comprehensive loss on our Consolidated Balance Sheet.

Foreign currency transaction gains and losses are a result of the effect of exchange rate changes on transactions denominated in currencies other than the functional currency. Transaction gains and losses are recognized in other income (expense), net, in the Consolidated Statements of Operations. For the years ended December 31, 2016, 2015, and 2014 we recorded foreign currency transaction gains (loss) of \$26.1 million, (\$45.6) million and \$2.0 million.

*Warranties*

We provide a manufacturer's warranty on all new and certified pre-owned vehicles, production powertrain components and systems, and energy 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, which includes our best estimate of the projected costs to repair or to replace items under warranty. 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 and changes to our historical or projected warranty experience may cause material changes to our warranty reserve in the future. The portion of the warranty provision expected to be incurred within 12 months is classified as current within accrued liabilities and other, while the remaining amount is classified as long-term within other long-term liabilities.

Accrued warranty activity consisted of the following for the periods presented (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Accrued warranty—beginning of period	\$ 180,754	\$ 129,043	\$ 53,182
Assumed warranty liability from acquisition	31,366	—	—
Warranty costs incurred	(79,147)	(52,760)	(39,903)
Net changes in liability for pre-existing warranties, including expirations and foreign exchange impact	(20,084)	1,470	18,599
Provision for warranty	153,766	103,001	97,165
Accrued warranty—end of period	<u>\$ 266,655</u>	<u>\$ 180,754</u>	<u>\$ 129,043</u>

Our warranty reserves do not include projected warranty costs associated with our vehicles subject to lease accounting and solar energy systems under lease contracts or power purchase agreements, as the costs to repair these warranty claims are expensed as incurred. The warranty reserve increased primarily due to incremental vehicle deliveries, offset by actual claims and an overall decrease in accrual rates for vehicles, batteries, and drive units due to improved reliability. In addition, for the year ended December 31, 2016, we also assumed warranty liabilities of \$31.4 million as a result of the SolarCity acquisition. For the year ended December 31, 2016 and December 31, 2015 warranty costs incurred for vehicles accounted for as operating leases or collateralized debt arrangements were \$19.0 million and \$9.5 million. Warranty expense is recorded as a component cost of revenue.

#### *Solar Energy Systems Performance Guarantees*

SolarCity guarantees certain specified minimum solar energy production output for certain solar energy systems leased or sold to customers, generally for a term of up to 30 years. We monitor the solar energy systems to ensure that these outputs are being achieved. We evaluate if any amounts are due to its customers and make any payments periodically as specified in the customer contracts. As of December 31, 2016, we had recorded liabilities of \$6.6 million under accrued liabilities and other in our Consolidated Balance Sheet, relating to these guarantees based on our assessment of the current exposure.

#### *Solar Renewable Energy Credits*

We account for solar renewable energy credits, or SRECs, when they are purchased by us or sold to third parties. For SRECs generated by solar energy systems owned by us and minted by government agencies, we do not recognize any specifically identifiable costs for those SRECs as there are no specific incremental costs incurred to generate the SRECs. For SRECs purchased by us, we carry these SRECs at their cost, subject to impairment testing. We recognize revenue from the sale of an SREC when the SREC is transferred to the buyer, and the cost of the SREC, if any, is then recorded within cost of revenue.

#### *Deferred ITCs Revenue*

SolarCity has solar energy systems that are eligible for investment tax credits, or ITCs, that accrue to eligible property under the IRC. Under Section 50(d)(5) of the IRC and the related regulations, a lessor of qualifying property may elect to treat the lessee as the owner of such property for the purposes of claiming the ITCs associated with such property. These regulations enable the ITCs to be separated from the ownership of the property and allow the transfer of the ITCs. Under the lease pass-through fund arrangements, SolarCity can make a tax election to pass-through the ITCs to the investor, who is the legal lessee of the property. We are therefore able to monetize these ITCs to investors who can utilize them in return for cash payments. We consider the monetization of ITCs to constitute one of the key elements of realizing the value associated with solar energy systems. We therefore view the proceeds from the monetization of ITCs to be a component of revenue generated from solar energy systems.

For lease pass-through fund arrangements, SolarCity allocates a portion of the aggregate payments received from the investors to the estimated fair value of the assigned ITCs and the balance to the future customer lease payments that are also assigned to the investors. The estimated fair value of the ITCs is determined by discounting the estimated cash flows impacts of the ITCs using an appropriate discount rate that reflects a market interest rate.

We recognize the revenue associated with the monetization of ITCs in accordance with ASC 605-10-S99. The revenue associated with the monetization of the ITCs is recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable and (4) collection of the related receivable is reasonably assured. The ITCs are subject to recapture under the IRC if the underlying solar energy system either ceases to be a qualifying property or undergoes a change in ownership within five years of its placed in service date. The recapture amount decreases on the anniversary of the placed in service date. As we have an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs, we recognize revenue as the recapture provisions lapse assuming the other aforementioned revenue recognition criteria have been met. The monetized ITCs are initially recorded as deferred revenue on our Consolidated Balance Sheets, and subsequently, one-fifth of the monetized ITCs is recognized as revenue from operating leases and solar energy systems incentives in our Consolidated Statements of Operations on each anniversary of the solar energy system's "placed in service date" over the next five years.

SolarCity guarantees their financing fund investors that in the event of a subsequent recapture of ITCs by the taxing authority due to our noncompliance with the applicable ITC guidelines, we would compensate them for any recaptured ITCs. We have concluded that the likelihood of a recapture event is remote and, consequently, have not recorded any liability in our Consolidated Balance Sheet for any potential recapture exposure.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which amends the existing accounting standards for revenue recognition. The new guidance provides a new model to determine when and over what period revenue is recognized. Under this new model, revenue is recognized as goods or services are delivered in an amount that reflects the consideration we expect to collect. In March 2016, the FASB issued an ASU, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the principal versus agent guidance in the new revenue recognition standard. In April 2016, the FASB issued another ASU, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*, which clarifies the guidance on accounting for licenses of intellectual property and identifying performance obligations in the new revenue recognition standard. In May 2016, the FASB issued another ASU, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedient*, which clarifies the transition, collectability, noncash consideration and the presentation of sales and other similar taxes in the new revenue recognition standard. The guidance is effective for fiscal years beginning after December 15, 2017; early adoption is permitted for periods beginning after December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method and are evaluating the impact of adopting this guidance.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, provide certain footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, including interim reporting periods thereafter. We adopted ASU 2014-15 as of December 31, 2016, but it did not impact our consolidated financial statements.

In April 2015, the FASB issued an ASU on simplifying the presentation of debt issuance costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We have retrospectively adopted the ASU as of March 31, 2016, and as a result, on our December 31, 2015 Consolidated Balance Sheet, we reclassified \$9.6 million as a reduction in prepaid expenses and other current assets, along with \$15.0 million reduction in other assets, with a corresponding reduction in the aggregate carrying value of our long-term debt liabilities. Similarly, as a result of the change in carrying value of long term debt, \$5.2 million was reclassified out of additional paid in capital and into mezzanine equity on our December 31, 2015 Consolidated Balance Sheet.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The ASU will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The ASU requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. We are currently evaluating the potential impact of adopting the ASU on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 will become effective for us beginning with the first quarter of 2017. Upon adoption of the ASU, we plan to account for forfeitures as incurred. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements. See Note 16, *Income taxes*, for additional information regarding the impact of the adoption of this guidance.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230)*. The ASU addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the potential impact of adopting the ASU on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash (Topic 230)*. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the potential impact of adopting the ASU on our consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*. The ASU requires the recognition of current and deferred income taxes for intra-entity transfers of assets other than inventory. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact of the ASU on our consolidated financial statements.

### Note 3 - Acquisition of SolarCity

#### Transaction Overview

On November 21, 2016 (the "Acquisition Date"), we completed our acquisition of SolarCity. As of the acquisition date, our CEO was the chair of SolarCity's Board of Directors. Pursuant to the Agreement and Plan of Merger (the "Merger Agreement"), each issued and outstanding share of SolarCity common stock was converted into 0.110 (the "Exchange Ratio") shares of Tesla common stock. SolarCity options and restricted stock unit awards were assumed by Tesla and converted into corresponding equity awards in respect of Tesla common stock based on the Exchange Ratio, with the awards retaining the same vesting and other terms and conditions as in effect immediately prior to the acquisition.

#### Fair Value of Consideration Transferred

The acquisition date fair value of the consideration transferred totaled \$2.1 billion, which consisted of the following (in thousands, except for share and per share amounts):

Total fair value of Tesla common stock issued (11,124,497 shares issued at \$185.04 per share)	\$	2,058,477
Fair value of replacement Tesla stock options and restricted stock units for vested SolarCity awards		87,500
<b>Total purchase price</b>	<b>\$</b>	<b>2,145,977</b>

In addition, we also assumed unvested SolarCity awards of \$95.9 million which will be recognized as stock-based compensation expense over the remaining requisite service period. Per ASC 805, *Business Combinations*, the replacement of stock options or other share-based payment awards in conjunction with a business combination represents a modification of share-based payment awards that must be accounted for in accordance with ASC 718, *Compensation—Stock Compensation*. As a result of our obligation to issue replacement awards, a portion of the fair-value-based measure of replacement awards is included in measuring the purchase consideration transferred in the business combination. To determine the portion of the replacement awards that is part of the purchase consideration, we measured the fair value of both the replacement awards and the historical awards as of the Acquisition Date, in accordance with ASC 718. The fair value of the replacement awards, whether vested or unvested, was included in the purchase consideration to the extent that pre-acquisition services had been rendered.

Transaction costs of \$21.7 million were expensed as incurred in selling, general and administrative expense of our Consolidated Statements of Operations.

#### Fair Value of Assets Acquired and Liabilities Assumed

We accounted for the acquisition using the purchase method of accounting for business combinations under ASC 805, *Business Combinations*. The total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities and noncontrolling interests assumed based on their estimated fair values as of the Acquisition Date.

As we finalize the fair value of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period (a period not to exceed 12 months) in 2017. Fair value estimates are based on a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives and the expected future cash flows and related discount rates, can materiality impact our results of operations. Specifically, we used discounted cash flows model to value the acquired solar energy systems, leased and to be leased, as well as the noncontrolling interests in subsidiaries. Significant inputs used for the model included the amount of cash flows, the expected period of the cash flows and the discount rates. The finalization of the purchase accounting assessment may result in a change in the valuation of asset acquired, liabilities assumed and taxes may have a material impact on our results of operations and financial position.

The preliminary allocation of the purchase price is based on management's estimate of the acquisition-date fair values of the assets acquired and liabilities assumed, as follows (in thousands):

<b>Assets acquired:</b>	
Cash and cash equivalents	\$ 213,523
Accounts receivable	74,619
Inventory	191,878
Solar energy systems, leased and to be leased	5,781,496
Property, plant and equipment	1,056,312
MyPower notes, net of current portion	509,712
Restricted cash	129,196
Intangible assets	356,510
Prepaid expenses and other assets, current and non-current	199,864
Total assets acquired	\$ 8,513,110
<b>Liabilities assumed:</b>	
Accounts payable	\$ 230,078
Accrued liabilities	238,590
Debt and capital leases, current and non-current	3,403,840
Financing obligations	121,290
Deferred revenue, current and non-current	271,128
Other liabilities	950,423
Total liabilities assumed	\$ 5,215,349
Net assets acquired	\$ 3,297,761
Noncontrolling interests redeemable and non-redeemable	\$ 1,066,517
Capped call options associated with 2014 convertible notes	(3,460)
Total net assets acquired	\$ 2,234,704
Gain on acquisition of SolarCity Corporation	(88,727)
Total purchase price	\$ 2,145,977

The total preliminary purchase allocation reflects our preliminary estimates and is subject to revision as additional information in relation to the fair value of the inventories, solar energy systems, leased to be leased, identifiable intangible assets, deferred revenue, deferred taxes, and noncontrolling interests assumed becomes available.

#### Gain on acquisition

The accounting guidance requires that a gain resulting from the fair value of acquired net assets being greater than the consideration paid to acquire the net assets be recorded as a gain included in the results of operations on the acquisition date. We recognized a gain on acquisition of \$88.7 million in the fourth quarter of 2016, which is recorded in other income (expense), net on our Consolidated Statements of Operations.

We reassessed the recognition and measurement of identifiable assets and liabilities acquired and concluded that all acquired assets and liabilities were recognized and that the valuation procedures and resulting estimates of fair values were appropriate. The primary factor contributing to the gain relates to the change in the overall price of our common stock from the time that the Merger Agreement was executed on July 31, 2016 to the acquisition date. During this time, our stock price decreased from \$230.01 to \$185.04, which in turn reduced the fair value of the consideration.

*Identifiable intangible assets*

A preliminary assessment of the fair value of identified intangible assets and their respective useful lives are as follows (in thousands, except for estimated useful life):

	As of December 31, 2016	
	Approximate Fair Value	Estimated Useful Life (in years)
Developed technology	\$ 113,361	7
Trade name	43,500	5
Favorable contracts and leases, net	112,817	15
IPR&D	86,832	N/A
Total intangible assets	\$ 356,510	

Acquired in-process research and development (IPR&D) is an intangible asset accounted for as an indefinite-lived asset until the completion or abandonment of the associated research and development effort. If the research and development effort associated with the IPR&D is successfully completed and commercial feasibility is reached, then the IPR&D intangible asset will be amortized over its estimated useful life to be determined at the date the effort is completed. The research and development efforts associated with these IPR&D intangible assets are expected to be completed in the second half of 2017. The fair value of the IPR&D is determined using the replacement cost method under the cost approach. The replacement cost is estimated based on the historical acquisition cost of the technology and historical R&D expenses incurred, adjusted for an estimated developer's profit, opportunity cost and obsolescence factor in accordance with accepted valuation methodologies. At the time of acquisition, we expect that all acquired IPR&D will reach technological feasibility, but there can be no assurance that the commercial viability of these products will actually be achieved. The nature of the efforts to develop the acquired technologies into commercially viable products consists principally of planning, designing, and testing the technology for viability in manufacturing. If commercial viability were not achieved, we would likely look to other alternative technologies. If the related R&D project is not completed in a timely manner or the R&D project is terminated or abandoned, we may have an impairment related to the IPR&D, calculated as the excess of the asset's carrying value over its fair value.

*Unaudited Pro Forma Financial Information*

Our consolidated financial statements for 2016 include SolarCity's results of operations from the Acquisition Date through December 31, 2016. Net revenues and operating loss attributable to SolarCity during this period and included in our consolidated financial statements were \$84.1 million and \$68.2 million, respectively.

The following unaudited pro forma information gives effect to the acquisition of SolarCity as if the acquisition had occurred on January 1, 2015 and had been included in our Consolidated Statements of Operations for 2015 and 2016.

	Year Ended	
	2016	2015
Revenue	\$ 7,539,077	\$ 4,354,324
Net loss attributable to common stockholders	(609,395)	(1,017,223)
Net loss per share of common stock, basic and Diluted	\$ (4.23)	\$ (7.30)
Weighted-average shares used in computing net loss per share of common stock, basic and diluted	144,212	139,327

The unaudited pro forma financial information includes adjustments to give effect to pro forma events that are directly attributable to the acquisition. The pro forma financial information includes adjustments to amortization and depreciation for solar energy systems, leased to be leased, intangible assets acquired, the effect of acquisition on deferred revenue and noncontrolling interests, and transaction costs related to the acquisition. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations of future periods. The unaudited pro forma financial information does not give effect to the potential impact of current financial conditions, regulatory matters, or any anticipated synergies, operating efficiencies, or cost savings that may be associated with the acquisition. Consequently, actual results will differ from the unaudited pro forma financial information presented.

**Note 4 - Intangible Assets**

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

	As of December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Finite-lived intangible assets:</b>			
Developed technology	\$ 113,361	\$ (1,740)	\$ 111,621
Trade name	43,500	(967)	42,533
Favorable contracts and leases, net	112,817	(864)	111,953
Other	26,679	(3,473)	23,206
<b>Total finite-lived intangible assets:</b>	<b>\$ 296,357</b>	<b>\$ (7,044)</b>	<b>\$ 289,313</b>
<b>Indefinite-lived intangible assets:</b>			
IPR&D	86,832	—	86,832
<b>Total indefinite-lived intangible assets:</b>	<b>86,832</b>	<b>—</b>	<b>86,832</b>
<b>Total intangible assets</b>	<b>\$ 383,189</b>	<b>\$ (7,044)</b>	<b>\$ 376,145</b>

As of December 31, 2016, total future amortization expense for intangible assets is estimated as follows (in thousands):

	Total
2017	\$ 33,843
2018	33,843
2019	33,843
2020	33,843
2021	32,878
Thereafter	121,063
<b>Total</b>	<b>\$ 289,313</b>

**Note 5 - Fair Value of Financial Instruments**

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

As a basis for determining the fair value of certain of our assets and liabilities, we follow a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level III) unobservable inputs in which there is little or no market data which requires us to develop our own assumptions. This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Our financial assets and financial liabilities that are measured at fair value on a recurring basis consist of cash equivalents, marketable securities and interest rate swaps.

As of December 31, 2016 and 2015, the fair value hierarchy for our financial assets and financial liabilities that are carried at fair value was as follows, and unrealized gains (losses) on financial assets and liabilities presented in the table below for all periods presented were less than \$1.0 million (in thousands):

	December 31, 2016				December 31, 2015			
	Fair Value	Level I	Level II	Level III	Fair Value	Level I	Level II	Level III
Money market funds	\$ 2,226,322	\$ 2,226,322	\$ —	\$ —	\$ 297,810	\$ 297,810	\$ —	\$ —
U.S. treasury bills	—	—	—	—	16,664	16,664	—	—
Interest rate swaps	1,490	—	1,490	—	—	—	—	—
<b>Total</b>	<b>\$ 2,227,812</b>	<b>\$ 2,226,322</b>	<b>\$ 1,490</b>	<b>\$ —</b>	<b>\$ 314,474</b>	<b>\$ 314,474</b>	<b>\$ —</b>	<b>\$ —</b>

All of our cash equivalents and current restricted cash, which are comprised primarily of money market funds, are classified within Level I of the fair value hierarchy because they are valued using quoted market prices or market prices for identical securities. Our restricted short-term marketable securities are classified within Level I of the fair value hierarchy.

We have classified the interest rate swaps within Level II because their fair values are determined using alternative pricing sources or models that utilized market observable inputs, including current and forward interest rates.

During the years ended December 31, 2016 and 2015, there were no transfers between the levels of the fair value hierarchy.

#### *Derivative Financial Instruments*

##### *Cash Flow Hedges*

In November 2015, we implemented a program to hedge the foreign currency exposure risk related to certain forecasted inventory purchases denominated in Japanese yen. The derivative instruments we use are foreign currency forward contracts and are designated as cash flow hedges with maturity dates of 12 months or less. We do not enter into derivative contracts for trading or speculative purposes.

The bank counterparties in all contracts expose Tesla to credit-related losses in the event of their nonperformance. However, to mitigate that risk, Tesla only contracts with counterparties who meet the Company's minimum requirements under its counterparty risk assessment process. Tesla monitors ratings, credit spreads, and potential downgrades on at least a quarterly basis. Based on our on-going assessment of counterparty risk, the Company will adjust its exposure to various counterparties. We generally enter into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. However, we do not have any master netting arrangements in place with collateral features.

We document each hedge relationship and assess its initial effectiveness at the inception of the hedge contract and we measure its ongoing effectiveness on a quarterly basis using regression analysis. During the term of an effective hedge contract, we record gains and losses within accumulated other comprehensive income (loss). We reclassify these gains or losses to costs of automotive revenues in the period the related finished goods inventory is sold or as cost of automotive leasing revenue over the depreciation period for those sales accounted for as leases. Although our contracts are considered effective hedges, we may experience small amounts of ineffectiveness due to timing differences between our actual inventory purchases and the settlement date of the related foreign currency forward contracts. We have recorded no amounts related to hedge ineffectiveness within other income (expense), net in our Consolidated Statements of Operations, during the years ended December 31, 2016 and 2015.

There were no outstanding hedging contracts as of December 31, 2016. The net notional amount of these contracts was \$322.6 million at December 31, 2015. Outstanding contracts are recognized as either assets or liabilities on the Consolidated Balance Sheet at fair value within prepaid expenses and other current assets or within accrued liabilities and other, depending on our net position. The net gain of \$5.6 million in accumulated other comprehensive income (loss) as of December 31, 2016, is expected to be recognized to costs of automotive sales in the period the related finished goods inventory is sold or over the depreciation period for those sales accounted for as leases in the next twelve months. The total fair values of foreign currency contracts designated as cash flow hedges as of December 31, 2016 and December 31, 2015 was zero and \$7.3 million and was determined using Level II inputs and recorded in prepaid expenses and other current assets on our Consolidated Balance Sheets. During the year ended December 31, 2016, we reclassified \$44.9 million of gains from accumulated other comprehensive income (loss) into cost of automotive revenue. No amounts were reclassified from accumulated other comprehensive income (loss) into earnings for the year ended December 31, 2015.

##### *Interest Rate Swaps*

SolarCity enters into fixed-for-floating interest rate swap agreements to swap variable interest payments on certain debt for fixed interest payments, as required by its lenders. These interest rate swaps are not designated as hedging instruments. Accordingly, all interest rate swaps are recognized at fair value on our Consolidated Balance Sheets within other assets or other long-term liabilities, with any changes in fair value recognized as other income (expense), net in our Consolidated Statements of Operations and with any cash flows recognized as investing activities in our Consolidated Statements of Cash flows. As of December 31, 2016, the aggregate notional amount of these interest rate swaps, the gross asset at fair value, and the gross liability at fair value was \$789.6 million, \$10.6 million, and \$12.1 million, respectively. During the year ended December 31, 2016, we recognized \$7.0 million of gains related to these interest rate swaps.

##### *Fair Value Disclosure*

Our financial instruments that are not re-measured at fair value include accounts receivable, customer notes receivable, rebates receivable, accounts payable, accrued liabilities, customer deposits, convertible senior notes, 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 customer notes receivable, convertible senior notes, the participation interest, solar asset-backed notes, Solar Bonds, and long-term debt approximated their fair value.



We estimate the fair value of convertible senior notes based on a commonly accepted valuation methodology and market-based risk measurements that are indirectly observable, such as credit risk (Level II). In addition, we estimate the fair value of customer notes receivable, the participation interest, solar asset-backed notes, solar loan-backed notes and Solar Bonds based on rates currently offered for instruments with similar maturities and terms (Level III). The following table presents their estimated fair values and their carrying values (in thousands):

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
MyPower customer notes receivable	\$ 513,002	\$ 513,002	—	—
Convertible senior notes	2,957,288	3,205,641	\$ 2,505,868	\$ 3,423,257
Participation interest	16,713	15,025	—	—
Solar asset-backed notes	442,764	428,551	—	—
Solar loan-backed notes	137,024	132,129	—	—

#### Note 6 - Inventory

As of December 31, 2016 and 2015, our inventory consisted of the following (in thousands):

	December 31, 2016		December 31, 2015	
Raw materials	\$ 680,339	\$ 680,339	\$ 528,935	\$ 528,935
Work in process	233,746	233,746	163,830	163,830
Finished goods	1,016,731	1,016,731	476,512	476,512
Service parts	136,638	136,638	108,561	108,561
Total	\$ 2,067,454	\$ 2,067,454	\$ 1,277,838	\$ 1,277,838

Finished goods inventory includes vehicles in transit to fulfill customer orders, new vehicles available for immediate sale at our retail and service center locations, pre-owned Tesla vehicles, and energy storage products.

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 as a result of excess and obsolete inventories, or when we believe that the net realizable value of inventories is less than the carrying value. During the years ended December 31, 2016, 2015 and 2014, we recorded write-downs of \$52.8 million, \$44.9 million and \$15.6 million in cost of revenues.

#### Note 7 - Solar Energy Systems, Leased and To Be Leased - Net

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

	December 31, 2016
Solar energy systems leased to customers	\$ 5,052,976
Initial direct costs related to customer solar energy system lease acquisition costs	12,774
	\$ 5,065,750
Less: accumulated depreciation and amortization	(20,157)
	\$ 5,045,593
Solar energy systems under constructions	460,913
Solar energy systems to be leased to customers	413,374
Solar energy systems, leased and to be leased - net (1)(2)	\$ 5,919,880

(1) Included in solar energy systems leased to customers as of December 31, 2016, was \$36.0 million related to capital leased assets with an accumulated depreciation of \$0.2 million.

(2) Included in solar energy systems, leased and to be leased, as of December 31, 2016, was \$21.3 million related to energy storage systems with an accumulated depreciation of \$0.1 million.

**Note 8 - Property, Plant and Equipment**

As of December 31, 2016 and 2015, our property, plant and equipment, net, consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Machinery, equipment, vehicles and office furniture	\$ 2,154,367	\$ 1,694,910
Tooling	794,793	550,902
Leasehold improvements	505,295	338,392
Land and buildings	1,079,452	521,537
Computer equipment, hardware and software	275,655	175,512
Construction in progress	2,147,332	693,207
Other	23,548	—
	\$ 6,980,442	\$ 3,974,460
Less: Accumulated depreciation and amortization	(997,485)	(571,126)
Total	\$ 5,982,957	\$ 3,403,334

Construction in progress is comprised primarily of tooling and equipment related to the manufacturing of our vehicles, a portion of Gigafactory 1 construction, and related capitalized interest. In addition, construction in progress also included certain build-to-suit lease arrangement for the Buffalo manufacturing facilities acquired through our SolarCity acquisition during the fourth quarter of 2016. Completed assets are transferred to their respective asset class and depreciation begins when the asset is ready for its intended use. Interest expense on outstanding debt is capitalized during the period of significant capital asset construction. Capitalized interest on construction in progress is included in property, plant and equipment, net, and is amortized over the life of the related assets. During the years ended December 31, 2016 and 2015, we capitalized \$46.7 million and \$41.5 million of interest expense, respectively.

We are sometimes involved in construction at our leased facilities primarily related to retail stores, service centers, and certain manufacturing facilities. In accordance with ASC 840, Leases, for build-to-suit lease arrangements where we are involved in the construction of structural improvements prior to the commencement of the lease or take some level of construction risk, we are considered the owner of the assets and land during the construction period. Accordingly, upon commencement of our construction activities, we record a construction in progress asset and a corresponding financing liability. Once the construction is completed, if the lease meets certain "sale-leaseback" criteria, we will remove the asset and related financial obligation from the balance sheet and treat the building lease as an operating lease. If upon completion of construction, the project does not meet the "sale-leaseback" criteria, the leased property will be treated as a capital lease and included in building and building improvements in the table above.

In addition, as part of the SolarCity acquisition, we assumed a build-to-suit lease arrangement with the Research Foundation for the State University of New York, or the Foundation, for the construction located in Buffalo, New York. See Note 17, *Commitment and contingencies*, for Build-to-Suit lease arrangement with the Foundation.

As of December 31, 2016 and December 31, 2015, the table above includes \$1.32 billion and \$206.1 million of build-to-suit assets. As of December 31, 2016 and December 31, 2015, corresponding financing obligations of \$3.8 million and \$1.3 million are recorded in accrued liabilities and \$1.3 billion and \$201.3 million are recorded in other long-term liabilities.

Depreciation and amortization expense during the years ended December 31, 2016, 2015 and 2014 were \$477.3 million, \$278.7 million and \$155.9 million. Total property and equipment assets under capital lease as of December 31, 2016 and 2015 were \$112.6 million and \$58.1 million. Accumulated depreciation related to assets under capital lease as of these dates were \$40.2 million and \$22.7 million.

We have incurred \$825.3 million and \$317.5 million of costs for our Gigafactory 1 as of December 31, 2016 and 2015.

**Note 9 - Non-cancellable Operating Lease Payments Receivable**

As of December 31, 2016, future minimum lease payments to be received from customers under non-cancellable operating leases for each of the next five years and thereafter were as follows (in thousands):

2017	\$	279,420
2018		250,791
2019		191,729
2010		147,989
2021		145,423
Thereafter		2,122,127
<b>Total</b>	<b>\$</b>	<b>3,137,479</b>

The above table does not include vehicle sales to customers or leasing partners with a resale value guarantee as the cash payments were received upfront.

In addition, we assumed through our acquisition of SolarCity and will continue to enter into power purchase agreements with our customers that are accounted for as leases. These customers are charged solely based on actual power produced by the installed solar energy system at a predefined rate per kilowatt-hour of power produced. The future payments from such arrangements are not included in the above table as they are a function of the power generated by the related solar energy systems in the future. Furthermore, the above table does not include performance-based incentives receivable from various utility companies. The amount of contingent rentals recognized as revenue for the years presented were not material.

**Note 10 - Accrued Liabilities and Other**

As of December 31, 2016 and 2015, our accrued liabilities and other current liabilities consisted of the following (in thousands):

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Accrued purchases	\$ 585,019	\$ 140,540
Payroll and related costs	218,792	86,859
Taxes payable	152,897	101,206
Financing obligation, current portion	52,031	—
Accrued warranty and other	201,289	94,193
<b>Total</b>	<b>\$ 1,210,028</b>	<b>\$ 422,798</b>

Taxes payable includes Value Added Tax, sales tax, property tax, use tax and income tax payables.

Accrued purchases reflect primarily liabilities related to the construction of Gigafactory 1, along with engineering design and testing accruals. As these services are invoiced, this balance will reduce and accounts payable will increase.

**Note 11 - Other Long-term Liabilities**

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Accrued warranty reserve, net of current portion	\$ 149,858	\$ 117,057
Build-to-suit lease liability, net of current portion	1,323,293	201,389
Deferred rent expense	36,966	17,342
Financing obligation, net of current portion	84,360	—
Liability for receipts from an investor	76,828	—
Other noncurrent liabilities	220,144	29,188
<b>Total long-term liabilities</b>	<b>\$ 1,891,449</b>	<b>\$ 364,976</b>

For additional detail on build-to-suit lease liability, net of current portion, please see Note 8, Property, plant, and equipment.

The liability for receipts from an investor represents amounts received from an investor under a lease pass-through fund arrangement for monetization of ITCs for assets not yet placed in service. This amount is reclassified to deferred revenue when the assets are placed in service.

#### Note 12 - Customer Deposits

Customer deposits primarily consist of cash payments from customers at the time they place an order for a vehicle and additional payments up to the point of delivery including the fair value of customer trade-in vehicles that are applicable toward a new vehicle purchase. Customer deposit amounts and timing vary depending on the vehicle model and country of delivery. Customer deposits are fully refundable up to the point the vehicle is placed into the production cycle. Customer deposits are included in current liabilities until refunded or until they are applied to a customer's purchase balance at time of delivery.

As of December 31, 2016 and 2015, we held \$663.9 million and \$283.4 million in customer deposits. The increase is primarily due to Model 3 deposits.

#### Note 13 - Convertible and Long-term Debt Obligations

The following is a summary of our debt as of December 31, 2016 (in thousands):

	Unpaid Principal Balance	Net Carrying Value		Unused Committed Amount	Interest Rate	Maturity Dates
		Current	Long-Term			
<b>Recourse debt:</b>						
1.5% Convertible Senior Notes due in 2018	\$ 205,013	\$ 196,229	—	—	1.5%	June 2018
0.25% Convertible Senior Notes due in 2019	920,000	—	827,620	—	0.25%	March 2019
1.25% Convertible Senior Notes due in 2021	1,380,000	—	1,132,029	—	1.25%	March 2021
Credit Agreement	969,000	—	969,000	181,000	1% plus LIBOR	June 2020
Secured Revolving Credit Facility	364,000	366,247	—	24,305	4.0%-6.0%	January 2017 - December 2017
Vehicle and Other Loans	23,771	17,235	6,536	—	2.9%-7.6%	March 2017 - June 2019
2.75% Convertible Senior Notes due in 2018	230,000	—	212,223	—	2.8%	November 2018
1.625% Convertible Senior Notes due in 2019	566,000	—	483,820	—	1.6%	November 2019
Zero-coupon Convertible Senior Notes due in 2020	113,000	—	89,418	—	0.0%	December 2020
Solar Bonds	332,060	181,582	148,948	—	1.1%-6.5%	January 2017 - January 2031
Total recourse debt	5,102,844	761,293	3,869,594	205,305		
<b>Non-recourse debt:</b>						
Warehouse Agreement	390,000	73,708	316,292	210,000	Various	September 2018
Canada Credit Facility	67,342	18,489	48,853	—	3.6%-4.5%	December 2020
Term Loan due in December 2017	75,467	75,715	—	52,173	4.2%	December 2017
Term Loan due in January 2021	183,388	5,860	176,169	—	4.5%	January 2021
MyPower Revolving Credit Facility	133,762	133,827	—	56,238	4.1%-6.6%	January 2017
Revolving Aggregation Credit Facility	424,757	—	427,944	335,243	4.0%-4.8%	December 2018
Solar Renewable Energy Credit Term Loan	38,124	12,491	26,262	—	6.6%-9.9%	April 2017 - July 2021
Cash Equity Debt I	119,753	3,272	115,464	—	5.7%	July 2033
Cash Equity Debt II	206,901	5,376	189,424	—	5.3%	July 2034
Cash Equity Debt III	170,000	4,994	161,853	—	5.8%	January 2035
Solar Asset-backed Notes, Series 2013-1	41,899	3,329	38,346	—	4.8%	November 2038
Solar Asset-backed Notes, Series 2014-1	60,768	3,016	57,417	—	4.6%	April 2044
Solar Asset-backed Notes, Series 2014-2	186,851	7,055	173,625	—	4.0%-Class A 5.4%-Class B	July 2044
Solar Asset-backed Notes, Series 2015-1	119,199	1,511	110,238	—	4.2%-Class A 5.6%-Class B	August 2045
Solar Asset-backed Notes, Series 2016-1	50,119	1,202	47,025	—	5.3%-Class A 7.5%-Class B	September 2046
Solar Loan-backed Notes, Series 2016-A	140,586	3,514	133,510	—	4.8%-Class A 6.9%-Class B	September 2048
Total non-recourse debt	2,408,916	353,359	2,022,422	653,654		
Total debt	\$ 7,511,760	\$ 1,114,652	\$ 5,892,016	\$ 858,959		

\* Out of the \$350.0 million authorized to be issued, \$17.9 million remained available to be issued. See below and Note 21, *Related Party Transactions*, for Solar Bonds issued to related parties.

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 or our subsidiaries. The differences between the unpaid principal balances and the net carrying values are due to debt discounts and deferred financing costs. As of December 31, 2016, we were in compliance with all financial debt covenants. Our debt is described further below.

**Recourse Debt Facilities:**

**Tesla Debt Facilities:**

**0.25% and 1.25% Convertible Senior Notes due in 2019 and 2021 and Bond Hedge and Warrant Transactions**

In March 2014, we issued \$800.0 million principal amount of 0.25% convertible senior notes due in 2019 (2019 Notes) and \$1.20 billion principal amount of 1.25% convertible senior notes due in 2021 (2021 Notes) in a public offering. In April 2014, we issued an additional \$120.0 million aggregate principal amount of 2019 Notes and \$180.0 million aggregate principal amount of 2021 Notes, pursuant to the exercise in full of the over-allotment options of the underwriters of our March 2014 public offering. The total net proceeds from these offerings, after deducting transaction costs, were approximately \$905.8 million from 2019 Notes and \$1.36 billion from 2021 Notes. We incurred \$14.2 million and \$21.4 million of debt issuance costs in connection with the 2019 Notes and the 2021 Notes, and are amortizing to interest expense using the effective interest method over the contractual terms of these notes. In April 2015, the FASB issued new authoritative accounting guidance on simplifying the presentation of debt issuance costs, which we retrospectively adopted as of March 31, 2016 and reclassified debt issuance costs in connection with the notes to related debt liability. The interest rates are fixed at 0.25% and 1.25% per annum and are payable semi-annually in arrears on March 1 and September 1 of each year, commencing on September 1, 2014.

Each \$1,000 of principal of these notes is initially convertible into 2.7788 shares of our common stock, which is equivalent to an initial conversion price of approximately \$359.87 per share, subject to adjustment upon the occurrence of specified events. Holders of these notes may convert their notes at their option on or after December 1, 2018 for the 2019 Notes and on or after December 1, 2020 for the 2021 Notes. Further, holders of these notes may convert their notes at their option prior to the respective dates above, only under the following circumstances: (1) during any fiscal quarter beginning after the fiscal quarter ending June 30, 2014, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the applicable notes on each applicable trading day; (2) during the five business day period following any five consecutive trading day period in which the trading price for the applicable notes is less than 98% of the average of the closing sale price of our common stock for each day during such five trading day period; or (3) if we make specified distributions to holders of our common stock or if specified corporate transactions occur. Upon conversion of the 2019 Notes, we would pay or deliver as applicable, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. Upon conversion of the 2021 Notes, we would pay the holders in cash for the principal amount and, if applicable, shares of our common stock (subject to our right to deliver cash in lieu of all or a portion of such shares of our common stock) based on a daily conversion value. If a fundamental change occurs prior to the maturity date, holders of these notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the applicable maturity date, we will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event in certain circumstances. During the fourth quarter of 2016, the closing price of our common stock did not meet or exceed 130% of the applicable conversion price of our 2019 Notes and 2021 Notes on at least 20 of the last 30 consecutive trading days of the quarter; furthermore, no other conditions allowing holders of these notes to convert have been met as of December 31, 2016. Therefore, the 2019 Notes and 2021 Notes are not convertible during the first quarter of 2017 and are classified as long-term debt. Should the closing price conditions be met in the first quarter of 2016 or a future quarter, the 2019 and/or the 2021 Notes will be convertible at their holders' option during the immediately following quarter. As of December 31, 2016, the if-converted value of the 2019 Notes and 2021 Notes did not exceed the principal value of those notes.

As of December 31, 2015, the carrying value and the outstanding principal of our 2019 Notes are \$788.0 million and \$920.0 million, respectively. As of December 31, 2015, the carrying value and the outstanding principal of our 2021 Notes are \$1.08 billion and \$1.38 billion, respectively.

In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the notes from the respective host debt instrument and initially recorded the conversion option of \$188.1 million for the 2019 Notes and \$369.4 million for the 2021 Notes in stockholders' equity. The resulting debt discounts on the 2019 Notes and 2021 Notes are being amortized to interest expense at an effective interest rate of 4.89% and 5.96%, respectively, over the contractual terms of the notes.

In connection with the offering of these notes in March 2014, we entered into convertible note hedge transactions whereby we have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 5.6 million shares of our common stock at a price of approximately \$359.87 per share. The total cost of the convertible note hedge transactions was \$524.7 million. In addition, we sold warrants whereby the holders of the warrants have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 2.2 million shares of our common stock at a price of \$512.66 for the 2019 Notes and a total of approximately 3.3 million shares of our common stock at a price of \$560.64 per share for 2021 Notes. We received \$338.4 million in cash proceeds from the sale of these warrants. Similarly, in connection with the issuance of additional notes in April 2014, we entered into convertible note hedge transactions and paid an aggregate \$78.7 million. In addition, we sold warrants to purchase (subject to adjustment for certain specified events) a total of approximately 0.3 million shares of our common stock at a price of \$512.66 per share for the warrants relating to 2019 Notes, and a total of approximately 0.5 million shares of our common stock at a strike price of \$560.64 per share for the warrants relating to 2021 Notes. We received aggregate proceeds of approximately \$50.8 million from the sale of the warrants. Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to reduce potential dilution and/or offset potential cash payments upon the conversion of these notes and to effectively increase the overall conversion price from \$359.87 to \$512.66 per share in the case of warrants relating to 2019 Notes and from \$359.87 to \$560.64 in the case of warrants relating to 2021 Notes. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions was recorded as a reduction to additional paid-in capital on the Consolidated Balance Sheet as of December 31, 2016.

***1.50% Convertible Senior Notes due in 2018 and Bond Hedge and Warrant Transactions***

In May 2013, we issued \$660.0 million aggregate principal amount of 2018 Notes in a public offering. The net proceeds from the offering, after deducting transaction costs, were approximately \$648.0 million. We incurred \$12.0 million of debt issuance costs in connection with the issuance of the 2018 Notes and are amortizing to interest expense using the effective interest method over the contractual term of the 2018 Notes. The interest under the 2018 Notes is fixed at 1.50% per annum and is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2013.

Each \$1,000 of principal of the 2018 Notes is initially convertible into 8.0306 shares of our common stock, which is equivalent to an initial conversion price of approximately \$124.52 per share, subject to adjustment upon the occurrence of specified events. Holders of the 2018 Notes may convert their 2018 Notes at their option on or after March 1, 2018. Further, holders of the 2018 Notes may convert their 2018 Notes at their option prior to March 1, 2018, only under the following circumstances: (1) during any fiscal quarter beginning after the fiscal quarter ending September 30, 2013, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period following any five consecutive trading day period in which the trading price for the 2018 Notes is less than 98% of the average of the closing sale price of our common stock for each day during such five trading day period; or (3) if we make specified distributions to holders of our common stock or if specified corporate transactions occur. Upon conversion, we would pay the holders in cash for the principal amount of the 2018 Notes and, if applicable, shares of our common stock (subject to our right to deliver cash in lieu of all or a portion of such shares of our common stock) based on a calculated daily conversion value. If a fundamental change occurs prior to the maturity date, holders of the 2018 Notes may require us to repurchase all or a portion of their 2018 Notes for cash at a repurchase price equal to 100% of the principal amount of the 2018 Notes, plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its 2018 Notes in connection with such a corporate event in certain circumstances.

As of December 31, 2015, the carrying value and the outstanding principal of our 2018 Notes are \$612.5 million and \$659.8 million, respectively.

In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the 2018 Notes from the host debt instrument and recorded the conversion option of \$82.8 million in stockholders' equity. The resulting debt discount on the 2018 Notes is being amortized to interest expense at an effective interest rate of 4.29% over the contractual term of the 2018 Notes.

In connection with the offering of the 2018 Notes, we entered into convertible note hedge transactions whereby we had the option to purchase initially (subject to certain specified events) a total of approximately 5.3 million shares of our common stock at a price of approximately \$124.52 per share. The cost of the convertible note hedge transactions was \$177.5 million. In addition, we sold warrants whereby the holders of the warrants have the option to purchase initially (subject to certain specified events) a total of approximately 5.3 million shares of our common stock at a price of \$184.48 per share. We received \$120.3 million in cash proceeds from the sale of these warrants. Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to offset any actual dilution from the conversion of the 2018 Notes and to effectively increase the overall conversion price from \$124.52 to \$184.48 per share. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions was recorded as a reduction to additional paid-in capital on the Consolidated Balance Sheet as of December 31, 2016.

During the fourth quarter of fiscal 2016, the closing price of our common stock exceeded 130% of the applicable conversion price of our 2018 Notes on at least 20 of the last 30 consecutive trading days of such quarter; therefore, holders of 2018 Notes may convert their notes during the first quarter of fiscal 2017. As such, we classified the \$196.2 million carrying value of our 2018 Notes as current liabilities and classified \$8.8 million, representing the difference between the aggregate principal of our 2018 Notes of \$205.0 million and the carrying value of 2018 Notes, as mezzanine equity on our Consolidated Balance Sheet as of December 31, 2016. Should the closing price conditions be met in a future quarter, 2018 Notes will be convertible at their holders' option during the immediately following quarter.

During fiscal 2016, we repaid \$454.7 million in aggregate principal amount of our 2018 Notes pursuant to conversions by their holders. As of December 31, 2016, we had remaining outstanding \$205.0 million in aggregate principal amount of the 2018 Notes. As of December 31, 2016, there were also outstanding a corresponding amount of convertible note hedge transactions, as well as warrants to issue up to 2.2 million shares at \$184.48 per share as of December 31, 2016, in each case issued in connection with the offering of the 2018 Notes.

***Asset-Based Credit Agreement***

In June 2015, we entered into a senior secured asset-based revolving credit agreement (the "Credit Agreement") with a syndicate of banks. The Credit Agreement provides for a senior secured asset-based revolving credit facility (the "Credit Facility"), which we may draw upon as needed. In October 2015, lenders increased their total funding commitments to us under the Credit Facility by up to an additional \$250.0 million, subject to certain conditions, for total commitments up to \$750 million. In addition, the Credit Agreement provides for a \$200.0 million letter of credit sub-facility and a \$40.0 million swing-line loan sub-facility. The Credit Agreement is collateralized by a pledge of certain of our accounts receivable, inventory, and equipment, and availability under the Credit Agreement is based on the value of such assets, as reduced by certain reserves. During fiscal 2016, we amended the Credit Agreement and increased the availability and the commitments under the Credit Agreement from \$750.0 million to \$1.2 billion.

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. Interest is payable quarterly. The Credit Agreement terminates, and all outstanding loans become due and payable, in June 2020. As of December 31, 2016, we had \$969.0 million borrowings under the Credit Facility and zero borrowings under the swing-line loan sub-facility.

As of December 31, 2015, we had \$135.0 million in borrowings under the Credit Facility.

We are required to meet various covenants, including meeting certain reporting requirements, such as the completion and presentation of audited Consolidated Financial Statements for our borrowings. As of December 31, 2016 we were in compliance with all covenants contained in the Credit Agreement.

***Assumed Debt from our SolarCity Acquisition:***

***Secured Revolving Credit Facility***

SolarCity has entered into a revolving credit agreement with a syndicate of banks to fund working capital, letters of credit and general corporate needs. Borrowed funds bear interest, at our option, at an annual rate of (a) 3.25% plus LIBOR or (b) 2.25% plus the highest of (i) the federal funds rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The fee for undrawn commitments is 0.375% per annum. The secured revolving credit facility is secured by certain of SolarCity's accounts receivable, inventory, machinery, equipment and other assets.

**Vehicle and Other Loans**

SolarCity has entered into various vehicle and other loan agreements with various financial institutions. The vehicle loans are secured by the vehicles financed.

**2.75% Convertible Senior Notes Due In 2018**

In October 2013, SolarCity issued \$230.0 million in aggregate principal of 2.75% convertible senior notes due on November 1, 2018 through a public offering.

Each \$1,000 of principal of the convertible senior notes is now convertible into 1.7838 shares of our common stock, which is equivalent to a conversion price of \$560.64 per share, subject to adjustment upon the occurrence of specified events related to dividends, tender offers or exchange offers. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change, such as significant changes in ownership, corporate structure or tradability of our common stock, occur prior to the maturity date, we would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The maximum conversion rate is capped at 2.3635 shares for each \$1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of \$423.10 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require us to repurchase their convertible senior notes for cash only under certain defined fundamental changes.

**1.625% Convertible Senior Notes Due in 2019**

In September 2014, SolarCity issued \$500.0 million and in October 2014, SolarCity issued an additional \$66.0 million in aggregate principal of 1.625% convertible senior notes due on November 1, 2019 through a private placement

Each \$1,000 of principal of the convertible senior notes is now convertible into 1.3169 shares of our common stock, which is equivalent to a conversion price of \$759.36 per share, subject to the same adjustment mechanism as discussed above. The maximum conversion rate is capped at 1.7449 shares for each \$1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of \$573.10 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require us to repurchase their convertible senior notes for cash only under certain defined fundamental changes.

In connection with the issuance of the convertible senior notes in September 2014 and in October 2014, SolarCity entered into capped call option agreements to reduce the potential equity dilution upon conversion of the convertible senior notes. Specifically, upon the exercise of the capped call options, we would now receive shares of our common stock equal to 745,377 shares multiplied by (a) (i) the lower of \$1,146.18 or the then market price of our common stock less (ii) \$759.36 and divided by (b) the then market price of our common stock. The results of this formula are that we would receive more shares as the market price of our common stock exceeds \$759.36 and approaches \$1,146.18, but we would receive fewer shares as the market price of our common stock exceeds \$1,146.18. Consequently, if the convertible senior notes are converted, then the number of shares to be issued by us would be effectively partially offset by the shares received by us under the capped call options as they are exercised. We can also elect to receive the equivalent value of cash in lieu of shares. The capped call options expire on various dates ranging from September 4, 2019 to October 29, 2019, and the formula above would be adjusted in the event of a merger; a tender offer; nationalization; insolvency; delisting of our common stock; changes in law; failure to deliver; insolvency filing; stock splits, combinations, dividends, repurchases or similar events; or an announcement of certain of the preceding actions. Although intended to reduce the net number of shares issued after a conversion of the convertible senior notes, the capped call options were separately negotiated transactions, are not a part of the terms of the convertible senior notes, do not affect the rights of the convertible senior note holders and will take effect regardless of whether the convertible senior notes are actually converted. The capped call options meet the criteria for equity classification because they are indexed to our common stock and we always control whether settlement will be in shares or cash.

**Zero-Coupon Convertible Senior Notes Due in 2020**

In December 2015, SolarCity issued \$113.0 million in aggregate principal of zero-coupon convertible senior notes due on December 1, 2020 through a private placement. \$13.0 million of the convertible senior notes were issued to related parties and are separately presented on the Consolidated Balance Sheets (see Note 21, *Related Party Transactions*).



Each \$1,000 of principal of the convertible senior notes is now convertible into 3.3333 shares of our common stock, which is equivalent to a conversion price of \$300.00 per share, subject to the same adjustment mechanism as discussed above. The maximum conversion rate is capped at 4.2308 shares for each \$1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of \$236.36 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require us to repurchase their convertible senior notes for cash only under certain defined fundamental changes. On or after June 30, 2017, the convertible senior notes will be redeemable by us in the event that the closing price of our common stock exceeds 200% of the conversion price for 45 consecutive trading days ending within three trading days of such redemption notice at a redemption price of par plus accrued and unpaid interest to, but excluding, the redemption date

#### **Solar Bonds**

In October 2014, SolarCity commenced issuing Solar Bonds, which are senior unsecured obligations of SolarCity that are structurally subordinate to the indebtedness and other liabilities of SolarCity's subsidiaries. Solar Bonds have been issued under multiple series that have various fixed terms and interest rates. In September 2015, SolarCity commenced issuing Solar Bonds with variable interest rates that reset quarterly and that can be redeemed quarterly at the option of the bondholder or us, with 30-day advance notice.

In March 2016, Space Exploration Technologies Corporation, or SpaceX, purchased \$90.0 million in aggregate principal amount of 4.40% Solar Bonds due in March 2017. In June 2016, SpaceX purchased an additional \$75.0 million in aggregate principal amount of 4.40% Solar Bonds due in June 2017.

In August 2016, our Chief Executive Officer, SolarCity's Chief Executive Officer and SolarCity's Chief Technology Officer purchased \$100.0 million in aggregate principal amount of 6.50% Solar Bonds due in February 2018

SpaceX, our Chief Executive Officer, SolarCity's Chief Executive Officer and SolarCity's Chief Technology Officer were considered related parties; SolarCity has also issued Solar Bonds to other related parties; and such Solar Bonds are separately presented on the Consolidated Balance Sheets (see Note 21, *Related Party Transactions*).

#### **Non-Recourse Debt Facilities**

##### **Canada Credit Agreement**

In December 2016, we entered into a Credit Agreement with Royal Bank of Canada (the "Canada Credit Agreement"). Under the Credit Agreement, we borrowed \$67.3 million which is secured by an interest in certain vehicle leases. Amount drawn under the Canada Credit agreement has a rate range of 3.6% to 4.5% and are subject to various customary events of default, covenants and limitations, including an advance rate limit and a required reserve account. The term of the loan is reflective of the term of the underlying vehicle leases, up to 48 months.

##### **Warehouse Agreement**

In August 2016, we entered into a Loan and Security Agreement (the "Warehouse Agreement") with Deutsche Bank as administrative agent and a committed lender. Under the Warehouse Agreement, which supports the Tesla Finance direct vehicle leasing program, and is secured by an interest in certain leases and vehicles under such program, we were initially entitled to borrow up to \$300.0 million in total principal amount. In December 2016, we amended the Warehouse Agreement and increased the total facility limit to \$600.0 million. Subject to extension in accordance with the terms of the Warehouse Agreement, the ability to draw under the Warehouse Agreement expires on August 31, 2017, and the full amount outstanding under the Warehouse Agreement is due September 20, 2018. As of December 31, 2016, we had \$390.0 million in borrowings outstanding under the Warehouse Agreement.

Amounts drawn under the Warehouse Agreement generally bear interest at a rate based on LIBOR plus a fixed margin. We are subject to various customary events of default and financial, lease portfolio performance and other covenants and limitations, including an advance rate limit, a required reserve account, and various performance triggers and excess concentration limits.

Pursuant to the Warehouse Agreement, an undivided beneficial interest in the future cash flows arising from certain leases and the related leased vehicles has been sold for legal purposes but continues to be reported in our consolidated financial statements. The interest in the future cash flows arising from these leases and the related vehicles is not available to pay the claims of our creditors other than pursuant to obligations to the lenders under the Warehouse Agreement. We retain the right to receive the excess cash flows not needed to pay obligations under the Warehouse Agreement.

**Assumed Debt from our SolarCity Acquisition:**

**Term Loan Due in December 2017**

On March 31, 2016, a subsidiary of SolarCity entered into an agreement for a term loan of \$50.0 million. The term loan bears interest at an annual rate of the lender's cost of funds plus 3.25%. The fee for undrawn commitments is 0.85% per annum. The term loan is secured by substantially all of the assets and cash flows of the subsidiary and is non-recourse to our other assets or cash flows.

**Term Loan Due in January 2021**

In January 2016, a subsidiary of SolarCity entered into an agreement with a syndicate of banks for a term loan of \$160.0 million. The term loan bears interest at an annual rate of three-month LIBOR plus 3.50%. The term loan is secured by substantially all of the assets of the subsidiary, including its interests in certain financing funds, and is non-recourse to our other assets.

**MyPower Revolving Credit Facility**

On January 9, 2015, a subsidiary of SolarCity entered into a \$200.0 million revolving credit agreement with a syndicate of banks to obtain funding for the MyPower customer loan program. The MyPower revolving credit facility initially provided up to \$160.0 million of Class A notes and up to \$40.0 million of Class B notes. The Class A notes bear interest at an annual rate of (i) for the first \$160.0 million, 2.50% and (ii) for the remaining \$40.0 million, 3.00%; in each case, plus (a) the commercial paper rate or (b) 1.50% plus adjusted LIBOR. The Class B notes bear interest at an annual rate of 5.00% plus LIBOR. The fee for undrawn commitments under the Class A notes is 0.50% per annum for the first \$160.0 million of undrawn commitments and 0.75% per annum for the remaining \$40.0 million of undrawn commitments, if any. The fee for undrawn commitments under the Class B notes is 0.50% per annum. The MyPower revolving credit facility is secured by the payments owed to SolarCity or its subsidiaries under MyPower customer loans and is non-recourse to our other assets. On January 27 2017, the MyPower revolving credit facility matured, and the total outstanding principal amount was fully repaid.

**Revolving Aggregation Credit Facility**

On May 4, 2015, a subsidiary of SolarCity entered into an agreement with a syndicate of banks for a revolving aggregation credit facility with a total committed amount of \$500.0 million. On March 23, 2016, the agreement was amended to modify the interest rates, extend the availability period and extend the maturity date. The revolving aggregation credit facility bears interest at an annual rate of 3.25% plus (i) for commercial paper loans, the commercial paper rate and (ii) for LIBOR loans, at our option, three-month LIBOR or daily LIBOR. The revolving aggregation credit facility is secured by certain assets and cash flows of certain subsidiaries of SolarCity and is non-recourse to our other assets or cash flows.

**Solar Renewable Energy Credit Term Loan**

On March 31, 2016, a subsidiary of SolarCity entered into an agreement for a term loan of \$15.0 million. The term loan bears interest at an annual rate of one-month LIBOR plus 9.00% or, at our option, 8.00% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the prime rate or (iii) one-month LIBOR plus 1.00%. The term loan is secured by substantially all of the assets of the subsidiary, including its rights under forward contracts to sell solar renewable energy credits, and is non-recourse to our other assets.

On July 14, 2016, the same subsidiary entered into an agreement for another term loan with a total committed amount of \$36.4 million. The term loan bears interest at an annual rate of one-month LIBOR plus 5.75% or, at our option, 4.75% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the prime rate or (iii) one-month LIBOR plus 1.00%. The term loan is secured by substantially all of the assets of the subsidiary, including its rights under forward contracts to sell solar renewable energy credits, and is non-recourse to our other assets.

From the acquisition date through December 31, 2016, SolarCity repaid \$1.3 million of the principal outstanding under the term loans.

**Cash Equity Debt I**

In connection with the cash equity financing on May 2, 2016, SolarCity issued \$121.7 million in aggregate principal of debt that bears interest at a fixed rate of 5.65% per annum. This debt is secured by, among other things, the interests in certain financing funds and is non-recourse to our other assets.

**Cash Equity Debt II**

In connection with the cash equity financing on September 8, 2016, SolarCity issued \$210.0 million in aggregate principal of debt that bears interest at a fixed rate of 5.25% per annum. This debt is secured by, among other things, the interests in certain financing funds and is non-recourse to our other assets.

**Cash Equity Debt III**

In connection with the cash equity financing on December 16, 2016, we issued \$170.0 million in aggregate principal of debt that bears interest at a fixed rate of 5.81% per annum. This debt is secured by, among other things, our interests in certain financing funds and is non-recourse to our other assets.

**Solar Asset-backed Notes, Series 2013-1**

In November 2013, SolarCity pooled and transferred qualifying solar energy systems and the associated customer contracts into a Special Purpose Entity (SPE) and issued \$54.4 million in aggregate principal of Solar Asset-backed Notes, Series 2013-1, backed by these solar assets to investors. The SPE is wholly owned by SolarCity and is consolidated in our financial statements. As of December 31, 2016, these solar assets had a carrying value of \$93.0 million and are included under solar energy systems, leased and to be leased, net, in the Consolidated Balance Sheets. The Solar Asset-backed Notes were issued at a discount of 0.05%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of ours. We recognize revenue earned from the associated customer contracts in accordance with our revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of ours, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. SolarCity contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems.

In connection with the pooling of the assets that were transferred to the SPE in November 2013, SolarCity terminated a lease pass-through arrangement with an investor. The lease pass-through arrangement had been accounted for as a borrowing and any amounts outstanding from the lease pass-through arrangement were recorded as a lease pass-through financing obligation. The balance that was then outstanding from the lease pass-through arrangement was \$56.4 million. SolarCity paid the investor an aggregate of \$40.2 million, and the remaining balance is to be paid over time. The remaining balance is paid using the net cash flows generated by the same assets previously leased under the lease pass-through arrangement, after payment of the principal and interest on the Solar Asset-backed Notes and expenses related to the assets and the Notes, including asset management fees, custodial fees and trustee fees, and was contractually documented as a right to participate in future cash flows of the SPE. This right to participate in future residual cash flows generated by the assets of the SPE (Participating interest) has been recorded as a component of other long-term liabilities for the noncurrent portion and as a component of accrued liabilities for the current portion. We account for the participation interest as a liability because the investor has no voting or management rights in the SPE, the participation interest would terminate upon the investor achieving a specified return and the investor has the option to put the participation interest to us on August 3, 2021 for the amount necessary for the investor to achieve the specified return, which would require us to settle the participation interest in cash. In addition, under the terms of the participation interest, we have the option to purchase the participation interest from the investor for the amount necessary for the investor to achieve the specified return.

**Solar Asset-backed Notes, 2014-1**

In April 2014, SolarCity pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$70.2 million in aggregate principal of Solar Asset-backed Notes, Series 2014-1, backed by these solar assets to investors. The SPE is wholly owned by SolarCity and is consolidated in our financial statements. As of December 31, 2016, these solar assets had a carrying value of \$113.6 million and are included under solar energy systems, leased and to be leased, net, in the Consolidated Balance Sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of ours. We recognize revenue earned from the associated customer contracts in accordance with our revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of ours, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. SolarCity contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems.

**Solar Asset-backed Notes, Series 2014-2**

In July 2014, SolarCity pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$160.0 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class A, and \$41.5 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class B, backed by these solar assets to investors. The SPE is wholly owned by SolarCity and is consolidated in our financial statements. As of December 31, 2016, these solar assets had a carrying value of \$265.6 million and are included under solar energy systems, leased and to be leased — net, in the Consolidated Balance Sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. These solar assets and the associated customer contracts are leased to an investor under a lease pass-through arrangement that we have accounted for as a borrowing. The rent paid by the investor under the lease pass-through arrangement is used (and, following the expiration of the lease pass-through arrangement, the cash generated by these solar assets will be used) to service the semi-annual principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of ours. We recognize revenue earned from the associated customer contracts in accordance with our revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of ours, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. SolarCity contracted with the SPE to provide operations and maintenance and administrative services for certain of the qualifying solar energy systems.

**Solar Asset-backed Notes, Series 2015-1**

In August 2015, SolarCity pooled and transferred its interests in certain financing funds into a SPE and issued \$103.5 million in aggregate principal of Solar Asset-backed Notes, Series 2015-1, Class A, and \$20.0 million in aggregate principal of Solar Asset-backed Notes, Series 2015-1, Class B, backed by these solar assets to investors. The SPE is wholly owned by SolarCity and is consolidated in our financial statements. The Solar Asset-backed Notes were issued at a discount of 0.05% for Class A and 1.46% for Class B. The cash distributed by the underlying financing funds to the SPE are used to service the semi-annual principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of ours. The SPE's assets and cash flows are not available to the other creditors of ours, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets.

**Solar Asset-backed Notes, Series 2016-1**

In February 2016, SolarCity transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$52.2 million in aggregate principal of Solar Asset-backed Notes, Series 2016-1, backed by these solar assets to investors. The SPE is wholly owned by SolarCity and is consolidated in our financial statements. As of December 31, 2016, these solar assets had a carrying value of \$87.7 million and are included under solar energy systems, leased and to be leased, net, in the Consolidated Balance Sheets. The Solar Asset-backed Notes were issued at a discount of 6.71%. These solar assets and the associated customer contracts are leased to an investor under a lease pass-through arrangement that we have accounted for as a borrowing. The rent paid by the investor under the lease pass-through arrangement is used (and, following the expiration of the lease pass-through arrangement, the cash generated by these solar assets will be used) to service the semi-annual principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of ours. We recognize revenue earned from the associated customer contracts in accordance with our revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of ours, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to our other assets. SolarCity contracted with the SPE to provide operations and maintenance and administrative services for certain of the qualifying solar energy systems.

**Solar Loan-backed Notes, Series 2016-A**

On January 21, 2016, SolarCity pooled and transferred certain MyPower customer notes receivable into a SPE and issued \$151.6 million in aggregate principal of Solar Loan-backed Notes, Series 2016-A, Class A, and \$33.4 million in aggregate principal of Solar Loan-backed Notes, Series 2016-A, Class B, backed by these notes receivable to investors. The SPE is wholly owned by us and is consolidated in our financial statements. The Solar Loan-backed Notes were issued at a discount of 3.22% for Class A and 15.90% for Class B. The payments received by the SPE under these notes receivable are used to service the semi-annual principal and interest payments on the Solar Loan-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The SPE's assets and cash flows are not available to the other creditors of ours, and the creditors of the SPE, including the Solar Loan-backed Note holders, have no recourse to our other assets.

**Interest Expense**

The following table presents the aggregate amount of interest expense recognized relating to the contractual interest coupon and amortization of the debt issuance costs and debt discount on convertible notes with cash conversion features, which includes the 2018 Notes, the 2019 Notes, and the 2021 Notes (in thousands):

	2016		2015		2014
Contractual interest coupon	\$ 27,060		\$ 32,061		\$ 26,019
Amortization of debt issuance costs	8,567		8,102		5,288
Amortization of debt discount	99,811		97,786		79,479
Total	<u>\$ 135,438</u>		<u>\$ 137,949</u>		<u>\$ 110,786</u>

**Pledged Assets**

As of December 31, 2016 and 2015, we have pledged or restricted \$2.30 billion and \$1.43 billion principally from finished goods and raw materials inventory, as well as certain property and equipment, direct lease vehicles, receivables and cash as collateral for letters of credit including our Credit Arrangement, real estate leases, and insurance policies.

**Note 14 - Common Stock**

In August 2015, we completed a public offering of common stock and sold a total of 3,099,173 shares of our common stock for total cash proceeds of approximately \$738.3 million (which includes 82,645 shares or \$20.0 million sold to our CEO, net of underwriting discounts and offering costs).

In May 2016, we completed a public offering of common stock and sold a total of 7,915,004 shares of our common stock for total cash proceeds of approximately \$1.7 billion, net of underwriting discounts and offering costs.

On November 21, 2016, we completed the acquisition of SolarCity (see Note 3) and exchanged 11,124,497 shares of our common stock for 101,131,791 shares of SolarCity common stock in accordance with the terms of the Merger Agreement.

**Note 15 - 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. Options granted under the 2010 Plan may be either incentive options or nonqualified stock options. Incentive stock options may be granted only to our employees including officers and directors. Nonqualified stock options and stock purchase rights may be granted to our employees and consultants. Generally, our stock options and RSUs vest over four years and are exercisable over a period not to exceed the contractual term of ten years from the date the stock options are granted. Continued vesting typically terminates when the employment or consulting relationship ends. In addition, as a result of our acquisition of SolarCity, we have assumed its equity award plans, and its outstanding equity awards as of the Acquisition Date. The equity awards of SolarCity were converted into equity awards to acquire Tesla common stock in share amounts and prices based on the Exchange Ratio, with the equity awards retaining the same vesting and other terms and conditions as in effect immediately prior to the acquisition. The vesting and other terms and conditions of the assumed equity awards are substantially the same as those of the 2010 Plan.

As of December 31, 2016, 4,698,501 of common shares were reserved and available for future issuance under the 2010 Plan.

The following table summarizes stock option and RSU activity under the 2010 Plan:

	Outstanding Stock Options				Outstanding RSUs	
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	*Aggregate Intrinsic Value	Number of RSUs	Weighted-Average Grant Date Fair Value
Balance, December 31, 2015	20,015,180	\$ 46.14			2,439,674	\$ 219.90
Assumed through acquisition	1,304,104	283.35			382,611	185.04
Granted	853,960	211.10			2,797,973	202.59
Exercised	(8,735,830)	12.84			—	—
Cancelled	(561,992)	218.58			(519,908)	215.07
Released	—	—			(1,018,261)	212.96
Balance, December 31, 2016	12,875,422	\$ 96.50	5.8	\$ 1.72	4,082,089	\$ 207.11
Vested and expected to vest, December 31, 2016	12,875,422	\$ 96.50	5.8	\$ 1.72	4,082,089	
Exercisable and vested, December 31, 2016	7,817,124	\$ 77.70	5.2	\$ 1.19	—	

\*Aggregate intrinsic value in billions

The aggregate intrinsic value represents the total pretax intrinsic value (i.e., the difference between our common stock price and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options. The total intrinsic value of options exercised was \$1.68 billion, \$395.6 million and \$446.9 million for the years ended December 31, 2016, 2015 and 2014.

#### Fair Value Assumptions

We utilize the fair value method in recognizing stock-based compensation expense. Under the fair value method, we estimated the fair value of each option award and the ESPP on the grant date generally using the Black-Scholes option pricing model and the weighted-average assumptions noted in the following table.

	Year Ended December 31,		
	2016	2015	2014
Risk-free interest rate:			
Stock options	1.5%	1.6%	1.9%
ESPP	0.6%	0.3%	0.1%
Expected term (in years):			
Stock options	6.2	5.4	6.0
ESPP	0.5	0.5	0.5
Expected volatility:			
Stock options	47%	48%	55%
ESPP	41%	42%	46%
Dividend yield:			
Stock options	0.0%	0.0%	0.0%
ESPP	0.0%	0.0%	0.0%

The risk-free interest rate that we use is based on the United States Treasury yield in effect at the time of grant for zero coupon United States Treasury notes with maturities approximating each grant's expected life. Given our limited history with employee grants, we use the "simplified" method in estimating the expected term for our employee grants. The "simplified" method, as permitted by the SEC Staff, is calculated as the average of the time-to-vesting and the contractual life of the options.

Beginning in 2015, our expected volatility is derived from our implied volatility on publicly traded options of our common stock and the historical volatility of our common stock. Prior to 2015, our expected volatility was derived from our implied volatility on publicly traded options of our common stock and the historical volatilities of several unrelated public companies within industries related to our business, including the automotive OEM, automotive retail, automotive parts and battery technology industries, because we had limited trading history on our common stock. When making the selections of our peer companies within industries related to our business to be used in the volatility calculation, we also considered the stage of development, size and financial leverage of potential comparable companies. Our historical volatility and implied volatility are weighted based on certain qualitative factors and combined to produce a single volatility factor.

The weighted-average grant-date fair value for option awards granted during the years ended December 31, 2016, 2015 and 2014 was \$98.7, \$108.28 and \$94.01 per share. The weighted-average grant-date fair value for ESPP granted during the years ended December 31, 2016, 2015 and 2014 was \$51.31, \$58.77 and \$74.07 per share. The fair value of RSUs is measured on the grant date based on the closing fair market value of our common stock.

#### **2014 Performance-based Stock Options Grants**

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 our Company, the Compensation Committee of our Board of Directors granted stock options to certain employees to purchase an aggregate 1,073,000 shares of our common stock. Each such grant consists of four vesting tranches with a vesting schedule based entirely on the attainment of future performance milestones, assuming continued employment and service to us through each vesting date.

- 1/4th of the shares subject to the options are scheduled to vest upon completion of the first Model X Production Vehicle;
- 1/4th of the shares subject to the options are scheduled to vest upon achieving aggregate vehicle production of 100,000 vehicles in a trailing 12-month period;
- 1/4th of the shares subject to the options are scheduled to vest upon completion of the first Model 3 Production Vehicle; and
- 1/4th of the shares subject to the options are scheduled to vest upon achievement of annualized gross margin of greater than 30.0% in any three years

As of December 31, 2016, the following performance milestone was achieved and approved by our Board of Directors.

- Completion of the first Model X Production Vehicle

As of December 31, 2016, the following performance milestone was considered probable of achievement.

- Completion of the first Model 3 Production Vehicle; and
- Achieving aggregate vehicle production of 100,000 vehicles in a trailing 12-month period

We begin recording stock-based compensation expense as each milestone becomes probable. As of December 31, 2016, we had unrecognized compensation expense of \$17.5 million for those performance milestones that were not considered probable of achievement. For the years ended December 31, 2016, 2015 and 2014, we recorded stock-based compensation expense of \$25.3 million, \$10.4 million and \$10.7 million related to this grant.

#### **2012 CEO Grant**

In August 2012, our Board of Directors granted 5,274,901 stock options to our CEO (the "2012 CEO Grant"). The 2012 CEO Grant consists of ten vesting tranches with a vesting schedule based entirely on the attainment of both performance conditions and market conditions, assuming continued employment and service to us through each vesting date.

Each of the ten vesting tranches requires a combination of one of the ten pre-determined performance milestones and an incremental increase in our market capitalization of \$4.0 billion, as compared to the initial market capitalization of \$3.2 billion measured at the time of the 2012 CEO Grant.

As of December 31, 2016, the market conditions for seven vesting tranches and the following five performance milestones were achieved and approved by our Board of Directors:

- 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 vehicle production of 100,000 vehicles; and
- Successful completion of the Model 3 Alpha Prototype.

As of December 31, 2016, the following performance milestones were considered probable of achievement:

- Successful completion of the Model 3 Beta Prototype;
- Completion of the first Model 3 Production Vehicle;

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

We expect that the next performance milestone to be achieved will be the successful completion of the Model 3 Beta Prototype, which would be achieved upon the determination by our Board of Directors that an eligible prototype has been completed. Candidates for such prototype are among the vehicles that we are currently building as part of our ongoing testing of our Model 3 vehicle design and manufacturing processes.

We begin recording stock-based compensation expense as each milestone becomes probable. As of December 31, 2016, we had \$4.9 million of total unrecognized compensation expense for those performance milestones that were considered probable of achievement and will be recognized over a weighted-average period of 2.3 years. As of December 31, 2016, we had unrecognized compensation expense of \$6.1 million for those performance milestones that were not considered probable of achievement. For the years ended December 31, 2016, 2015, and 2014, we recorded stock-based compensation expense of \$15.8 million, \$10.6 million and \$25.0 million.

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 the stock-based compensation expense by line item in the consolidated statements of operations (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Cost of sales	\$ 30,400	\$ 19,244	\$ 17,454
Research and development	154,632	89,309	62,601
Selling, general and administrative	149,193	89,446	76,441
Total	\$ 334,225	\$ 197,999	\$ 156,496

We realized no income tax benefit from stock option exercises in each of the periods presented due to recurring losses and valuation allowances.

As of December 31, 2016, we had \$772.9 million of total unrecognized compensation expense, net, of estimated forfeitures, related to non-performance awards that will be recognized over a weighted-average period of 2.8 years.

#### Employee Stock Purchase Plan

Employees are eligible to purchase common stock through payroll deductions of up to 15% of their eligible compensation, subject to any plan limitations. The purchase price of the shares on each purchase date is equal to 85% of the lower of the fair market value of our common stock on the first and last trading days of each six-month offering period. During the years ended December 31, 2016, 2015 and 2014, we issued 321,788, 220,571 and 163,600 shares under the ESPP for \$51.7 million, \$37.5 million and \$28.6 million, respectively. A total of 3,615,749 shares of common stock have been reserved for issuance under the ESPP, and there were 1,794,063 shares available for issuance under the ESPP as of December 31, 2016.

#### Note 16 - Income Taxes

A provision for income taxes of \$26.7 million, \$13.0 million and \$9.4 million has been recognized for the years ended December 31, 2016, 2015 and 2014, respectively, related primarily to our subsidiaries located outside of the United States. Our loss before income taxes for the years ended December 31, 2016, 2015 and 2014 was as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Domestic	\$ 130,718	\$ 415,694	\$ 60,451
Noncontrolling interest and redeemable noncontrolling interest	98,132	—	—
Foreign	517,498	459,930	224,185
Loss before income taxes	\$ 746,348	\$ 875,624	\$ 284,636



The components of the provision for income taxes for the years ended December 31, 2016, 2015 and 2014, consisted of the following (in thousands):

	Year Ended December 31,		
	2016	2015	2014
<b>Current:</b>			
Federal	\$ —	\$ —	\$ —
State	568	525	257
Foreign	53,962	10,342	9,203
Total current	54,530	10,867	9,460
<b>Deferred:</b>			
Federal	—	—	—
State	—	—	—
Foreign	(27,832)	2,172	(56)
Total deferred	(27,832)	2,172	(56)
<b>Total provision for income taxes</b>	<b>\$ 26,698</b>	<b>\$ 13,039</b>	<b>\$ 9,404</b>

Deferred tax assets (liabilities) as of December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
<b>Deferred tax assets:</b>		
Net operating loss carry-forwards	\$ 648,652	\$ 404,377
Research and development credits	208,499	73,068
Other tax credits	106,530	30,079
Deferred revenue	268,434	162,272
Inventory and warranty reserves	95,570	53,410
Depreciation and amortization	—	66
Stock-based compensation	120,955	71,009
Financial Instruments	—	35,073
Investment in certain financing funds	237,759	—
Accruals and others	67,769	29,547
Total deferred tax assets	1,754,168	858,901
Valuation allowance	(1,022,705)	(668,432)
Deferred tax assets, net of valuation allowance	731,463	190,469
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(679,969)	(188,240)
Other	(3,779)	(4,309)
Financial Instruments	(22,033)	—
Total deferred tax liabilities	(705,781)	(192,549)
Deferred tax assets, net of valuation allowance and deferred tax liabilities	\$ 25,682	\$ (2,080)

Reconciliation of statutory federal income taxes to our effective taxes for the years ended December 31, 2016, 2015 and 2014 is as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Tax at statutory federal rate	\$ (261,222)	\$ (306,470)	\$ (99,622)
State tax, net of federal benefit	568	525	257
Nondeductible expenses	26,547	16,711	15,238
Foreign income rate differential	206,470	172,259	86,734
U.S. tax credits	(162,865)	(43,911)	(26,895)
Noncontrolling interests and redeemable noncontrolling interests adjustment	21,964	—	—
Investment in certain financing bonds	(31,055)	—	—
Other reconciling items	785	1,232	877
Change in valuation allowance	225,506	172,693	32,815
Provision for income taxes	\$ 26,698	\$ 13,039	\$ 9,404

As of December 31, 2016, we recorded a valuation allowance of \$1.02 billion for the portion of the deferred tax asset that we do not expect to be realized. The valuation allowance on our net deferred taxes increased by \$354.3 million during the year ended December 31, 2016. The valuation allowance increase is primarily due to additional U.S. deferred tax assets incurred in the current year that cannot be realized, inclusive of \$169.3 million increase relating to the SolarCity acquisition, and offset by immaterial valuation allowance releases in foreign jurisdictions. Management believes that based on the available information, it is more likely than not that the U.S. deferred tax assets will not be realized, such that a full valuation allowance is required against all U.S. deferred tax assets. We have net \$33.1 million of deferred tax assets in foreign jurisdictions which we believe are more-likely-than-not to be fully realized given the expectation of future earnings in these jurisdictions.

As of December 31, 2016, we had approximately \$4.34 billion of federal and \$3.01 billion of state net operating loss carry-forwards available to offset future taxable income, which will not begin to significantly expire until 2024 for federal and 2017 for state purposes. A portion of these losses were generated by SolarCity prior to our acquisition and therefore are subject to change of control provisions which limit the amount of acquired tax attributes that can be utilized in a given tax year. We do not expect these change of control limitations to significantly impact our ability to utilize these attributes. The portion of net operating loss carryforwards related to stock options is approximately \$2.39 billion and \$1.42 billion for federal and state purposes, respectively, of which the tax benefits will be credited to additional paid-in capital when realized. Upon the adoption of ASU No. 2016-09, all tax effects related to share-based payments will be recognized through earnings, subject to normal valuation allowance considerations. We expect that any potential tax benefits, upon adoption of ASU No. 2016-09, would increase our deferred tax asset which would be offset with a full valuation allowance.

We have research and development tax credits of approximately \$153.0 million and \$163.6 million for federal and state income tax purposes, respectively. If not utilized, the federal research and development tax credits will expire in various amounts beginning in 2024. However, the state research and development tax credits can be carried forward indefinitely. In addition, we have other general business tax credits of approximately \$105.5 million for federal income tax purposes, which will not begin to significantly expire until 2033.

The Company has an immaterial amount of undistributed foreign earnings as of December 31, 2016. In addition, we have not recognized a deferred tax liability for the remittance of any undistributed foreign earnings to the United States as such earnings are intended to be indefinitely reinvested in operations outside the United States.

Federal and state laws can impose substantial restrictions on the utilization of net operating loss and tax credit carry-forwards in the event of an "ownership change," as defined in Section 382 of the Internal Revenue Code. We determined that no significant limitation would be placed on the utilization of our net operating loss and tax credit carry-forwards due to any prior ownership changes.

**Uncertain Tax Positions**

The aggregate changes in the balance of our gross unrecognized tax benefits during the years ended December 31, 2016, 2015 and 2014 were as follows (in thousands):

January 1, 2014	\$	13,370
Increases in balances related to prior year tax positions		56
Increases in balances related to current year tax positions		27,951
December 31, 2014		41,377
Increase in balances related to prior year tax positions		6,626
Increases in balances related to current year tax positions		51,124
December 31, 2015		99,127
Increase in balances related to prior year tax positions		28,677
Increases in balances related to current year tax positions		62,805
Assumed uncertain tax positions through acquisition		13,327
December 31, 2016	\$	203,936

Accrued interest and penalties related to unrecognized tax benefits are classified as income tax expense and was immaterial. As of December 31, 2016, unrecognized tax benefits of \$198.3 million, if recognized, would not affect our effective tax rate as the tax benefits would increase a deferred tax asset which is currently fully offset with a full valuation allowance. We do not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months. We file income tax returns in the United States, California, various states and foreign jurisdictions. Tax years 2003 to 2015 remain subject to examination for federal purposes, and tax years 2003 to 2015 remain subject to examination for California purposes. All net operating losses and tax credits generated to date are subject to adjustment for U.S. federal and California purposes. Tax years 2007 to 2015 remain open for examination in other U.S. state and foreign jurisdictions.

The United States Tax Court has issued a decision in *Altera Corp v. Commissioner* related to the treatment of share-based compensation expense in a cost-sharing arrangement. As this decision, can be overturned upon appeal, we have not recorded any impact as of December 31, 2016. In addition, any potential tax benefits would increase our deferred tax asset which would be offset with a full valuation allowance.

**Note 17 - Commitments and Contingencies****Operating Leases**

We have entered into various non-cancelable 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 with various expiration dates through December 2030.

Included within Operating Leases commitments in the table below are payments due under operating leases that have been accounted for as build-to-suit arrangements and are included in property, plant, and equipment in our Consolidated Balance Sheets.

Rent expense for the years ended December 31, 2016, 2015 and 2014 was \$116.8 million, \$68.2 million and \$46.3 million.

**Capital Leases for Equipment**

We have entered into various agreements to lease equipment under capital leases up to 60 months. The equipment under the leases are collateral for the lease obligations and are included within property, plant and equipment, net on the Consolidated Balance Sheets under the categories of computer equipment and software and office furniture and equipment.

Future minimum commitments for leases as of December 31, 2016 are as follows (in thousands):

	Operating Leases	Capital Leases
2017	\$ 165,457	\$ 38,712
2018	150,925	33,730
2019	125,148	23,793
2020	102,804	7,333
2021	88,950	2,746
Thereafter	292,693	16,259
Total minimum lease payments	925,977	122,573
Less: Amounts representing interest not yet incurred		9,592
Present value of capital lease obligations		112,981
Less: Current portion		35,497
Long-term portion of capital lease obligations		\$ 77,484

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

As discussed in Note 8, *Property, Plant and Equipment*, as part of the SolarCity acquisition, we assumed a build-to-suit lease arrangement with the Research Foundation for the State University of New York, or the Foundation, where the Foundation will construct the manufacturing facility and install certain utilities and other improvements, with our participation in the design and construction of the manufacturing facility, and acquire certain manufacturing equipment designated by us to be used in the manufacturing facility. The Foundation will cover (i) construction costs related to the manufacturing facility in an amount up to \$350.0 million, (ii) the acquisition and commissioning of the manufacturing equipment in an amount up to \$348.1 million and (iii) \$51.9 million for additional specified scope costs, in cases (i) and (ii) only, subject to the maximum funding allocation from the State of New York, and we will be responsible for any construction and equipment costs in excess of such amounts. We will own the manufacturing facility and manufacturing equipment purchased by the Foundation. Following completion of the manufacturing facility, we will lease the manufacturing facility and the manufacturing equipment owned by the Foundation from the Foundation for an initial period of 10 years, with an option to renew, for \$2 per year plus utilities.

Under the terms of the build-to-suit lease arrangement, we are required to achieve specific operational milestones during the initial term of the lease, which include employing a certain number of employees at the facility, within western New York and within the State of New York within specified time periods following the completion of the facility. We are also required to spend or incur approximately \$5.0 billion in combined capital, operational expenses and other costs in the State of New York over the 10 years following the achievement of full production. On an annual basis during the initial lease term, as measured on each anniversary of the commissioning of the facility, if we fail to meet its specified investment and job creation obligations, then we would be obligated to pay a \$41.2 million "program payment" to the Foundation for each year that we fail to meet these requirements. Furthermore, if the agreement is terminated due to a material breach by us, then additional amounts might be payable by us.

Due to our involvement with the construction of the facility, our exposure to any potential cost overruns and its other commitments under the agreement, we are deemed to be the owner of the facility and the manufacturing equipment owned by the Foundation for accounting purposes during the construction phase. Accordingly, as of December 31, 2016, we recorded a non-cash build-to-suit lease asset under construction of \$783.9 million, and a corresponding build-to-suit lease liability on our consolidated balance sheets. The non-cash investing and financing activities related to the arrangement from the Acquisition Date through December 31, 2016 amounted to \$5.6 million.

**Environmental Liabilities**

In connection with our Tesla Factory located in Fremont, California, we are obligated to pay for the remediation of certain environmental conditions existing at the time we purchased the property from New United Motor Manufacturing, Inc. (NUMMI). Tesla is responsible for the first \$15 million of remediation costs and any costs in excess of \$30 million or costs incurred after the ten-year anniversary of closing. NUMMI is responsible for remediation costs between \$15 million and \$30 million for up to 10 years from the closing date.

### **Legal Proceedings**

From time to time, we are subject to various legal proceedings that arise from the normal course of business activities. In addition, from time to time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations, prospects, cash flows, financial position and brand.

In November 2013, a putative securities class action lawsuit was filed against Tesla in U.S. District Court, Northern District of California, alleging violations of, and seeking remedies pursuant to, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5. The complaint made claims against Tesla and our CEO, Elon Musk, sought damages and attorney's fees on the basis of allegations that, among other things, Tesla and Mr. Musk made false and/or misleading representations and omissions, including with respect to the safety of Model S. This case was brought on behalf of a putative class consisting of certain persons who purchased Tesla's securities between August 19, 2013 and November 17, 2013. On September 26, 2014, the trial court, upon the motion of Tesla and Mr. Musk, dismissed the complaint with prejudice, and thereafter issued a formal written order to that effect. The plaintiffs appealed from the trial court's order, and on December 21, 2016, the Court of Appeals affirmed the trial court's decision dismissing the complaint with prejudice.

On March 28, 2014, a purported stockholder class action was filed in the United States 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 SolarCity's favor on August 9, 2016. The plaintiffs have filed a notice of appeal. We believe that the claims are without merit and intend to defend against this lawsuit vigorously. We are unable to estimate the possible loss, if any, associated with this lawsuit.

On August 15, 2016, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against SolarCity, two of its officers and a former officer. The complaint alleges that SolarCity made projections of future sales and installations that it failed to achieve and that these projections were fraudulent when made. The plaintiffs claim violations of federal securities laws and seek unspecified compensatory damages and other relief on behalf of a purported class of purchasers of SolarCity's securities from May 5, 2015 to February 16, 2016. We believe that the claims are without merit and intend to defend against them vigorously. We are unable to estimate the possible loss, if any, associated with this lawsuit.

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 Tesla's acquisition of SolarCity. On October 10, the Court entered orders consolidating these lawsuits and appointing lead plaintiffs and lead counsel. The consolidated lawsuit is captioned as *In re Tesla Motors, Inc., Stockholders Litigation*, C.A. No. 12711-VCS. It names as defendants the members of Tesla's board of directors and alleges, among other things, that the members of Tesla's board of directors breached their fiduciary duties in connection with the SolarCity acquisition. It asserts claims derivatively on behalf of Tesla and directly on behalf of a putative class of Tesla stockholders. It seeks, among other relief, damages in an unspecified amount and attorneys' fees and costs. On January 27, 2017, defendants filed a motion to dismiss the operative complaint. After receiving the motion, plaintiffs indicated that they intend to file an amended complaint rather than respond to the defendants' motion to dismiss. Tesla believes that the lawsuit is without merit.

In July 2012, SolarCity, along with other companies in the solar energy industry, received a subpoena from the U.S. Treasury Department's Office of the Inspector General to deliver certain documents in SolarCity's possession that were dated, created, revised or referred to after January 1, 2007 and that relate to SolarCity's applications for U.S. Treasury grants or communications with certain other solar energy development companies or with certain firms that appraise solar energy property for U.S. Treasury grant application purposes. The Inspector General and the Civil Division of the U.S. Department of Justice are investigating the administration and implementation of the U.S. Treasury grant program relating to the fair market value of the solar energy systems that SolarCity submitted in U.S. Treasury grant applications. SolarCity has accrued a reserve for its potential liability associated with this ongoing investigation as of December 31, 2016.

In February 2013, two of SolarCity's financing funds filed a lawsuit in the United States Court of Federal Claims against the United States government, seeking to recover approximately \$14.0 million that the United States Treasury was obligated to pay, but failed to pay, under Section 1603 of the American Recovery and Reinvestment Act of 2009. In February 2016, the government filed a motion seeking leave to assert a counterclaim against the two plaintiff funds on the grounds that the government, in fact, paid them more, not less, than they were entitled to as a matter of law. We believe that the government's claims are without merit and expect the plaintiff funds to litigate the case vigorously. Trial in the case is set for the latter half of 2017. We are unable to estimate the possible loss, if any, associated with this lawsuit.

From time to time, we have received requests for information from regulators and governmental authorities, such as the National Highway Traffic Safety Administration, the National Transportation Safety Board and the Securities and Exchange Commission. We are also subject to various other legal proceedings that arise from the normal course of business activities. In addition, from time to time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations, prospects, cash flows, financial position and brand.

#### **Indemnification and Guaranteed Returns**

As disclosed in Note 18, *VIE Arrangements*, and Note 19, *Lease Pass-Through Financing Obligation*, we are contractually committed 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, 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 amount already recognized by us for this obligation are not probable based on the facts known at the reporting 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 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.

As disclosed in Note 18, we are contractually required to make payments to one fund investor to ensure that the fund investor achieves a specified minimum internal rate of return. The fund investor has already received a significant portion of the projected economic benefits from U.S. Treasury grant distributions and tax depreciation benefits. The contractual provisions of the fund state that the fund has an indefinite term unless the members agree to dissolve the fund. Based on our current financial projections regarding the amount and timing of future distributions to the fund investor, we do not expect to make any payments as a result of this guarantee and has not accrued any liabilities for this guarantee. The amount of potential future payments under this guarantee is dependent on the amount and timing of future distributions to the fund investor and future tax benefits that accrue to the fund investor. Due to the uncertainties surrounding estimating the amounts of these factors, we are unable to estimate the maximum potential payments under this guarantee. To date, the fund investor has achieved the specified minimum internal rate of return as determined in accordance with the contractual provisions of the fund.

As disclosed in Note 19, the 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 December 31, 2016, we had \$105.1 million of unused letters of credit outstanding.

#### **Note 18 - VIE Arrangements**

SolarCity enters into various arrangements with investors to facilitate funding and monetization of solar energy systems. These arrangements include those described in this Note, as well as those described in Note 19, *Lease Pass-Through Financing Obligation*.

**Fund Arrangements**

SolarCity has a number of financing funds that were formed by wholly owned subsidiaries of SolarCity and fund investors. These arrangements were created to facilitate funding and monetization of solar energy systems. The following table shows the number of funds by investor classification, carrying value of the solar energy systems in the funds, total investor contributions received and undrawn investor contributions as of December 31, 2016 (in thousands, except for number of funds, and unaudited) for funds that have been determined to be VIEs:

<b>Investor Classification</b>	<b>Number of funds</b>	<b>Total Investor Contributions Received</b>	<b>Undrawn Investor Contributions</b>	<b>Carrying Value of Solar Energy Systems</b>
Financial institutions	34	\$ 2,623,918	\$ 106,850	\$ 3,085,024
Corporations	8	1,020,058	130,209	1,353,193
Utilities	4	278,888	35,033	178,280
Other investors	1	1,788	—	1,946
<b>Total</b>	<b>47</b>	<b>\$ 3,924,652</b>	<b>\$ 272,092</b>	<b>\$ 4,618,443</b>

We have determined that the funds are 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 contractual agreements, which grant it power to manage and make decisions that affect the operation of these VIEs, including determining the solar energy systems and associated customer contracts to be sold or contributed to these VIEs and the redeployment of solar energy systems and management of customer receivables. We consider that the rights granted to the fund investors under the contractual agreements are more protective in nature rather than participating.

As the primary beneficiary of these VIEs, we consolidate in our 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 contractual 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 contractual agreements.

As of December 31, 2016, we were contractually required to make payments to a fund investor in order to ensure the investor is projected to achieve a specified minimum return annually. The amounts of any potential future payments under this guarantee are dependent on the amounts and timing of future Distributions to the investor from the fund, the tax benefits that accrue to the investor from the fund's activities and the amount and timing of our purchase of the investor's interest in the fund or the amount and timing of the distributions to the investor upon liquidation of the fund. Due to uncertainties associated with estimating the amount and timing of distributions to the investor and the possibility and timing of the liquidation of the fund, we are unable to determine the potential maximum future payments that it would have to make under this guarantee.

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

We present the solar energy systems in the VIEs under solar energy systems, leased and to be leased - net in our Consolidated Balance Sheets. The aggregate carrying values of the VIEs' assets and liabilities, after elimination of intercompany transactions and balances, in our Consolidated Balance Sheets were as follows (in thousands):

	December 31, 2016
<b>Assets</b>	
Current assets:	
Cash and Cash equivalents	\$ 44,091
Restricted cash	20,916
Accounts receivable- net	16,023
Rebates receivable	6,646
Prepaid expenses and other current assets	7,532
Total current assets	95,208
Solar energy systems, leased and to be leased- net	4,618,443
Other assets	35,826
Total assets	<u>\$ 4,749,477</u>
Liabilities	
Current liabilities:	
Accounts Payable	\$ 20
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	24,085
Accrued and other current liabilities	8,157
Customer deposits	1,169
Current portion of deferred revenue	17,114
Current portion of long-term debt	89,356
Total current liabilities	139,901
Deferred revenue, net of current portion	178,783
Long-term debt, net of current portion	466,741
Other liabilities and deferred costs	82,917
Total Liabilities	<u>\$ 868,342</u>

We are contractually obligated to make certain fund investors whole if they suffer certain losses resulting from the disallowance or recapture of ITCs or U.S. Treasury grants. We account for distributions due to the fund investors arising from a reduction of anticipated ITCs or U.S. Treasury grants received under distributions payable to noncontrolling interests and redeemable noncontrolling interests in our Consolidated Balance Sheets. As of December 31, 2016, we had accrued \$0.3 million for this obligation.

**Note 19 - Lease Pass-Through Financing Obligation**

Through December 31, 2016, SolarCity had entered into eight transactions referred to as "lease pass-through fund arrangements." Under these arrangements, our wholly owned subsidiaries finance the cost of solar energy systems with investors through arrangements contractually structured as master leases for an initial term ranging between 10 and 25 years. These solar energy systems are subject to lease or power purchase agreements with customers with an initial term not exceeding 20 years. These solar energy systems are included under solar energy systems, leased and to be leased - net in our Consolidated Balance Sheets.

The cost of the solar energy systems under the lease pass-through fund arrangements as of December 31, 2016 was \$785.3 million. The accumulated depreciation related to these assets as of December 31, 2016 was \$2.1 million. The total lease pass-through financing obligation as of December 31, 2016 was \$122.3 million, of which \$51.5 million was classified as current liabilities.



Under lease pass-through fund arrangements, the investors make a large upfront payment to the lessor, which is one of our subsidiaries, and in some cases, subsequent periodic payments. We allocate a portion of the aggregate payments received from the investors to the estimated fair value of the assigned ITCs, and the balance to the future customer lease payments that are also assigned to the investors. The estimated fair value of the ITCs are determined by discounting the estimated cash flows impact of the ITCs using an appropriate discount rate that reflects a market interest rate. We have an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs. The amounts allocated to ITCs are initially recorded as deferred revenue on our Consolidated Balance Sheets, and subsequently, one-fifth of the amounts allocated to ITCs is recognized as revenue from operating leases and solar energy systems incentives on our Consolidated Statements of Operations on each anniversary of the solar energy system's placed in service date over the next five years.

We account for the residual of the payments received from the investors as a borrowing by recording the proceeds received as a lease pass-through financing obligation, which is repaid from customer payments and incentive rebates that are expected to be received by the investors. Under this approach, we continue to account for the arrangement with the customers in its consolidated financial statements, whether the cash generated from the customer arrangements is received by us or paid directly to the investors. A portion of the amounts received by the investors from customer payments and incentive rebates is applied to reduce the lease pass-through financing obligation, and the balance is allocated to interest expense. The incentive rebates and customer payments are recognized into revenue consistent with our revenue recognition accounting policy. Interest is calculated on the lease pass-through financing obligation using the effective interest rate method. The effective interest rate is the interest rate that equates the present value of the cash amounts to be received by an investor over the master lease term with the present value of the cash amounts paid by the investor to us, adjusted for any payments made by us. The lease pass-through financing obligation is non-recourse once the associated assets have been placed in service and all the customer arrangements have been assigned to the investors.

As of December 31, 2016, the future minimum lease payments to be received from the investors based on the solar energy systems currently under the lease pass-through fund arrangements, for each of the next five years and thereafter, were as follows (in thousands):

2017	\$	37,208
2018		37,653
2019		36,371
2020		35,622
2021		35,413
Thereafter		381,289
Total	\$	<u>563,556</u>

For two of the lease pass-through fund arrangements, our subsidiaries have pledged its assets to the investors as security for their obligations under the contractual agreements.

For each of the lease pass-through fund arrangements, we are required to comply with certain financial covenants specified in the contractual agreements, which we had met as of December 31, 2016.

Under the lease pass-through fund arrangements, we are responsible for any warranties, performance guarantees, accounting and performance reporting.

Under the lease pass-through fund arrangements, there is a one-time future lease payment reset mechanism that is set to occur after all of the solar energy systems are delivered and placed in service in a fund. This reset date occurs when the installed capacity of the solar energy systems and placed in-service dates are known or on an agreed upon date. As part of this reset process, the lease prepayment is updated to reflect certain specified conditions as they exist at such date, including the final installed capacity, cost and in-service dates of the solar energy systems. As a result of this reset process, we may be obligated to refund a portion of an investor's master lease prepayments or may be entitled to receive an additional master lease prepayment from an investor. Any additional master lease prepayments by an investor would be recorded as an additional lease pass-through financing obligation, while any refunds of master lease prepayments would reduce the lease pass-through financing obligation.

**Note 20 - Defined Contribution Plan**

We have a 401(k) savings plan ("the 401(k) plan") which qualifies as a deferred salary arrangement under section 401(k) of the Internal Revenue Code. Under the 401(k) plan, participating employees may elect to contribute up to 100% of their eligible compensation, subject to certain limitations. We assumed the SolarCity 401(k) plan, or the Retirement Plan, available to employees who meet the Retirement Plan's eligibility requirements. Participants may elect to contribute a percentage of their compensation to the Retirement Plan, up to a statutory limit. Participants are fully vested in their contributions. We did not make any contributions to the Retirement Plan during the years ended December 31, 2016, 2015 and 2014.

**Note 21 - Related Party Transactions**

Through the SolarCity acquisition, we have entered into the following related party transactions (in thousands):

	<b>December 31, 2016</b>
Solar bonds issued to related parties	\$ 265,100
Convertible senior notes due to related parties	13,000
Due to related parties (primarily accrued interest on the Solar Bonds and Convertible Senior notes, included in accrued and other current liabilities)	\$ 5,136

The related party transactions were primarily issuances and maturities of Solar Bonds held by SpaceX, our Chief Executive Officer, SolarCity's Chief Executive Officer, and SolarCity's Chief Technology Officer and issuances of convertible senior notes to an entity affiliated with our Chief Executive Officer and SolarCity's Chief Executive Officer. SpaceX is considered a related party because our Chief Executive Officer is the Chief Executive Officer, Chief Technology Officer, Chairman, and a significant stockholder of SpaceX.

As of December 31, 2016, SpaceX held \$90.0 million in aggregate principal amount of 4.40% Solar Bonds due in March 2017 and \$75.0 million in aggregate principal amount of 4.40% Solar Bonds due in June 2017. In addition, our Chief Executive Officer, SolarCity's Chief Executive Officer, and SolarCity's Chief Technology Officer collectively held \$100.0 million in aggregate principal amount of 6.50% Solar Bonds due in February 2018.

From the Acquisition Date through December 31, 2016, the interest expense recognized for debt held by related parties was not material.

**Note 22 - Quarterly Results of Operations (Unaudited)**

The following table includes selected quarterly results of operations data for the years ended December 31, 2016 and 2015 (in thousands, except per share amounts):

	<b>Three months ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
<b>2016</b>				
Total revenues	\$ 1,147,048	\$ 1,270,017	\$ 2,298,436	\$ 2,284,631
Gross profit	252,468	274,776	636,735	435,278
Net income (loss) attributable to common stockholders	(282,267)	(293,188)	21,878	(121,337)
Net income (loss) per share of common stock attributable to common stockholders, basic	(2.13)	(2.09)	0.15	(0.78)
Net income (loss) per share of common stock attributable to common stockholders, diluted	(2.13)	(2.09)	0.14	(0.78)
<b>2015</b>				
Total revenues	\$ 939,880	\$ 954,976	\$ 936,789	\$ 1,214,379
Gross profit	260,073	213,370	231,496	218,564
Net loss attributable to common stockholders	(154,181)	(184,227)	(229,858)	(320,397)
Net loss per share of common stock attributable to common stockholders, basic	(1.22)	(1.45)	(1.78)	(2.44)
Net loss per share of common stock attributable to common stockholders, diluted	(1.22)	(1.45)	(1.78)	(2.44)

Net loss per share of common stock attributable to common stockholders, basic and diluted for the four quarters of each fiscal year may not sum to the total for the year because of the different numbers of shares outstanding during each period.

**Note 23 - Segment Reporting and Information about Geographic Areas**

We operate as two reportable segments: automotive and energy generation and storage. The automotive reportable segment includes the design, development, manufacturing, and sales of electric vehicles. The energy generation and storage reportable segment includes the design, manufacture, installation, and sale or lease of stationary energy storage products and solar energy systems to residential and commercial customers, or sale of electricity generated by our solar energy systems to customers.

Our chief operating decision maker (CODM) does not evaluate operating segments using asset information.

The following tables set forth total revenues and gross margin by reportable segment (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Automotive:			
Revenues	\$ 6,818,738	\$ 4,031,548	\$ 3,194,148
Gross profit	1,596,195	921,313	881,468
Energy generation and storage :			
Revenues	181,394	14,477	4,208
Gross profit	3,062	2,190	203

The following tables set forth total revenues and long-lived assets by geographic area (in thousands):

**Total Revenues**

	Year Ended December 31,		
	2016	2015	2014
United States	\$ 4,200,706	\$ 1,957,397	\$ 1,471,643
China	1,065,255	318,513	477,082
Norway	335,572	356,419	412,198
Other	1,398,599	1,413,696	837,433
Total	\$ 7,000,132	\$ 4,046,025	\$ 3,198,356

Revenues are attributed to geographic areas based on where the Company's products are shipped.

**Long-lived Assets**

	Year Ended December 31,	
	2016	2015
United States	\$ 11,399,545	\$ 3,119,478
International	503,294	283,856
Total	\$ 11,902,839	\$ 3,403,334

**Note 24 - Subsequent Events**

**Acquisition of Grohmann Engineering GmbH**

On January 3, 2017, we completed the acquisition of Grohmann Engineering GmbH for approximately \$150 million in cash. Management is currently determining the fair value of assets acquired and liabilities assumed necessary to evaluate the purchase price allocation for this transaction.

**New Debt Facility**

On January 27, 2017, a subsidiary of the Company issued \$145.0 million in aggregate principal of solar loan-backed notes with a final maturity date of September 2049. The solar loan-backed notes are secured by certain customer loans under the MyPower program.



**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

We conducted an evaluation as of December 31, 2016, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2016, our disclosure controls and procedures were effective to provide reasonable assurance.

*Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

We acquired SolarCity on November 21, 2016 in a purchase business combination. We excluded from our assessment of internal control over financial reporting as of December 31, 2016, the internal control over financial reporting of SolarCity. Associated with SolarCity are total assets of \$8.78 billion (of which \$352.9 million represents intangible assets subject to our internal control over financial reporting as of December 31, 2016) and total revenues of \$84.1 million included in our consolidated financial statements as of and for the fiscal year ended December 31, 2016.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2016 as stated in their report which is included herein.

*Limitations on the Effectiveness of Controls*

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting which occurred during the fourth fiscal quarter of the year ended December 31, 2016 which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item 10 of Form 10-K will be included in our 2017 Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for our 2017 Annual Meeting of Stockholders (2017 Proxy Statement) and is incorporated herein by reference. The 2017 Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year to which this report relates.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 of Form 10-K will be included in our 2017 Proxy Statement and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item 12 of Form 10-K will be included in our 2017 Proxy Statement and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 of Form 10-K will be included in our 2017 Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item 14 of Form 10-K will be included in our 2017 Proxy Statement and is incorporated herein by reference.

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this report:

1. Financial Statements. See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Annual Report.
2. All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.
3. Exhibits. The exhibits listed in the accompanying "Index to Exhibits" are filed or incorporated by reference as part of this Annual Report on Form 10-K.

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Agreement and Plan of Merger, dated as of July 31, 2016, among the Registrant, SolarCity Corporation and D Subsidiary, Inc.	8-K	001-34756	2.1	August 1, 2016	
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	—	—	—	—	X
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Registrant.	—	—	—	—	X
3.3	Amended and Restated Bylaws of the Registrant.	8-K	001-34756	3.3	February 1, 2017	
4.1	Specimen common stock certificate of the Registrant.	—	—	—	—	X
4.2	Fifth Amended and Restated Investors' Rights Agreement, dated as of August 31, 2009, between Registrant and certain holders of the Registrant's capital stock named therein.	S-1	333-164593	4.2	January 29, 2010	
4.3	Amendment to Fifth Amended and Restated Investors' Rights Agreement, dated as of May 20, 2010, between Registrant and certain holders of the Registrant's capital stock named therein.	S-1/A	333-164593	4.2A	May 27, 2010	
4.4	Amendment to Fifth Amended and Restated Investors' Rights Agreement between Registrant, Toyota Motor Corporation and certain holders of the Registrant's capital stock named therein.	S-1/A	333-164593	4.2B	May 27, 2010	
4.5	Amendment to Fifth Amended and Restated Investor's Rights Agreement, dated as of June 14, 2010, between Registrant and certain holders of the Registrant's capital stock named therein.	S-1/A	333-164593	4.2C	June 15, 2010	
4.6	Amendment to Fifth Amended and Restated Investor's Rights Agreement, dated as of November 2, 2010, between Registrant and certain holders of the Registrant's capital stock named therein.	8-K	001-34756	4.1	November 4, 2010	
4.7	Waiver to Fifth Amended and Restated Investor's Rights Agreement, dated as of May 25, 2011, between Registrant and certain holders of the Registrant's capital stock named therein.	S-1/A	333-174466	4.2E	June 2, 2011	
4.8	Amendment to Fifth Amended and Restated Investor's Rights Agreement, dated as of May 30, 2011, between Registrant and certain holders of the Registrant's capital stock named therein.	8-K	001-34756	4.1	June 1, 2011	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.9	Sixth Amendment to Fifth Amended and Restated Investors' Rights Agreement, dated as of May 15, 2013 among the Registrant, the Elon Musk Revocable Trust dated July 22, 2003 and certain other holders of the capital stock of the Registrant named therein.	8-K	001-34756	4.1	May 20, 2013	
4.10	Waiver to Fifth Amended and Restated Investor's Rights Agreement, dated as of May 14, 2013, between the Registrant and certain holders of the capital stock of the Registrant named therein.	8-K	001-34756	4.2	May 20, 2013	
4.11	Waiver to Fifth Amended and Restated Investor's Rights Agreement, dated as of August 13, 2015, between the Registrant and certain holders of the capital stock of the Registrant named therein.	8-K	001-34756	4.1	August 19, 2015	
4.12	Waiver to Fifth Amended and Restated Investors' Rights Agreement, dated as of May 18, 2016, between the Registrant and certain holders of the capital stock of the Registrant named therein.	8-K	001-34756	4.1	May 24, 2016	
4.13	Indenture, dated as of May 22, 2013, by and between the Registrant and U.S. Bank National Association.	8-K	001-34756	4.1	May 22, 2013	
4.13	First Supplemental Indenture, dated as of May 22, 2013, by and between the Registrant and U.S. Bank National Association.	8-K	001-34756	4.2	May 22, 2013	
4.15	Form of 1.50% Convertible Senior Note Due June 1, 2018 (included in Exhibit 4.4).	8-K	001-34756	4.3	May 22, 2013	
4.16	Second Supplemental Indenture, dated as of March 5, 2014, by and between the Registrant and U.S. Bank National Association.	8-K	001-34756	4.2	March 5, 2014	
4.17	Form of 0.25% Convertible Senior Note Due March 1, 2019 (included in Exhibit 4.6).	8-K	001-34756	4.3	March 5, 2014	
4.18	Third Supplemental Indenture, dated as of March 5, 2014, by and between the Registrant and U.S. Bank National Association.	8-K	001-34756	4.4	March 5, 2014	
4.19	Form of 1.25% Convertible Senior Note Due March 1, 2021 (included in Exhibit 4.8).	8-K	001-34756	4.5	March 5, 2014	



Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.20	Indenture, dated as of October 21, 2013, by and between SolarCity Corporation and Wells Fargo Bank National Association, including the form of convertible senior notes contained therein.	8-K(1)	001-35758	4.1	October 21, 2013	
4.21	First Supplemental Indenture, dated as of November 21, 2016, between SolarCity Corporation and Wells Fargo Bank, National Association, as trustee to the Indenture, dated as of October 21, 2013, between SolarCity Corporation and Wells Fargo Bank, National Association, as trustee.	8-K	001-34756	4.1	November 21, 2016	
4.22	Indenture, dated as of September 30, 2014, between SolarCity and Wells Fargo Bank, National Association	8-K(1)	001-35758	4.1	October 6, 2014	
4.23	First Supplemental Indenture, dated as of November 21, 2016, between SolarCity Corporation and Wells Fargo Bank, National Association, as trustee to the Indenture, dated as of September 30, 2014, between SolarCity Corporation and Wells Fargo Bank, National Association, as trustee.	8-K	001-34756	4.2	November 21, 2016	
4.24	Indenture, dated as of December 7, 2015, between SolarCity Corporation and Wells Fargo Bank, National Association	8-K(1)	001-35758	4.1	December 7, 2015	
4.25	First Supplemental Indenture, dated as of November 21, 2016, between SolarCity Corporation and Wells Fargo Bank, National Association, as trustee to the Indenture, dated as of December 7, 2015, between SolarCity Corporation and Wells Fargo Bank, National Association, as trustee.	8-K	001-34756	4.3	November 21, 2016	
4.26	Indenture, dated as of October 15, 2014, between SolarCity Corporation and U.S. Bank National Association, as trustee.	S-3ASR(1)	333-199321	4.1	October 15, 2014	
4.27	Third Supplemental Indenture, dated as of October 15, 2014, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.00% Solar Bonds, Series 2014/3-3.	8-K(1)	001-35758	4.4	October 15, 2014	
4.28	Fourth Supplemental Indenture, dated as of October 15, 2014, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.00% Solar Bonds, Series 2014/4-7	8-K(1)	001-35758	4.5	October 15, 2014	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.29	Seventh Supplemental Indenture, dated as of January 29, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.00% Solar Bonds, Series 2015/3-3.	8-K(1)	001-35758	4.4	January 29, 2015	
4.30	Eighth Supplemental Indenture, dated as of January 29, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.00% Solar Bonds, Series 2015/4-7.	8-K(1)	001-35758	4.5	January 29, 2015	
4.31	Ninth Supplemental Indenture, dated as of March 9, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.00% Solar Bonds, Series 2015/5-5.	8-K(1)	001-35758	4.2	March 9, 2015	
4.32	Tenth Supplemental Indenture, dated as of March 9, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.00% Solar Bonds, Series 2015/6-10.	8-K(1)	001-35758	4.3	March 9, 2015	
4.33	Eleventh Supplemental Indenture, dated as of March 9, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.75% Solar Bonds, Series 2015/7-15.	8-K(1)	001-35758	4.4	March 9, 2015	
4.34	Thirteenth Supplemental Indenture, dated as of March 19, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.60% Solar Bonds, Series 2015/C2-3.	8-K(1)	001-35758	4.3	March 19, 2015	
4.35	Fourteenth Supplemental Indenture, dated as of March 19, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C3-5.	8-K(1)	001-35758	4.4	March 19, 2015	
4.36	Fifteenth Supplemental Indenture, dated as of March 19, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C4-10.	8-K(1)	001-35758	4.5	March 19, 2015	
4.37	Sixteenth Supplemental Indenture, dated as of March 19, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C5-15.	8-K(1)	001-35758	4.6	March 19, 2015	
4.38	Eighteenth Supplemental Indenture, dated as of March 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C7-3.	8-K(1)	001-35758	4.3	March 26, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.39	Nineteenth Supplemental Indenture, dated as of March 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C8-5.	8-K(1)	001-35758	4.4	March 26, 2015	
4.40	Twentieth Supplemental Indenture, dated as of March 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C9-10.	8-K(1)	001-35758	4.5	March 26, 2015	
4.41	Twenty-First Supplemental Indenture, dated as of March 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C10-15.	8-K(1)	001-35758	4.6	March 26, 2015	
4.42	Twenty-Fourth Supplemental Indenture, dated as of April 2, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C12-3.	8-K(1)	001-35758	4.3	April 2, 2015	
4.43	Twenty-Fifth Supplemental Indenture, dated as of April 2, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C13-5.	8-K(1)	001-35758	4.4	April 2, 2015	
4.44	Twenty-Sixth Supplemental Indenture, dated as of April 2, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C14-10.	8-K(1)	001-35758	4.5	April 2, 2015	
4.45	Twenty-Eighth Supplemental Indenture, dated as of April 9, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C17-3.	8-K(1)	001-35758	4.3	April 9, 2015	
4.46	Twenty-Ninth Supplemental Indenture, dated as of April 9, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C18-5.	8-K(1)	001-35758	4.4	April 9, 2015	
4.47	Thirtieth Supplemental Indenture, dated as of April 9, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C19-10.	8-K(1)	001-35758	4.5	April 9, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.48	Thirty-First Supplemental Indenture, dated as of April 9, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C20-15.	8-K(1)	001-35758	4.6	April 9, 2015	
4.49	Thirty-Third Supplemental Indenture, dated as of April 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C22-3.	8-K(1)	001-35758	4.3	April 14, 2015	
4.50	Thirty-Fourth Supplemental Indenture, dated as of April 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C23-5.	8-K(1)	001-35758	4.4	April 14, 2015	
4.51	Thirty-Fifth Supplemental Indenture, dated as of April 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C24-10.	8-K(1)	001-35758	4.5	April 14, 2015	
4.52	Thirty-Sixth Supplemental Indenture, dated as of April 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C25-15.	8-K(1)	001-35758	4.6	April 14, 2015	
4.53	Thirty-Eighth Supplemental Indenture, dated as of April 21, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C27-10.	8-K(1)	001-35758	4.3	April 21, 2015	
4.54	Thirty-Ninth Supplemental Indenture, dated as of April 21, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C28-15.	8-K(1)	001-35758	4.4	April 21, 2015	
4.55	Forty-First Supplemental Indenture, dated as of April 27, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C30-3.	8-K(1)	001-35758	4.3	April 27, 2015	
4.56	Forty-Second Supplemental Indenture, dated as of April 27, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C31-5.	8-K(1)	001-35758	4.4	April 27, 2015	
4.57	Forty-Third Supplemental Indenture, dated as of April 27, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C32-10.	8-K(1)	001-35758	4.5	April 27, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.58	Forty-Fourth Supplemental Indenture, dated as of April 27, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C33-15.	8-K(1)	001-35758	4.6	April 27, 2015	
4.59	Forty-Sixth Supplemental Indenture, dated as of May 1, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.00% Solar Bonds, Series 2015/10-3.	8-K(1)	001-35758	4.3	May 1, 2015	
4.60	Forty-Seventh Supplemental Indenture, dated as of May 1, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.00% Solar Bonds, Series 2015/11-5.	8-K(1)	001-35758	4.4	May 1, 2015	
4.61	Forty-Eighth Supplemental Indenture, dated as of May 1, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.00% Solar Bonds, Series 2015/12-10.	8-K(1)	001-35758	4.5	May 1, 2015	
4.62	Forty-Ninth Supplemental Indenture, dated as of May 1, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.75% Solar Bonds, Series 2015/13-15.	8-K(1)	001-35758	4.6	May 1, 2015	
4.63	Fiftieth Supplemental Indenture, dated as of May 11, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C34-3.	8-K(1)	001-35758	4.2	May 11, 2015	
4.64	Fifty-First Supplemental Indenture, dated as of May 11, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C35-5.	8-K(1)	001-35758	4.3	May 11, 2015	
4.65	Fifty-Second Supplemental Indenture, dated as of May 11, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C36-10.	8-K(1)	001-35758	4.4	May 11, 2015	
4.66	Fifty-Third Supplemental Indenture, dated as of May 11, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C37-15.	8-K(1)	001-35758	4.5	May 11, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.67	Fifty-Fourth Supplemental Indenture, dated as of May 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.50% Solar Bonds, Series 2015/14-2.	8-K(1)	001-35758	4.2	May 14, 2015	
4.68	Fifty-Fifth Supplemental Indenture, dated as of May 18, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C38-3.	8-K(1)	001-35758	4.2	May 18, 2015	
4.69	Fifty-Sixth Supplemental Indenture, dated as of May 18, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C39-5.	8-K(1)	001-35758	4.3	May 18, 2015	
4.70	Fifty-Seventh Supplemental Indenture, dated as of May 18, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C40-10.	8-K(1)	001-35758	4.4	May 18, 2015	
4.71	Fifty-Eighth Supplemental Indenture, dated as of May 18, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C41-15.	8-K(1)	001-35758	4.5	May 18, 2015	
4.72	Fifty-Ninth Supplemental Indenture, dated as of May 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C42-3.	8-K(1)	001-35758	4.2	May 26, 2015	
4.73	Sixtieth Supplemental Indenture, dated as of May 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C43-5.	8-K(1)	001-35758	4.3	May 26, 2015	
4.74	Sixty-First Supplemental Indenture, dated as of May 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C44-10.	8-K(1)	001-35758	4.4	May 26, 2015	
4.75	Sixty-Second Supplemental Indenture, dated as of May 26, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C45-15.	8-K(1)	001-35758	4.5	May 26, 2015	
4.76	Sixty-Fourth Supplemental Indenture, dated as of June 8, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C46-3.	8-K(1)	001-35758	4.2	June 10, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.77	Sixty-Fifth Supplemental Indenture, dated as of June 8, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C47-5.	8-K(1)	001-35758	4.3	June 10, 2015	
4.78	Sixty-Sixth Supplemental Indenture, dated as of June 8, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C48-10.	8-K(1)	001-35758	4.4	June 10, 2015	
4.79	Sixty-Seventh Supplemental Indenture, dated as of June 8, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C49-15.	8-K(1)	001-35758	4.5	June 10, 2015	
4.80	Sixty-Eighth Supplemental Indenture, dated as of June 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C50-3.	8-K(1)	001-35758	4.2	June 16, 2015	
4.81	Sixty-Ninth Supplemental Indenture, dated as of June 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C51-5.	8-K(1)	001-35758	4.3	June 16, 2015	
4.82	Seventieth Supplemental Indenture, dated as of June 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C52-10.	8-K(1)	001-35758	4.4	June 16, 2015	
4.83	Seventy-First Supplemental Indenture, dated as of June 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C53-15.	8-K(1)	001-35758	4.5	June 16, 2015	
4.84	Seventy-Second Supplemental Indenture, dated as of June 22, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C54-3.	8-K(1)	001-35758	4.2	June 23, 2015	
4.85	Seventy-Third Supplemental Indenture, dated as of June 22, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C55-5.	8-K(1)	001-35758	4.3	June 23, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.86	Seventy-Fourth Supplemental Indenture, dated as of June 22, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C56-10.	8-K(1)	001-35758	4.4	June 23, 2015	
4.87	Seventy-Fifth Supplemental Indenture, dated as of June 22, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C57-15.	8-K(1)	001-35758	4.5	June 23, 2015	
4.88	Seventy-Eighth Supplemental Indenture, dated as of June 29, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C59-3.	8-K(1)	001-35758	4.3	June 29, 2015	
4.89	Seventy-Ninth Supplemental Indenture, dated as of June 29, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C60-5.	8-K(1)	001-35758	4.4	June 29, 2015	
4.90	Eightieth Supplemental Indenture, dated as of June 29, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C61-10.	8-K(1)	001-35758	4.5	June 29, 2015	
4.91	Eighty-First Supplemental Indenture, dated as of June 29, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C62-15.	8-K(1)	001-35758	4.6	June 29, 2015	
4.92	Eighty-Third Supplemental Indenture, dated as of July 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C64-3.	8-K(1)	001-35758	4.3	July 14, 2015	
4.93	Eighty-Fourth Supplemental Indenture, dated as of July 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C65-5.	8-K(1)	001-35758	4.4	July 14, 2015	
4.94	Eighty-Fifth Supplemental Indenture, dated as of July 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C66-10.	8-K(1)	001-35758	4.5	July 14, 2015	
4.95	Eighty-Sixth Supplemental Indenture, dated as of July 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C67-15.	8-K(1)	001-35758	4.6	July 14, 2015	



Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.96	Eighty-Eighth Supplemental Indenture, dated as of July 20, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C69-3.	8-K(1)	001-35758	4.3	July 21, 2015	
4.97	Eighty-Ninth Supplemental Indenture, dated as of July 20, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C70-5.	8-K(1)	001-35758	4.4	July 21, 2015	
4.98	Ninetieth Supplemental Indenture, dated as of July 20, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C71-10.	8-K(1)	001-35758	4.5	July 21, 2015	
4.99	Ninety-First Supplemental Indenture, dated as of July 20, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C72-15.	8-K(1)	001-35758	4.6	July 21, 2015	
4.100	Ninety-Third Supplemental Indenture, dated as of July 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.00% Solar Bonds, Series 2015/18-3.	8-K(1)	001-35758	4.3	July 31, 2015	
4.101	Ninety-Fourth Supplemental Indenture, dated as of July 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.00% Solar Bonds, Series 2015/19-5.	8-K(1)	001-35758	4.4	July 31, 2015	
4.102	Ninety-Fifth Supplemental Indenture, dated as of July 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.00% Solar Bonds, Series 2015/20-10.	8-K(1)	001-35758	4.5	July 31, 2015	
4.103	Ninety-Sixth Supplemental Indenture, dated as of July 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.75% Solar Bonds, Series 2015/21-15.	8-K(1)	001-35758	4.6	July 31, 2015	
4.104	Ninety-Eighth Supplemental Indenture, dated as of August 3, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C74-3.	8-K(1)	001-35758	4.3	August 3, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.105	Ninety-Ninth Supplemental Indenture, dated as of August 3, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C75-5.	8-K(1)	001-35758	4.4	August 3, 2015	
4.106	One Hundredth Supplemental Indenture, dated as of August 3, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C76-10.	8-K(1)	001-35758	4.5	August 3, 2015	
4.107	One Hundred-and-First Supplemental Indenture, dated as of August 3, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C77-15.	8-K(1)	001-35758	4.6	August 3, 2015	
4.108	One Hundred-and-Third Supplemental Indenture, dated as of August 10, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C79-3.	8-K(1)	001-35758	4.3	August 10, 2015	
4.109	One Hundred-and-Fourth Supplemental Indenture, dated as of August 10, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C80-5.	8-K(1)	001-35758	4.4	August 10, 2015	
4.110	One Hundred-and-Fifth Supplemental Indenture, dated as of August 10, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C81-10.	8-K(1)	001-35758	4.5	August 10, 2015	
4.111	One Hundred-and-Sixth Supplemental Indenture, dated as of August 10, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C82-15.	8-K(1)	001-35758	4.6	August 10, 2015	
4.112	One Hundred-and-Eighth Supplemental Indenture, dated as of August 17, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C84-3.	8-K(1)	001-35758	4.3	August 17, 2015	
4.113	One Hundred-and-Ninth Supplemental Indenture, dated as of August 17, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C85-5.	8-K(1)	001-35758	4.4	August 17, 2015	
4.114	One Hundred-and-Tenth Supplemental Indenture, dated as of August 17, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C86-10.	8-K(1)	001-35758	4.5	August 17, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.115	One Hundred-and-Eleventh Supplemental Indenture, dated as of August 17, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C87-15.	8-K(1)	001-35758	4.6	August 17, 2015	
4.116	One Hundred-and-Thirteenth Supplemental Indenture, dated as of August 24, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C89-3.	8-K(1)	001-35758	4.3	August 24, 2015	
4.117	One Hundred-and-Fourteenth Supplemental Indenture, dated as of August 24, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C90-5.	8-K(1)	001-35758	4.4	August 24, 2015	
4.118	One Hundred-and-Fifteenth Supplemental Indenture, dated as of August 24, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C91-10.	8-K(1)	001-35758	4.5	August 24, 2015	
4.119	One Hundred-and-Sixteenth Supplemental Indenture, dated as of August 24, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C92-15.	8-K(1)	001-35758	4.6	August 24, 2015	
4.120	One Hundred-and-Eighteenth Supplemental Indenture, dated as of August 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C94-3.	8-K(1)	001-35758	4.3	August 31, 2015	
4.121	One Hundred-and-Nineteenth Supplemental Indenture, dated as of August 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C95-5.	8-K(1)	001-35758	4.4	August 31, 2015	
4.122	One Hundred-and-Twentieth Supplemental Indenture, dated as of August 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C96-10.	8-K(1)	001-35758	4.5	August 31, 2015	
4.123	One Hundred-and-Twenty-First Supplemental Indenture, dated as of August 31, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C97-15.	8-K(1)	001-35758	4.6	August 31, 2015	

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
4.124	One Hundred-and-Twenty-Second Supplemental Indenture, dated as of September 11, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's Solar Bonds, Series 2015/R1.	8-K(1)	001-35758	4.2	September 11, 2015
4.125	One Hundred-and-Twenty-Third Supplemental Indenture, dated as of September 11, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's Solar Bonds, Series 2015/R2.	8-K(1)	001-35758	4.3	September 11, 2015
4.126	One Hundred-and-Twenty-Fourth Supplemental Indenture, dated as of September 11, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's Solar Bonds, Series 2015/R3.	8-K(1)	001-35758	4.4	September 11, 2015
4.127	One Hundred-and-Twenty-Sixth Supplemental Indenture, dated as of September 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C99-3.	8-K(1)	001-35758	4.3	September 15, 2015
4.128	One Hundred-and-Twenty-Seventh Supplemental Indenture, dated as of September 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C100-5.	8-K(1)	001-35758	4.4	September 15, 2015
4.129	One Hundred-and-Twenty-Eighth Supplemental Indenture, dated as of September 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C101-10.	8-K(1)	001-35758	4.5	September 15, 2015
4.130	One Hundred-and-Twenty-Ninth Supplemental Indenture, dated as of September 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C102-15.	8-K(1)	001-35758	4.6	September 15, 2015
4.131	One Hundred-and-Thirty-First Supplemental Indenture, dated as of September 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C104-3.	8-K(1)	001-35758	4.3	September 29, 2015

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
4.132	One Hundred-and-Thirty-Second Supplemental Indenture, dated as of September 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C105-5.	8-K(1)	001-35758	4.4	September 29, 2015
4.133	One Hundred-and-Thirty-Third Supplemental Indenture, dated as of September 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C106-10.	8-K(1)	001-35758	4.5	September 29, 2015
4.134	One Hundred-and-Thirty-Fourth Supplemental Indenture, dated as of September 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C107-15.	8-K(1)	001-35758	4.6	September 29, 2015
4.135	One Hundred-and-Thirty-Sixth Supplemental Indenture, dated as of October 13, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C109-3.	8-K(1)	001-35758	4.3	October 13, 2015
4.136	One Hundred-and-Thirty-Seventh Supplemental Indenture, dated as of October 13, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C110-5.	8-K(1)	001-35758	4.4	October 13, 2015
4.137	One Hundred-and-Thirty-Eighth Supplemental Indenture, dated as of October 13, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C111-10.	8-K(1)	001-35758	4.5	October 13, 2015
4.138	One Hundred-and-Thirty-Ninth Supplemental Indenture, dated as of October 13, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C112-15.	8-K(1)	001-35758	4.6	October 13, 2015
4.139	One Hundred-and-Forty-First Supplemental Indenture, dated as of October 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.00% Solar Bonds, Series 2015/23-3.	8-K(1)	001-35758	4.3	October 30, 2015

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
4.140	One Hundred-and-Forty-Second Supplemental Indenture, dated as of October 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.00% Solar Bonds, Series 2015/24-5.	8-K(1)	001-35758	4.4	October 30, 2015
4.141	One Hundred-and-Forty-Third Supplemental Indenture, dated as of October 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.00% Solar Bonds, Series 2015/25-10.	8-K(1)	001-35758	4.5	October 30, 2015
4.142	One Hundred-and-Forty-Fourth Supplemental Indenture, dated as of October 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.75% Solar Bonds, Series 2015/26-15.	8-K(1)	001-35758	4.6	October 30, 2015
4.143	One Hundred-and-Forty-Sixth Supplemental Indenture, dated as of November 4, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C114-3.	8-K(1)	001-35758	4.3	November 4, 2015
4.144	One Hundred-and-Forty-Seventh Supplemental Indenture, dated as of November 4, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C115-5.	8-K(1)	001-35758	4.4	November 4, 2015
4.145	One Hundred-and-Forty-Eighth Supplemental Indenture, dated as of November 4, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C116-10.	8-K(1)	001-35758	4.5	November 4, 2015
4.146	One Hundred-and-Forty-Ninth Supplemental Indenture, dated as of November 4, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C117-15.	8-K(1)	001-35758	4.6	November 4, 2015
4.147	One Hundred-and-Fifty-First Supplemental Indenture, dated as of November 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C119-3.	8-K(1)	001-35758	4.3	November 17, 2015

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
4.148	One Hundred-and-Fifty-Second Supplemental Indenture, dated as of November 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C120-5.	8-K(1)	001-35758	4.4	November 17, 2015
4.149	One Hundred-and-Fifty-Third Supplemental Indenture, dated as of November 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C121-10.	8-K(1)	001-35758	4.5	November 17, 2015
4.150	One Hundred-and-Fifty-Fourth Supplemental Indenture, dated as of November 16, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C122-15.	8-K(1)	001-35758	4.6	November 17, 2015
4.151	One Hundred-and-Fifty-Sixth Supplemental Indenture, dated as of November 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C124-3.	8-K(1)	001-35758	4.3	November 30, 2015
4.152	One Hundred-and-Fifty-Seventh Supplemental Indenture, dated as of November 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C125-5.	8-K(1)	001-35758	4.4	November 30, 2015
4.153	One Hundred-and-Fifty-Eighth Supplemental Indenture, dated as of November 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C126-10.	8-K(1)	001-35758	4.5	November 30, 2015
4.154	One Hundred-and-Fifty-Ninth Supplemental Indenture, dated as of November 30, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C127-15.	8-K(1)	001-35758	4.6	November 30, 2015
4.155	One Hundred-and-Sixty-First Supplemental Indenture, dated as of December 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C129-3.	8-K(1)	001-35758	4.3	December 14, 2015

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.156	One Hundred-and-Sixty-Second Supplemental Indenture, dated as of December 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C130-5.	8-K(1)	001-35758	4.4	December 14, 2015	
4.157	One Hundred-and-Sixty-Third Supplemental Indenture, dated as of December 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C131-10.	8-K(1)	001-35758	4.5	December 14, 2015	
4.158	One Hundred-and-Sixty-Fourth Supplemental Indenture, dated as of December 14, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C132-15.	8-K(1)	001-35758	4.6	December 14, 2015	
4.159	One Hundred-and-Sixty-Sixth Supplemental Indenture, dated as of December 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 2.65% Solar Bonds, Series 2015/C134-3.	8-K(1)	001-35758	4.3	December 28, 2015	
4.160	One Hundred-and-Sixty-Seventh Supplemental Indenture, dated as of December 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.60% Solar Bonds, Series 2015/C135-5.	8-K(1)	001-35758	4.4	December 28, 2015	
4.161	One Hundred-and-Sixty-Eighth Supplemental Indenture, dated as of December 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.70% Solar Bonds, Series 2015/C136-10.	8-K(1)	001-35758	4.5	December 28, 2015	
4.162	One Hundred-and-Sixty-Ninth Supplemental Indenture, dated as of December 28, 2015, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.45% Solar Bonds, Series 2015/C137-15.	8-K(1)	001-35758	4.6	December 28, 2015	
4.163	One Hundred-and-Seventy-First Supplemental Indenture, dated as of January 29, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 3.00% Solar Bonds, Series 2016/2-3.	8-K(1)	001-35758	4.3	January 29, 2016	



Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
4.164	One Hundred-and-Seventy-Second Supplemental Indenture, dated as of January 29, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.00% Solar Bonds, Series 2016/3-5.	8-K(1)	001-35758	4.4	January 29, 2016
4.165	One Hundred-and-Seventy-Third Supplemental Indenture, dated as of January 29, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.00% Solar Bonds, Series 2016/4-10.	8-K(1)	001-35758	4.5	January 29, 2016
4.166	One Hundred-and-Seventy-Fourth Supplemental Indenture, dated as of January 29, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.75% Solar Bonds, Series 2016/5-15.	8-K(1)	001-35758	4.6	January 29, 2016
4.167	One Hundred-and-Seventy-Sixth Supplemental Indenture, dated as of February 26, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.50% Solar Bonds, Series 2016/7-3.	8-K(1)	001-35758	4.3	February 26, 2016
4.168	One Hundred-and-Seventy-Seventh Supplemental Indenture, dated as of February 26, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.25% Solar Bonds, Series 2016/8-5.	8-K(1)	001-35758	4.4	February 26, 2016
4.169	One Hundred-and-Seventy-Eighth Supplemental Indenture, dated as of March 21, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.40% Solar Bonds, Series 2016/9-1.	8-K(1)	001-35758	4.2	March 21, 2016
4.170	One Hundred-and-Seventy-Ninth Supplemental Indenture, dated as of March 21, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.25% Solar Bonds, Series 2016/10-5.	8-K(1)	001-35758	4.3	March 21, 2016
4.171	One Hundred-and-Eightieth Supplemental Indenture, dated as of June 10, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 4.40% Solar Bonds, Series 2016/11-1.	8-K(1)	001-35758	4.2	June 10, 2016

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.172	One Hundred-and-Eighty-First Supplemental Indenture, dated as of June 10, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 5.25% Solar Bonds, Series 2016/12-5.	8-K(1)	001-35758	4.3	June 10, 2016	
4.173	One Hundred-and-Eighty-Second Supplemental Indenture, dated as of August 17, 2016, by and between SolarCity Corporation and the Trustee, related to SolarCity Corporation's 6.50% Solar Bonds, Series 2016/13-18M	8-K(1)	001-35758	4.2	August 17, 2016	
10.1**	Form of Indemnification Agreement between the Registrant and its directors and officers	S-1/A	333-164593	10.1	June 15, 2010	
10.2**	2003 Equity Incentive Plan	S-1/A	333-164593	10.2	May 27, 2010	
10.3**	Form of Stock Option Agreement under 2003 Equity Incentive Plan.	S-1	333-164593	10.3	January 29, 2010	
10.4**	Grant Notice and Stock Option Agreement between the Registrant and Elon Musk.	S-1/A	333-164593	10.3A	March 29, 2010	
10.5**	Amended and Restated 2010 Equity Incentive Plan, effective as of February 1, 2017.	—	—	—	—	X
10.6**	Form of Stock Option Agreement under 2010 Equity Incentive Plan.	—	—	—	—	X
10.7**	Form of Restricted Stock Unit Award Agreement under 2010 Equity Incentive Plan.	—	—	—	—	X
10.8**	Amended and Restated 2010 Employee Stock Purchase Plan, effective as of February 1, 2017.	—	—	—	—	X
10.9**	2007 SolarCity Corporation Stock Plan and form of agreements used thereunder.	S-1(1)	333-184317	10.2	October 5, 2012	
10.10**	2012 SolarCity Corporation Equity Incentive Plan and form of agreements used thereunder.	S-1(1)	333-184317	10.3	October 5, 2012	
10.11**	2010 Zep Solar, Inc. Equity Incentive Plan and form of agreements used thereunder.	S-8(1)	333-192996	4.5	December 20, 2013	
10.12**	Offer Letter between the Registrant and Elon Musk dated October 13, 2008.	S-1	333-164593	10.9	January 29, 2010	
10.13**	Offer Letter between the Registrant and Jeffrey B. Straubel dated May 6, 2004.	S-1	333-164593	10.12	January 29, 2010	
10.14**	Offer Letter between the Registrant and Jason Wheeler dated October 8, 2015.	10-K	001-34756	10.12	February 24, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.15	Commercial Lease between the Registrant and The Board of Trustees of The Leland Stanford Jr. University dated August 6, 2009.	S-1	333-164593	10.22	January 29, 2010	
10.16	Letter Agreement between the Registrant and New United Motor Manufacturing, Inc. dated May 26, 2010.	S-1/A	333-164593	10.45	May 27, 2010	
10.17	Amendment No. 1 to the Letter Agreement between the Registrant and New United Motor Manufacturing, Inc. dated June 15, 2010.	10-Q	001-34756	10.3	November 12, 2010	
10.18	Amendment No. 2 to the Letter Agreement between the Registrant and New United Motor Manufacturing, Inc. dated October 1, 2010.	10-Q	001-34756	10.4	November 12, 2010	
10.19	Amendment No. 3 to the Letter Agreement between the Registrant and New United Motor Manufacturing, Inc. dated October 8, 2010.	10-Q	001-34756	10.5	November 12, 2010	
10.20	Amendment No. 4 to the Letter Agreement between the Registrant and New United Motor Manufacturing, Inc. dated October 13, 2010.	10-Q	001-34756	10.6	November 12, 2010	
10.21	Amendment No. 5 to the Letter Agreement between the Registrant and New United Motor Manufacturing, Inc. dated October 15, 2010.	10-Q	001-34756	10.7	November 12, 2010	
10.22†	Amendment No. 6 to the Letter Agreement between the Registrant and New United Motor Manufacturing, Inc. dated October 19, 2010.	10-Q	001-34756	10.8	November 12, 2010	
10.23	Sale and Purchase Agreement between Registrant and New United Motor Manufacturing, Inc., dated August 13, 2010.	10-Q	001-34756	10.1	November 12, 2010	
10.24	Addendum No. 1 to the Sale and Purchase Agreement between Registrant and New United Motor Manufacturing, Inc., dated September 23, 2010.	10-Q	001-34756	10.2	November 12, 2010	
10.25†	Supply Agreement between Panasonic Corporation and the Registrant dated October 5, 2011.	10-K	-001-34756	10.50	February 27, 2012	
10.26†	Amendment No. 1 to Supply Agreement between Panasonic Corporation and the Registrant dated October 29, 2013.	10-K	001-34756	10.35A	February 26, 2014	
10.27	Form of Call Option Confirmation relating to 1.50% Convertible Senior Note Due June 1, 2018.	8-K	001-34756	10.1	May 22, 2013	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.28	Form of Warrant Confirmation relating to 1.50% Convertible Senior Note Due June 1, 2018.	8-K	001-34756	10.2	May 22, 2013	
10.29	Indemnification Agreement, dated as of February 27, 2014, by and between the Registrant and J.P. Morgan Securities LLC.	8-K	001-34756	10.1	March 5, 2014	
10.30	Form of Call Option Confirmation relating to 0.25% Convertible Senior Notes Due March 1, 2019.	8-K	001-34756	10.2	March 5, 2014	
10.31	Form of Call Option Confirmation relating to 1.25% Convertible Senior Notes Due March 1, 2021.	8-K	001-34756	10.3	March 5, 2014	
10.32	Form of Warrant Confirmation relating to 0.25% Convertible Senior Notes Due March 1, 2019.	8-K	001-34756	10.4	March 5, 2014	
10.33	Form of Warrant Confirmation relating to 1.25% Convertible Senior Notes Due March 1, 2021.	8-K	001-34756	10.5	March 5, 2014	
10.34	Agreement between Panasonic Corporation and the Registrant dated July 31, 2014.	10-Q	001-34756	10.1	November 7, 2014	
10.35†	General Terms and Conditions between Panasonic Corporation and the Registrant dated October 1, 2014.	8-K	001-34756	10.2	October 11, 2016	
10.36	Letter Agreement, dated as of February 24, 2015, regarding addition of co-party to General Terms and Conditions, Production Pricing Agreement and Investment Letter Agreement between Panasonic Corporation and the Registrant.	10-K	001-34756	10.25A	February 24, 2016	
10.37†	Amendment to Gigafactory General Terms, dated March 1, 2016, by and among the Registrant, Panasonic Corporation and Panasonic Energy Corporation of North America.	8-K	001-34756	10.1	October 11, 2016	
10.38†	Production Pricing Agreement between Panasonic Corporation and the Registrant dated October 1, 2014.	10-Q	001-34756	10.3	November 7, 2014	
10.39†	Investment Letter Agreement between Panasonic Corporation and the Registrant dated October 1, 2014.	10-Q	001-34756	10.4	November 7, 2014	
10.40	Amendment to Gigafactory Documents, dated April 5, 2016, by and among the Registrant, Panasonic Corporation, Panasonic Corporation of North America and Panasonic Energy Corporation of North America.	10-Q	001-34756	10.2	May 10, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.41	ABL Credit Agreement, dated as of June 10, 2015, by and among the Registrant, Tesla Motors Netherlands B.V., certain of the Registrant's and Tesla Motors Netherlands B.V.'s direct or indirect subsidiaries from time to time party thereto, as borrowers, Wells Fargo Bank, National Association, as documentation agent, JPMorgan Chase Bank, N.A., Goldman Sachs Bank USA, Morgan Stanley Senior Funding Inc. and Bank of America, N.A., as syndication agents, the lenders from time to time party thereto, and Deutsche Bank AG New York Branch, as administrative agent and collateral agent.	8-K	001-34756	10.1	June 12, 2015	
10.42	First Amendment, dated as of November 3, 2015, to ABL Credit Agreement, dated as of June 10, 2015, by and among the Registrant, Tesla Motors Netherlands B.V., certain of the Registrant's and Tesla Motors Netherlands B.V.'s direct or indirect subsidiaries from time to time party thereto, as borrowers, and the documentation agent, syndication agents, administrative agent, collateral agent and lenders from time to time party thereto.	10-Q	001-34756	10.1	November 5, 2015	
10.43	Second Amendment, dated as of December 31, 2015, to ABL Credit Agreement, dated as of June 10, 2015, by and among the Registrant, Tesla Motors Netherlands B.V., certain of the Registrant's and Tesla Motors Netherlands B.V.'s direct or indirect subsidiaries from time to time party thereto, as borrowers, and the documentation agent, syndication agents, administrative agent, collateral agent and lenders from time to time party thereto.	10-K	001-34756	10.28B	February 24, 2016	
10.44	Third Amendment, dated as of February 9, 2016, to ABL Credit Agreement, dated as of June 10, 2015, by and among the Registrant, Tesla Motors Netherlands B.V., certain of the Registrant's and Tesla Motors Netherlands B.V.'s direct or indirect subsidiaries from time to time party thereto, as borrowers, and the documentation agent, syndication agents, administrative agent, collateral agent and lenders from time to time party thereto.	10-K	001-34756	10.28C	February 24, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.45	Fourth Amendment to Credit Agreement, dated as of July 31, 2016, by and among the Registrant, Tesla Motors Netherlands B.V., the lenders party thereto and Deutsche Bank AG New York Branch, as administrative agent and collateral agent.	8-K	001-34756	10.1	August 1, 2016	
10.46	Fifth Amendment to Credit Agreement, dated as of December 15, 2016, among the Registrant, Tesla Motors Netherlands B.V., the lenders party thereto and Deutsche Bank AG, New York Branch, as administrative agent and collateral agent.	8-K	001-34756	10.1	December 20, 2016	
10.47†	Agreement for Tax Abatement and Incentives, dated as of May 7, 2015, by and between Tesla Motors, Inc. and the State of Nevada, acting by and through the Nevada Governor's Office of Economic Development.	10-Q	001-34756	10.1	August 7, 2015	
10.48†	Loan and Security Agreement, dated as of August 31, 2016, by and among Tesla 2014 Warehouse SPV LLC, Tesla Finance LLC, the Lenders and Group Agents from time to time party thereto, and Deutsche Bank AG, New York Branch, as Administrative Agent.	10-Q	001-34756	10.2	November 2, 2016	
10.49†	Amendment No. 1 to Loan and Security Agreement, dated as of November 1, 2016, by and among Tesla 2014 Warehouse SPV LLC, Tesla Finance LLC, and Deutsche Bank AG, New York Branch, as Administrative Agent.	10-Q	001-34756	10.3	November 2, 2016	
10.50	Amendment No. 2 to Loan and Security Agreement, dated as of December 15, 2016, among Tesla Finance LLC, Tesla 2014 Warehouse SPV LLC, the lenders and group agents party thereto and Deutsche Bank AG, New York Branch, as Administrative Agent.	8-K	001-34756	10.2	December 20, 2016	
10.51	Assumption Agreement, dated as of December 15, 2016, among Tesla 2014 Warehouse SPV LLC, Citibank, N.A. as Group Agent and certain lenders affiliated therewith, and Deutsche Bank AG, New York Branch, as Administrative Agent.	8-K	001-34756	10.3	December 20, 2016	
10.52†	Amended and Restated Credit Agreement among SolarCity Corporation, Bank of America, N.A. and other banks and financial institutions party thereto, dated as of November 1, 2013.	10-K/A(1)	001-35758	10.10e	September 4, 2014	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.53	First Amendment to the Amended and Restated Credit Agreement, dated as of June 27, 2014, by and among SolarCity Corporation, Bank of America, N.A. and other banks and financial institutions party thereto.	10-Q(1)	001-35758	10.10f	August 7, 2014	
10.54†	Second Amendment to the Amended and Restated Credit Agreement, dated as of July 11, 2014, by and among SolarCity Corporation, Bank of America, N.A. and other banks and financial institutions party thereto.	10-Q(1)	001-35758	10.10g	August 7, 2014	
10.55	Third Amendment to the Amended and Restated Credit Agreement, dated as of September 23, 2014, by and among SolarCity Corporation, the Lenders party hereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10h	November 6, 2014	
10.56†	Fourth Amendment to the Amended and Restated Credit Agreement, dated as of October 10, 2014, by and among SolarCity Corporation, the Lenders party hereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10i	November 6, 2014	
10.57†	Fifth Amendment to the Amended and Restated Credit Agreement, dated as of December 19, 2014, by and among SolarCity Corporation, the Lenders party hereto and Bank of America, N.A., as administrative agent.	10-K(1)	001-35758	10.10j	February 24, 2015	
10.58†	Sixth Amendment to the Amended and Restated Credit Agreement, dated as of June 24, 2015, by and among SolarCity Corporation, the Lenders party hereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10k	July 30, 2015	
10.59	Seventh Amendment to the Amended and Restated Credit Agreement, dated as of July 24, 2015, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10l	October 30, 2015	
10.60	Eighth Amendment to the Amended and Restated Credit Agreement, dated as of November 17, 2015, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-K(1)	001-35758	10.10m	February 10, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.61	Ninth Amendment to the Amended and Restated Credit Agreement, dated as of December 14, 2015, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-K(1)	001-35758	10.10n	February 10, 2016	
10.62	Tenth Amendment to the Amended and Restated Credit Agreement, dated as of March 29, 2016, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10o	May 9, 2016	
10.63	Eleventh Amendment to the Amended and Restated Credit Agreement, dated as of April 19, 2016, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10p	May 9, 2016	
10.64	Twelfth Amendment to the Amended and Restated Credit Agreement, dated as of July 24, 2016, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10q	August 9, 2016	
10.65	Thirteenth Amendment to the Amended and Restated Credit Agreement, dated as of July 25, 2016, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-Q(1)	001-35758	10.10r	August 9, 2016	
10.66	Fourteenth Amendment to the Amended and Restated Credit Agreement, dated as of December 29, 2016, by and among SolarCity Corporation, the Lenders party thereto and Bank of America, N.A., as administrative agent.	10-K(1)	001-35758	10.10s	March 1, 2017	
10.67	Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of September 2, 2014, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.	10-Q(1)	001-35758	10.16	November 6, 2014	



Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
10.68	First Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of October 31, 2014, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.	10-K(1)	001-35758	10.16a	February 24, 2015
10.69	Second Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of December 15, 2014, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.	10-K(1)	001-35758	10.16b	February 24, 2015
10.70	Third Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of February 12, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.	10-Q(1)	001-35758	10.16c	May 6, 2015
10.71	Fourth Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of March 30, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, Inc.	10-Q(1)	001-35758	10.16d	May 6, 2015
10.72	Fifth Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of June 30, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, LLC.	10-Q(1)	001-35758	10.16e	July 30, 2015

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	File No.	Exhibit	
10.73	Sixth Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of September 1, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, LLC.	10-Q(1)	001-35758	10.16f	October 30, 2015
10.74	Seventh Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of October 9, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, LLC.	10-Q(1)	001-35758	10.16g	October 30, 2015
10.75	Eighth Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of October 26, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, LLC.	10-Q(1)	001-35758	10.16h	October 30, 2015
10.76	Ninth Amendment to Amended and Restated Agreement For Research & Development Alliance on Triex Module Technology, effective as of December 9, 2015, by and between The Research Foundation For The State University of New York, on behalf of the College of Nanoscale Science and Engineering of the State University of New York, and Silevo, LLC.	10-K(1)	001-35758	10.16i	February 10, 2016
10.77†	Loan Agreement, dated as of May 4, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-Q(1)	001-35758	10.19	July 30, 2015

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.78†	Majority Group Agent Action No. 1, dated as of May 18, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-Q(1)	001-35758	10.19a	July 30, 2015	
10.79†	Required Group Agent Action No. 2, dated as of June 26, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-Q(1)	001-35758	10.19b	July 30, 2015	
10.80	Required Group Agent Action No. 3, dated as of July 13, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-Q(1)	001-35758	10.19c	October 30, 2015	
10.81	Required Group Agent Action No. 4, dated as of August 25, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-Q(1)	001-35758	10.19d	October 30, 2015	
10.82†	Required Group Agent Action No. 5, dated as of August 27, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-Q(1)	001-35758	10.19e	October 30, 2015	
10.83†	Required Group Agent Action No. 7, dated as of September 30, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-Q(1)	001-35758	10.19f	October 30, 2015	
10.84†	Required Group Agent Action No. 8, dated as of October 23, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as administrative agent, and the group agents party thereto.	10-K(1)	001-35758	10.19g	February 10, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.85	Required Group Agent Action No. 9, dated as of November 25, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto.	10-K(1)	001-35758	10.19h	February 10, 2016	
10.86†	Required Group Agent Action No. 10, dated as of December 18, 2015, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-K(1)	001-35758	10.19i	February 10, 2016	
10.87	Required Group Agent Action No. 11, dated as of January 7, 2016, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19j	May 9, 2016	
10.88†	Required Group Agent Action No. 12, dated as of February 29, 2016, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19k	May 9, 2016	
10.89†	Required Group Agent Action No. 13, dated as of March 23, 2016, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19l	May 9, 2016	
10.90†	Required Group Agent Action No. 14, dated as of March 30, 2016, by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19m	May 9, 2016	
10.91†	Required Group Agent Action No. 15, dated as of April 25, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19n	August 9, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.92†	Required Group Agent Action No. 16, dated as of May 2, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19o	August 9, 2016	
10.93†	Required Group Agent Action No. 17, dated as of May 16, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19p	August 9, 2016	
10.94†	Administrative Agent Action No. 18, dated as of May 27, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19q	August 9, 2016	
10.95	Required Group Agent Action No. 19, dated as of June 1, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19r	August 9, 2016	
10.96†	Administrative Agent Action No. 20, dated as of June 27, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19s	August 9, 2016	
10.97†	Required Group Agent Action No. 21, dated as of July 29, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19t	November 9, 2016	
10.98†	Required Group Agent Action No. 22, dated as of September 8, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19u	November 9, 2016	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.99	Required Group Agent Action No. 23, dated as of September 15, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19v	November 9, 2016	
10.100†	Required Group Agent Action No. 24, dated as of September 20, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19w	November 9, 2016	
10.101†	Administrative Agent Action No. 25, dated as of September 30, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19x	November 9, 2016	
10.102†	Required Group Agent Action No. 26, dated as of October 5, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-Q(1)	001-35758	10.19y	November 9, 2016	
10.103†	Required Group Agent Action No. 27, dated as of November 1, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-K(1)	001-35758	10.19z	March 1, 2017	
10.104†	Required Group Agent Action No. 28, dated as of December 9, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-K(1)	001-35758	10.19aa	March 1, 2017	
10.105†	Required Group Agent Action No. 29, dated as of December 16, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-K(1)	001-35758	10.19bb	March 1, 2017	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.106†	Required Group Agent Action No. 30, dated as of December 28, 2016, by and among by and among Megalodon Solar, LLC, as borrower, SolarCity Corporation, as limited guarantor, Bank of America, N.A., as collateral agent and administrative agent, and the group agents party thereto.	10-K(1)	001-35758	10.19cc	March 1, 2017	
12.1	Statement regarding Computation of Ratio of Earnings to Fixed Charges	—	—	—	—	X
21.1	List of Subsidiaries of the Registrant	—	—	—	—	X
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm	—	—	—	—	X
23.2	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm	—	—	—	—	X
31.1	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Executive Officer	—	—	—	—	X
31.2	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Financial Officer	—	—	—	—	X
32.1*	Section 1350 Certifications	—	—	—	—	
99.1	Certain Excerpts from Annual Report on Form 10-K of SolarCity Corporation	—	—	—	—	X
101.INS	XBRL Instance Document					
101.SCH	XBRL Taxonomy Extension Schema Document					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

\* Furnished herewith

\*\* Indicates a management contract or compensatory plan or arrangement

† Confidential treatment has been requested for portions of this exhibit

(1) Indicates a filing of SolarCity Corporation

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Tesla, Inc.

Date: March 1, 2017

\_\_\_\_\_  
/s/ Elon Musk  
Elon Musk  
Chief Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
_____ /s/ Elon Musk Elon Musk	Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2017
_____ /s/ Jason Wheeler Jason Wheeler	Chief Financial Officer (Principal Financial Officer)	March 1, 2017
_____ /s/ Eric Branderiz Eric Branderiz	Chief Accounting Officer (Principal Accounting Officer)	March 1, 2017
_____ /s/ Brad W. Buss Brad W. Buss	Director	March 1, 2017
_____ /s/ Robyn Denholm Robyn Denholm	Director	March 1, 2017
_____ /s/ Ira Ehrenpreis Ira Ehrenpreis	Director	March 1, 2017
_____ /s/ Antonio J. Gracias Antonio J. Gracias	Director	March 1, 2017
_____ /s/ Stephen T. Jurvetson Stephen T. Jurvetson	Director	March 1, 2017
_____ /s/ Kimbal Musk Kimbal Musk	Director	March 1, 2017

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**Exhibit 3.1**

**AMENDED AND RESTATED CERTIFICATE OF INCORPORATION**

**OF**

**TESLA MOTORS, INC.**

a Delaware corporation

Tesla Motors, Inc., a corporation organized and existing under the laws of the State of Delaware (the "**Corporation**"), hereby certifies as follows:

A. The name of the Corporation is Tesla Motors, Inc. The Corporation's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on July 1, 2003.

B. This Amended and Restated Certificate of Incorporation was duly adopted in accordance with Sections 242 and 245 of the General Corporation Law of the State of Delaware (the "**DGCL**"), and restates, integrates and further amends the provisions of the Corporation's Sixth Amended and Restated Certificate of Incorporation, and has been duly approved by the written consent of the stockholders of the corporation in accordance with Section 228 of the DGCL.

C. The text of the Sixth Amended and Restated Certificate of Incorporation of this Corporation is hereby amended and restated to read in its entirety as follows:

**ARTICLE I**

The name of the corporation is Tesla Motors, Inc.

**ARTICLE II**

The address of the Corporation's registered office in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

**ARTICLE III**

The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

**ARTICLE IV**

4.1 **Authorized Capital Stock.** The total number of shares of all classes of capital stock which the corporation is authorized to issue is 2,100,000,000 shares, consisting of 2,000,000,000 shares of Common Stock, par value \$0.001 per share (the "**Common Stock**"), and 100,000,000 shares of Preferred Stock, par value \$0.001 per share (the "**Preferred Stock**").

4.2 **Increase or Decrease in Authorized Capital Stock.** The number of authorized shares of Preferred Stock or Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the corporation entitled to vote generally in the election of directors, irrespective of the provisions of Section 242(b)(2) of the DGCL (or any successor provision thereto), voting together as a single class, without a separate vote of the holders of the class or classes the number of authorized shares of which are being increased or decreased, unless a vote by any holders of one or more series of Preferred Stock is required by the express terms of any series of Preferred Stock as provided for or fixed pursuant to the provisions of Section 4.4 of this Article IV.



4.3 Common Stock.

(a) The holders of shares of Common Stock shall be entitled to one vote for each such share on each matter properly submitted to the stockholders on which the holders of shares of Common Stock are entitled to vote. Except as otherwise required by law or this certificate of incorporation (this "**Certificate of Incorporation**" which term, as used herein, shall mean the certificate of incorporation of the corporation, as amended from time to time, including the terms of any certificate of designations of any series of Preferred Stock), and subject to the rights of the holders of Preferred Stock, at any annual or special meeting of the stockholders the holders of shares of Common Stock shall have the right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders; provided, however, that, except as otherwise required by law, holders of Common Stock shall not be entitled to vote on any amendment to this Certificate of Incorporation that relates solely to the terms, number of shares, powers, designations, preferences, or relative participating, optional or other special rights (including, without limitation, voting rights), or to qualifications, limitations or restrictions thereon, of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together with the holders of one more other such series, to vote thereon pursuant to this Certificate of Incorporation (including, without limitation, by any certificate of designations relating to any series of Preferred Stock) or pursuant to the DGCL.

(b) Subject to the rights of the holders of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive such dividends and other distributions (payable in cash, property or capital stock of the corporation) when, as and if declared thereon by the Board of Directors from time to time out of any assets or funds of the corporation legally available therefor and shall share equally on a per share basis in such dividends and distributions.

(c) In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the corporation, after payment or provision for payment of the debts and other liabilities of the corporation, and subject to the rights of the holders of Preferred Stock in respect thereof, the holders of shares of Common Stock shall be entitled to receive all the remaining assets of the corporation available for distribution to its stockholders, ratably in proportion to the number of shares of Common Stock held by them.

4.4 Preferred Stock.

(a) The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board of Directors). The Board of Directors is further authorized, subject to limitations prescribed by law, to fix by resolution or resolutions and to set forth in a certification of designations filed pursuant to the DGCL the powers, designations, preferences and relative, participation, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, if any, of any wholly unissued series of Preferred Stock, including without limitation dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any such series, and the number of shares constituting any such series and the designation thereof, or any of the foregoing.

(b) The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issuance of shares of such series then outstanding, subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the Certificate of Incorporation or the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

**ARTICLE V**

5.1 General Powers. The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors.

5.2 Number of Directors; Election; Term.

(a) Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, the number of directors that constitutes the entire Board of Directors of the corporation shall be fixed solely by resolution of the Board of Directors.

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(b) Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, effective upon the closing date (the "**Effective Date**") of the initial sale of shares of common stock in the corporation's initial public offering pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, the directors of the corporation shall be divided into three classes as nearly equal in size as is practicable, hereby designated Class I, Class II and Class III. The initial assignment of members of the Board of Directors to each such class shall be made by the Board of Directors. The term of office of the initial Class I directors shall expire at the first regularly-scheduled annual meeting of the stockholders following the Effective Date, the term of office of the initial Class II directors shall expire at the second annual meeting of the stockholders following the Effective Date and the term of office of the initial Class III directors shall expire at the third annual meeting of the stockholders following the Effective Date. At each annual meeting of stockholders, commencing with the first regularly-scheduled annual meeting of stockholders following the Effective Date, each of the successors elected to replace the directors of a Class whose term shall have expired at such annual meeting shall be elected to hold office until the third annual meeting next succeeding his or her election and until his or her respective successor shall have been duly elected and qualified. Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, if the number of directors that constitutes the Board of Directors is changed, any newly created directorships or decrease in directorships shall be so apportioned by the Board of Directors among the classes as to make all classes as nearly equal in number as is practicable, provided that no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(c) Notwithstanding the foregoing provisions of this Section 5.2, and subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation, or removal.

(d) Elections of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

5.3 **Removal.** Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, a director may be removed from office by the stockholders of the corporation only for cause.

5.4 **Vacancies and Newly Created Directorships.** Subject to the rights of holders of any series of Preferred Stock with respect to the election of directors, and except as otherwise provided in the DGCL, vacancies occurring on the Board of Directors for any reason and newly created directorships resulting from an increase in the authorized number of directors may be filled only by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, or by a sole remaining director, at any meeting of the Board of Directors. A person so elected by the Board of Directors to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been assigned by the Board of Directors and until his or her successor shall be duly elected and qualified.

#### ARTICLE VI

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the corporation is expressly authorized to adopt, amend or repeal the Bylaws of the corporation.

#### ARTICLE VII

7.1 **No Action by Written Consent of Stockholders.** Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to act by written consent, any action required or permitted to be taken by stockholders of the corporation must be effected at a duly called annual or special meeting of the stockholders and may not be effected by written consent in lieu of a meeting.

7.2 **Special Meetings.** Except as otherwise expressly provided by the terms of any series of Preferred Stock permitting the holders of such series of Preferred Stock to call a special meeting of the holders of such series, special meetings of stockholders of the corporation may be called only by the Board of Directors, the chairperson of the Board of Directors, the chief executive officer or the president (in the absence of a chief executive officer), and the ability of the stockholders to call a special meeting is hereby specifically denied. The Board of Directors may cancel, postpone or reschedule any previously scheduled special meeting at any time, before or after the notice for such meeting has been sent to the stockholders.

7.3 **Advance Notice.** Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the corporation shall be given in the manner provided in the Bylaws of the corporation.

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**ARTICLE VIII**

8.1 Limitation of Personal Liability. To the fullest extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. Any repeal or amendment of this Section 8.1 by the stockholders of the corporation or by changes in law, or the adoption of any other provision of this Certificate of Incorporation inconsistent with this Section 8.1 will, unless otherwise required by law, be prospective only (except to the extent such amendment or change in law permits the corporation to further limit or eliminate the liability of directors) and shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or amendment or adoption of such inconsistent provision with respect to acts or omissions occurring prior to such repeal or amendment or adoption of such inconsistent provision.

8.2 Indemnification. To the fullest extent permitted by the DGCL, as it presently exists or may hereafter be amended from time to time, the corporation is also authorized to provide indemnification of (and advancement of expenses to) its directors, officers and agents of the corporation (and any other persons to which the DGCL permits the corporation to provide indemnification) through bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise.

**ARTICLE IX**

The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation (including any rights, preferences or other designations of Preferred Stock), in the manner now or hereafter prescribed by this Certificate of Incorporation and the DGCL; and all rights, preferences and privileges herein conferred upon stockholders by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article IX. Notwithstanding any other provision of this Certificate of Incorporation, and in addition to any other vote that may be required by law or the terms of any series of Preferred Stock, the affirmative vote of the holders of at least 66 2/3% of the voting power of all then outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend, alter or repeal, or adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of, Article V, Article VI, Article VII or this Article IX (including, without limitation, any such Article as renumbered as a result of any amendment, alteration, change, repeal or adoption of any other Article).

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By: /s/ Elon Musk  
Elon Musk  
Chief Executive Officer

Exhibit 3.2

**CERTIFICATE OF AMENDMENT  
TO THE  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
TESLA MOTORS, INC.  
a Delaware corporation**

Pursuant to Section 242 of the General Corporation Law of the State of Delaware (the "DGCL"), Tesla Motors, Inc., a corporation organized and existing under the DGCL (the "Corporation"), hereby certifies as follows:

A. The name of the Corporation is Tesla Motors, Inc.

B. The Amended and Restated Certificate of the Corporation (filed with the Secretary of State of the State of Delaware on July 2, 2010, the "Certificate") is hereby amended to reflect a change in the name of the Corporation by deleting Article I of the Certificate in its entirety and restating the same as follows:

"The name of the corporation is Tesla, Inc."

C. This Amendment to the Certificate was duly adopted in accordance with the provisions of Section 242(b)(1) of the DGCL, which provide that no meeting or vote of stockholders shall be required to adopt an amendment to the certificate of incorporation that effects only changes of a corporation's name.

D. This Amendment to the Certificate shall be effective on February 1, 2017.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to the Amended and Restated Certificate of Incorporation to be signed by a duly authorized officer of the Corporation on this 30th day of January, 2017.

By: /s/Todd A. Maron  
Todd A. Maron  
General Counsel and Secretary

Exhibit 4.1



**Tesla, Inc.**  
THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS, A SUMMARY OF THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE PARTICIPATING OPTIONAL OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OF THE COMPANY AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND RIGHTS AND THE VARIATIONS IN RIGHTS, PREFERENCES AND LIMITATIONS DETERMINED FOR EACH SERIES, WHICH ARE FIXED BY THE CERTIFICATE OF INCORPORATION OF THE COMPANY AS AMENDED, AND THE REGULATIONS OF THE BOARD OF DIRECTORS OF THE COMPANY AND THE AUTHORITY OF THE BOARD OF DIRECTORS TO DETERMINE VARIATIONS FOR FUTURE SERIES. SUCH REQUESTS MAY BE MADE TO THE OFFICE OF THE SECRETARY OF THE COMPANY OR TO THE TRANSFER AGENT. THE BOARD OF DIRECTORS MAY REQUIRE THE OWNER OF A LOST OR DESTROYED STOCK CERTIFICATE OR HIS LEGAL REPRESENTATIVE TO GIVE THE COMPANY A BOND TO REIMBURSE IT AND ITS TRANSFER AGENTS AND REGISTRARS AGAINST ANY CLAIM THAT MAY BE MADE AGAINST THEM ON ACCOUNT OF THE ALLEGED LOSS OR DESTRUCTION OF ANY SUCH CERTIFICATE.

The following abbreviations, which used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenets in common	UNIF GIFT MIN ACT -	(Gov)	Customary	(Gov)
TEN ENT - as tenets by the estates			under Uniform Gifts to Minors Act	
JT TEN - as joint tenets with right of survivorship	UNIF TRSF MINACT -	(Gov)	Customary (with sign)	(Gov)
			under Uniform Transfers to Minors Act	(Gov)

Additional abbreviations may also be used though not in the above list.

For value received, \_\_\_\_\_ hereby sell, assign and transfer unto \_\_\_\_\_ **PLEASE PRINT FULL LEGAL NAME OF OTHER IDENTIFYING NUMBER OF ACCOUNT**

\_\_\_\_\_ Shares  
of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint \_\_\_\_\_ Attorney  
to transfer the said stock on the books of the within-named Company with full power of substitution in the premises.

Date: \_\_\_\_\_ 20 \_\_\_\_\_

Signature \_\_\_\_\_

Signature \_\_\_\_\_

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement, or any change whatsoever.

The RS requires that the transfer agent ("TA") report the sale of restricted stock awards or other non-qualified awards ("NQA") if any of them or parts are covered by the legislation, and the recipient is not covered by the common or non-qualified stock certificate. The recipient should use a state calculation method, then use the formula in the form to calculate the tax liability. The recipient should also indicate if any new deductions or credits will be used.

If you do not keep a certificate, the donor or donor's estate may qualify for a credit for tax paid on the award. If you are the donor, you should properly pay income tax on the award and properly file and transfer to the appropriate state.

**TESLA, INC.**  
**2010 EQUITY INCENTIVE PLAN**  
(as amended and restated effective June 12, 2012)  
(as further amended and restated effective April 10, 2014)  
(as further amended and restated effective March 3, 2015)  
(as further amended and restated effective February 1, 2017)

1. **Purposes of the Plan.** The purposes of this Plan are:
  - to attract and retain the best available personnel to ensure the Company’s success and accomplish the Company’s goals,
  - to incentivize Employees, Directors and Consultants with long-term equity-based compensation to align their interests with the Company’s stockholders, and
  - to promote the success of the Company’s business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.
2. **Definitions.** As used herein, the following definitions will apply:
  - (a) **“Administrator”** means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.
  - (b) **“Applicable Laws”** means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.
  - (c) **“Award”** means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.
  - (d) **“Award Agreement”** means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.
  - (e) **“Board”** means the Board of Directors of the Company.
  - (f) **“Change in Control”** means the occurrence of any of the following events:
    - (i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group (“**Person**”), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection (i), the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or
    - (ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 2(f), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Tesla, Inc., a Delaware corporation, or any successor thereto.

(k) "Consultant" means any person, including an advisor, engaged by the

Company or a Parent or Subsidiary to render services to such entity.

(l) "Director" means a member of the Board.

(m) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(p) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have different terms), Awards of a different type, and/or cash, and/or (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator. Subject to the no-Repriicing provision in Section 4(b), the Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(q) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company's Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(r) "Fiscal Year" means the fiscal year of the Company.

(s) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(t) "Inside Director" means a Director who is an Employee.

(u) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(v) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(w) "Option" means a stock option granted pursuant to the Plan.

(x) "Outside Director" means a Director who is not an Employee. For the avoidance of doubt, an Outside Director may or may not be an "outside director" within the meaning of Section 162(m) of the Code.

(y) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) "Participant" means the holder of an outstanding Award.

(aa) "Performance Goals" means one or more objective measurable performance goals established by the Administrator based upon one or more of the following criteria: (i) any measure of financial condition or operating results that can be determined by reference to the Company's balance sheets, income statements or cash flows prepared in accordance with generally accepted accounting principles or one or more other specified bases; (ii) Company or stock valuation; (iii) market share; (iv) orders, sales or leases; (v) intellectual property (e.g., patents); (vi) product innovation or development; (vii) product launch or ship schedules; (viii) specified projects or business transactions; (ix) customer satisfaction metrics; (x) quality metrics; (xi) manufacturing or production metrics; or (xii) retail or service locations. Any criteria used may be measured, as applicable, (a) in absolute terms, (b) in relative terms (including but not limited to, the passage of time and/or against other companies or financial metrics), (c) on a per share and/or share per capita basis, (d) against the performance of the Company as a whole or against particular entities, segments, operating units or products of the Company and/or (e) on a pre-tax or after tax basis. Awards that are not intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code may take into account any other factors deemed appropriate by the Administrator.

(bb) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10, subject to Section 4(a)(ii).

(cc) "Performance Unit" means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10, subject to Section 4(a)(ii).

(dd) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator, subject to Section 4(a)(ii).

(ee) "Plan" means this 2010 Equity Incentive Plan.

(ff) "Registration Date" means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company's securities.

(gg) "Repricing" means any of the following actions taken by the Administrator: (i) lowering or reducing the exercise price of an outstanding Option and/or outstanding Stock Appreciation Right, (ii) cancelling, exchanging or surrendering any outstanding Option and/or outstanding Stock Appreciation Right in exchange for cash or another award for the purpose of repricing the award; and (iii) cancelling, exchanging or surrendering any outstanding Option and/or outstanding Stock Appreciation Right with an exercise price that is less than the exercise price of the original award; provided that a Repricing shall not include any action taken with stockholder approval or any adjustment of an Option or Stock Appreciation Right pursuant to Section 14(a).

(hh) "Restricted Stock" means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(ii) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(jj) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(kk) "Section 16(b)" means Section 16(b) of the Exchange Act.

(ll) "Service Provider" means an Employee, Director or Consultant.

(mm) "Share" means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.

(nn) "Stock Appreciation Right" means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

(oo) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 10,666,666 Shares, plus (i) any Shares that, as of the Registration Date, have been reserved but not issued pursuant to any awards granted under the Company's 2003 Equity Incentive Plan (the "Existing Plan") and are not subject to any awards granted thereunder, and (ii) any Shares subject to stock options or similar awards granted under the Existing Plan that expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the Existing Plan that are forfeited to or repurchased by the Company, with the maximum number of Shares to be added to the Plan pursuant to clauses (i) and (ii) equal to 12,923,841 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Automatic Share Reserve Increase. The number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the 2011 Fiscal Year, in an amount equal to the least of (i) 5,333,333 Shares, (ii) four percent (4%) of the outstanding Shares on the last day of the immediately preceding Fiscal Year or (iii) such number of Shares determined by the Board.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, is surrendered pursuant to an Exchange Program, or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, only Shares actually issued (i.e., the net Shares issued) pursuant to a Stock Appreciation Right will cease to be available under the Plan; all remaining Shares under Stock Appreciation Rights will remain available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 14, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Sections 3(b) and 3(c).



(d) Individual Share Limits.

(i) Limits on Options and Stock Appreciation Rights. No Participant shall receive Options or Stock Appreciation Rights during any Fiscal Year covering, in the aggregate, in excess of 2,000,000 Shares, subject to adjustment pursuant to Section 14.

(ii) Limits on Other Awards. No Participant shall receive Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units during any Fiscal Year covering, in the aggregate, in excess of 2,000,000 Shares, subject to adjustment pursuant to Section 14.

(e) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more "outside directors" within the meaning of Section 162(m) of the Code, and such Awards shall be granted and administered pursuant to the requirements of Section 162(m) of the Code. The Committee may, in its discretion, subject such Awards to the achievement of Performance Goals.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine, subject to Section 4(a)(ii);

(vi) to determine the terms and conditions of any, and to institute any Exchange Program, subject to the no-Repricing provision below;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 19 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 6(b) of the Plan regarding Incentive Stock Options), subject to the no-Repricing provision below;

(x) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 15 of the Plan;

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

In no event shall the Administrator effect any Repricing of any Option or Stock Appreciation Right.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised, subject to Section 4(a)(ii).

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator, including any Performance Goals subject to Section 4(a)(ii), and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

- (a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.
- (b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.
- (c) Transferability. Except as provided in this Section 7 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.
- (d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.
- (e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.
- (f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.
- (g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.
- (h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Restricted Stock Units.

- (a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.
- (b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion, subject to Section 4(a)(ii).
- (c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout, subject to Section 4(a)(ii).
- (d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.
- (e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

- (a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.
- (b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.
- (c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.
- (d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise (including any Performance Goals), and such other terms and conditions as the Administrator, in its sole discretion, will determine, subject to Section 4(a)(ii).
- (e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(b) relating to the maximum term and Section 6(d) relating to exercise also will apply to Stock Appreciation Rights.
- (f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:
- (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
  - (ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

- (a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.
- (b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.
- (c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers, subject to Section 4(a)(ii). The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine, subject to Section 4(a)(ii). The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, or individual goals, applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion, subject to Section 4(a)(ii).
- (d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share, subject to Section 4(a)(ii).
- (e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

- (f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant

under the Plan.

11. Formula Awards to Outside Directors.

- (a) General. Outside Directors will be entitled to receive all types of Awards (except Incentive Stock Options) under this Plan, including discretionary Awards not covered under this Section 11. All grants of Awards to Outside Directors pursuant to this Section will be automatic and nondiscretionary, except as otherwise provided herein, and will be made in accordance with the following provisions:

- (b) Type of Option. If Options are granted pursuant to this Section they will be Nonstatutory Stock Options and, except as otherwise provided herein, will be subject to the other terms and conditions of the Plan.

(c) Initial Award. Each person who first becomes an Outside Director following the Registration Date will be automatically granted an Option to purchase 33,333 Shares (the "Initial Award") on or about the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director, but who remains a Director, will not receive an Initial Award.

(d) Triennial Award. Every three (3) years, each Outside Director will be automatically granted an Option to purchase 50,000 Shares (a "Triennial Award"). The initial Triennial Award for each Outside Director will be granted on the earlier of: (1) the seventh (7<sup>th</sup>) business day after the date of the 2015 annual meeting of the stockholders of the Company or (2) for Outside Directors appointed or elected after June 12, 2012, the seventh (7<sup>th</sup>) business day after the date of the meeting of the stockholders of the Company immediately following the date such Outside Director is initially appointed or elected to the Board. Subsequent Triennial Awards will be granted on the seventh (7<sup>th</sup>) business day following the third annual meeting of stockholders following the grant date of such Outside Director's previous Triennial Award.

(e) Lead Independent Director Award. Every three (3) years, the lead independent director of the Board will be automatically granted an Option (a "Lead Independent Director Award") to purchase 24,000 Shares. The initial Lead Independent Director Award will be granted on the later of either: (1) June 12, 2012 or (2) the seventh (7<sup>th</sup>) business day following such Director's appointment as the lead independent director. Subsequent Lead Independent Director Awards will be granted on the three-year anniversary date of such Director's previous Lead Independent Director Award.

(f) Committee Service Awards.

(i) Every three (3) years, each Outside Director who serves as a committee member will be automatically granted an Option (a "Committee Member Award") to purchase the number of Shares indicated directly below. The initial Committee Member Award for each Outside Director who serves as a committee member will be granted on the later of either: (1) June 12, 2012 or (2) the seventh (7<sup>th</sup>) business day following such Outside Director's appointment as a committee member. Subsequent Committee Member Awards for each Outside Director who serves as a committee member will be granted on the three-year anniversary date of such Outside Director's previous Committee Member Award.

- (A) Audit Committee Member: 12,000 Shares
- (B) Compensation Committee Member: 9,000 Shares
- (C) Nominating and Corporate Governance Committee Member: 6,000 Shares

(ii) In addition to any Committee Member Awards, every three (3) years, each Outside Director who serves as a committee chair will be automatically granted an option (a "Committee Chair Award") to purchase the number of Shares indicated directly below. The initial Committee Chair Award for each Outside Director who serves as a committee chair will be granted on the later of either: (1) the June 12, 2012 or (2) the seventh (7<sup>th</sup>) business day following such Outside Director's appointment as a committee chair. Subsequent Committee Chair Awards for each Outside Director who serves as a committee chair will be granted on the third anniversary date of such Outside Director's previous Committee Chair Award.

- (A) Audit Committee Chair: 12,000 Shares
- (B) Compensation Committee Chair: 6,000 Shares
- (C) Nominating and Corporate Governance Committee Chair: 3,000 Shares

(g) Terms. The terms of each Award granted pursuant to this Section will be as follows:

- (i) The term of the Option will be seven (7) years or such earlier expiration specified in the applicable Award Agreement.

(ii) The exercise price for Shares subject to Awards will be one hundred percent (100%) of the Fair Market Value on the grant date. If the grant date indicated in this Section 11 falls on a non-business day, the grant shall be effective as of the next business day following such date.

(iii) Subject to Section 14, the Initial Award will vest and become exercisable as to twenty-five (25%) of the Shares subject to the Initial Award vesting on the one year anniversary of the vesting commencement date, and 1/48 of the Shares subject to the Initial Award vesting on the same day of the month as of the vesting commencement date (or the last day of the month if no such date exists for the month) thereafter; provided that the Participant continues to serve as a Director through such dates.

(iv) Subject to Section 14, the Options granted under a Triennial Award, a Lead Independent Director Award, a Committee Member Award, or a Committee Chair Award will vest and become exercisable over a three (3) year period with 1/36<sup>th</sup> of the Shares subject to such award vesting on each monthly anniversary of the vesting commencement date (which shall be the date of grant of each such award), so that all Shares subject to such award shall be fully vested as of the third (3<sup>rd</sup>) anniversary of the vesting commencement date; provided, however, that the Participant continue to serve in the capacity for which such awards were granted (*i.e.*, Director, lead outside director, committee member or committee chair). Notwithstanding the immediately preceding sentence, in the event an Outside Director ceases to be a Director as of the day immediately preceding the date of an annual meeting of the stockholders of the Company, and the date of such meeting of stockholders is prior to the anniversary date of the vesting commencement date for the same calendar year, all Shares that would have vested as of such anniversary date shall become vested and exercisable as of the day immediately preceding such annual meeting of stockholders.

(v) Awards may be freely transferable to the Outside Directors' venture capital funds or employers (or an affiliate, within the meaning of Section 424(e) or (f) of the Code, of an Outside Director's employer).

(e) Adjustments. The Administrator in its discretion may change and otherwise revise the terms of Awards granted under this Section 11, including, without limitation, the number of Shares and exercise prices thereof, for Awards granted on or after the date the Administrator determines to make any such change or revision.

12. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1<sup>st</sup>) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

13. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

14. Adjustments: Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments.

(i) In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, the numerical Share limits in Section 3 of the Plan, and the number of Shares issuable pursuant to Awards to be granted under Section 11 of the Plan.

(ii) Upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the Company may equitably and proportionately adjust the Performance Goals applicable to any then-outstanding performance-based Awards to the extent necessary to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan with respect to such Awards.

(iii) It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable legal, tax (including, without limitation and as applicable in the circumstances, Sections 424, 409A and 162(m) of the Code) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger or Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 14(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

(d) Outside Director Awards. With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant (unless such resignation is at the request of the acquirer), then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares which would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Performance Units and Performance Shares, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

15. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, or (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.



(c) Compliance With Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A.

16. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

17. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

18. Term of Plan. Subject to Section 22 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect for a term of ten (10) years from the date adopted by the Board, unless terminated earlier under Section 19 of the Plan.

19. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

20. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

21. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

22. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

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Exhibit 10.6

**TESLA, INC.**  
**2010 EQUITY INCENTIVE PLAN**  
**STOCK OPTION AWARD AGREEMENT**

Unless otherwise defined herein, the terms defined in the Tesla, Inc. 2010 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Stock Option Award Agreement (the "Award Agreement").

**I. NOTICE OF STOCK OPTION GRANT**

**Participant Name:**

**Address:**

You have been granted an Option to purchase Common Stock of Tesla, Inc. (the "Company"), subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number

Date of Grant

Vesting Commencement Date

Exercise Price per Share

Total Number of Shares Granted

Total Exercise Price

Type of Option

Term/Expiration date

**Vesting Schedule**

Subject to any acceleration provisions contained in the Plan or set forth below, this Option may be exercised, in whole or in part, in accordance with the following schedule:

[insert vesting schedule]

**Termination Period:**

This Option will be exercisable for three (3) months after the Participant ceases to be a Service Provider, unless such termination is due to participant's death or Disability, in which case this Option will be exercisable for twelve (12) months after the Participant ceases to be a Service Provider. Notwithstanding the forgoing, in no event may this Option be exercised after the Term/expiration date as provided above and may be subject to earlier termination as provided in Section 14 of the Plan.

By Participant's acceptance of this Award Agreement either electronically through the electronic acceptance procedure established by the Company or through a written acceptance delivered to the Company in a form satisfactory to the Company, Participant agrees that this Option is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Stock Option Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

In witness whereof, Tesla, Inc. has caused this Agreement to be executed on its behalf by its duly-authorized officer on the day and year first indicated above.

PARTICIPANT

TESLA, INC.

Signature

By

Print Name

Title

Residence Address

**EXHIBIT A**

**TERMS AND CONDITIONS OF STOCK OPTION GRANT**

1. **Grant of Option.** The Company hereby grants to the Participant named in the Notice of Grant attached as Part I of this Award Agreement (the "Participant") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 19 of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an ISO under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). However, if this Option is intended to be an ISO, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it will be treated as a Nonstatutory Stock Option ("NSO"). Further, if for any reason this Option (or portion thereof) will not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a NSO granted under the Plan. In no event will the Administrator, the Company or any Parent or Subsidiary or any of their respective employees or directors have any liability to Participant (or any other person) due to the failure of the Option to qualify for any reason as an ISO.

2. **Vesting Schedule.** Except as provided in Section 3, the Option awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

3. **Administrator Discretion.** The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

4. **Exercise of Option.**

(a) **Right to Exercise.** This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Award Agreement.

(b) **Method of Exercise.** This Option is exercisable by delivery of an exercise notice, in the form attached as **Exhibit B** (the "Exercise Notice") or in a manner and pursuant to such procedures as the Administrator may determine, which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together with any applicable tax withholding. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

5. **Method of Payment.** Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant.

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company.

6. **Tax Obligations.**

(a) **Withholding Taxes.** Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by Participant with respect to the payment of income, employment and other taxes which the Company determines must be withheld with respect to such Shares. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time of the Option exercise, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

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(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Participant herein is an ISO, and if Participant sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (i) the date two (2) years after the Grant Date, or (ii) the date one (1) year after the date of exercise, Participant will immediately notify the Company in writing of such disposition. Participant agrees that Participant may be subject to income tax withholding by the Company on the compensation income recognized by Participant.

(c) Code Section 409A. Under Code Section 409A, an option that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per Share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the Fair Market Value of a Share on the date of grant (a "Discount Option") may be considered "deferred compensation." A Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to the Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share exercise price of this Option equals or exceeds the Fair Market Value of a Share on the Date of Grant in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the date of grant, Participant will be solely responsible for Participant's costs related to such a determination.

7. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

8. No Guarantee of Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

9. Address for Notices. Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company, in care of its Human Resources Department at Tesla, Inc., 3500 Deer Creek Road, Palo Alto, CA 94304, or at such other address as the Company may hereafter designate in writing.

10. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

11. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

12. Additional Conditions to Issuance of Stock. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority. Assuming such compliance, for income tax purposes the Exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such Exercised Shares.

13. Plan Governs. This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

14. Administrator Authority. The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

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15. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

16. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

17. Agreement Severable. In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

18. Modifications to the Agreement. This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Code Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code in connection to this Option.

19. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an Option under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

20. Governing Law. This Award Agreement will be governed by the laws of the State of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Option or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Mateo County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Option is made and/or to be performed.

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**EXHIBIT B**  
**TESLA, INC.**  
**2010 EQUITY INCENTIVE PLAN**  
**EXERCISE NOTICE**

Tesla, Inc.  
3500 Deer Creek Road  
Palo Alto, California 94304  
Attention: Stock Administration Department

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned ("Purchaser") hereby elects to purchase \_\_\_\_\_ shares (the "Shares") of the Common Stock of Tesla, Inc. (the "Company") under and pursuant to the 2010 Equity Incentive Plan (the "Plan") and the Stock Option Award Agreement dated \_\_\_\_\_ (the "Award Agreement"). The purchase price for the Shares will be \$ \_\_\_\_\_ per share, as required by the Award Agreement.

2. **Delivery of Payment.** Purchaser herewith delivers to the Company the full purchase price of the Shares and any required tax withholding to be paid in connection with the exercise of the Option.

3. **Representations of Purchaser.** Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Award Agreement and agrees to abide by and be bound by their terms and conditions.

4. **Rights as Stockholder.** Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the Shares, no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to the Option, notwithstanding the exercise of the Option. The Shares so acquired will be issued to Purchaser as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date of issuance, except as provided in Section 14 of the Plan.

5. **Tax Consultation.** Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. **Entire Agreement; Governing Law.** The Plan and Award Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Award Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and may not be modified adversely to the Purchaser's interest except by means of a writing signed by the Company and Purchaser. This agreement is governed by the internal substantive laws, but not the choice of law rules, of the State of California.

Submitted by:

Accepted by:

PURCHASER:

TESLA, INC

Signature \_\_\_\_\_

By \_\_\_\_\_

Print Name \_\_\_\_\_

Title \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Date Received

**Exhibit 10.7**

**TESLA, INC.**  
**2010 EQUITY INCENTIVE PLAN**  
**RESTRICTED STOCK UNIT AGREEMENT**

Unless otherwise defined herein, the terms defined in the Tesla, Inc. 2010 Equity Incentive Plan (the "Plan") will have the same defined meanings in this Restricted Stock Unit Agreement (the "Award Agreement"), which includes the Notice of Restricted Stock Unit Grant (the "Notice of Grant") and Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A.

**NOTICE OF RESTRICTED STOCK UNIT GRANT**

**Participant Name:**

**Address:**

Participant has been granted the right to receive an Award of Restricted Stock Units, subject to the terms and conditions of the Plan and this Award Agreement, as follows:

Grant Number

Date of Grant

Date of Hire

Vesting Commencement Date

Number of Restricted Stock Units

**Vesting Schedule:**

Subject to any acceleration provisions contained in the Plan or set forth below, the Restricted Stock Units will vest in accordance with the following schedule:

[insert vesting schedule]

In the event Participant ceases to be a Service Provider for any or no reason before Participant vests in the Restricted Stock Units, the Restricted Stock Units and Participant's right to acquire any Shares hereunder will immediately terminate.

By Participant's signature and the signature of the representative of Tesla, Inc. (the "Company") below, Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and this Award Agreement, including the Terms and Conditions of Restricted Stock Unit Grant, attached hereto as Exhibit A, all of which are made a part of this document. Participant acknowledges and agrees that by accepting this Award Agreement on the E\*TRADE on-line grant agreement response page, such acceptance will act as Participant's electronic signature to this Agreement and will constitute Participant's acceptance of and agreement with all of the terms and conditions of this Award Agreement and the Plan. Participant has reviewed the Plan and this Award Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Award Agreement and fully understands all provisions of the Plan and Award Agreement. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Award Agreement. Participant further agrees to notify the Company upon any change in the residence address indicated below.

PARTICIPANT

TESLA, INC.

Signature \_\_\_\_\_

By \_\_\_\_\_

Print Name \_\_\_\_\_

Title \_\_\_\_\_

Residence Address \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT A**

**TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT GRANT**

1. **Grant.** The Company hereby grants to the individual named in the Notice of Grant (the "Participant") under the Plan an Award of Restricted Stock Units, subject to all of the terms and conditions in this Award Agreement and the Plan, which is incorporated herein by reference. Subject to Section 19(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Award Agreement, the terms and conditions of the Plan will prevail.

2. **Company's Obligation to Pay.** Each Restricted Stock Unit represents the right to receive a Share on the date it vests. Unless and until the Restricted Stock Units will have vested in the manner set forth in Sections 3 or 4, Participant will have no right to payment of any such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with Sections 3 or 4 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any applicable tax withholding obligations as set forth in Section 7. Subject to the provisions of Section 4, such vested Restricted Stock Units shall be paid in whole Shares as soon as practicable after vesting, but in each such case within the period sixty (60) days following the vesting date. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Award Agreement.

3. **Vesting Schedule.** Except as provided in Section 4, and subject to Section 5, the Restricted Stock Units awarded by this Award Agreement will vest in accordance with the vesting provisions set forth in the Notice of Grant. Restricted Stock Units scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in Participant in accordance with any of the provisions of this Award Agreement, unless Participant will have been continuously a Service Provider from the Date of Grant until the date such vesting occurs.

4. **Administrator Discretion.** The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. The payment of Shares vesting pursuant to this Section 4 shall in all cases be paid at a time or in a manner that is exempt from, or complies with, Section 409A.

Notwithstanding anything in the Plan or this Award Agreement to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if (x) Participant is a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless the Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to the Participant's estate as soon as practicable following his or her death. It is the intent of this Award Agreement that it and all payments and benefits hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Award Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable under this Award Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). For purposes of this Award Agreement, "Section 409A" means Section 409A of the Code, and any final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

5. **Forfeiture upon Termination of Status as a Service Provider.** Notwithstanding any contrary provision of this Award Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason and Participant's right to acquire any Shares hereunder will immediately terminate.

6. **Death of Participant.** Any distribution or delivery to be made to Participant under this Award Agreement will, if Participant is then deceased, be made to Participant's designated beneficiary, or if no beneficiary survives Participant, the administrator or executor of Participant's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

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7. **Withholding of Taxes.** Notwithstanding any contrary provision of this Award Agreement, no certificate representing the Shares will be issued to Participant, unless and until satisfactory arrangements (as determined by the Company) will have been made by Participant with respect to the payment of income, employment, social insurance, payroll and other taxes which the Company determines must be withheld with respect to such Shares. Prior to vesting and/or settlement of the Restricted Stock Units, Participant will pay or make adequate arrangements satisfactory to the Company and/or the Participant's employer (the "Employer") to satisfy all withholding and payment obligations of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable tax withholding obligations legally payable by Participant from his or her wages or other cash compensation paid to Participant by the Company and/or the Employer or from proceeds of the sale of Shares. Alternatively, or in addition, if permissible under applicable local law, the Company, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy such tax withholding obligation, in whole or in part (without limitation) by (a) paying cash, (b) electing to have the Company withhold otherwise deliverable Shares having a Fair Market Value equal to the minimum amount required to be withheld, (c) delivering to the Company already vested and owned Shares having a Fair Market Value equal to the amount required to be withheld, or (d) selling a sufficient number of such Shares otherwise deliverable to Participant through such means as the Company may determine in its sole discretion (whether through a broker or otherwise) equal to the amount required to be withheld. To the extent determined appropriate by the Company in its discretion, it will have the right (but not the obligation) to satisfy any tax withholding obligations by reducing the number of Shares otherwise deliverable to Participant. If Participant fails to make satisfactory arrangements for the payment of any required tax withholding obligations hereunder at the time any applicable Restricted Stock Units otherwise are scheduled to vest pursuant to Sections 3 or 4 or tax withholding obligations related to Restricted Stock Units otherwise are due, Participant will permanently forfeit such Restricted Stock Units and any right to receive Shares thereunder and the Restricted Stock Units will be returned to the Company at no cost to the Company.

8. **Rights as Stockholder.** Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant. After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. **No Guarantee of Continued Service.** PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY (OR THE PARENT OR SUBSIDIARY EMPLOYING OR RETAINING PARTICIPANT) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. **Address for Notices.** Any notice to be given to the Company under the terms of this Award Agreement will be addressed to the Company at Tesla, Inc. Attention: Stock Administration, 3500 Deer Creek Road, Palo Alto, CA 94304, or at such other address as the Company may hereafter designate in writing.

11. **Grant is Not Transferable.** Except to the limited extent provided in Section 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

12. **Binding Agreement.** Subject to the limitation on the transferability of this grant contained herein, this Award Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

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13. **Additional Conditions to Issuance of Stock.** If at any time the Company will determine, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Where the Company determines that the delivery of the payment of any Shares will violate federal securities laws or other applicable laws, the Company will defer delivery until the earliest date at which the Company reasonably anticipates that the delivery of Shares will no longer cause such violation. The Company will make all reasonable efforts to meet the requirements of any such state, federal or foreign law or securities exchange and to obtain any such consent or approval of any such governmental authority or securities exchange.

14. **Plan Governs.** This Award Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Award Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Award Agreement will have the meaning set forth in the Plan.

15. **Administrator Authority.** The Administrator will have the power to interpret the Plan and this Award Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Award Agreement.

16. **Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

17. **Captions.** Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Award Agreement.

18. **Agreement Severable.** In the event that any provision in this Award Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Award Agreement.

19. **Modifications to the Award Agreement.** This Award Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Award Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Award Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this Award of Restricted Stock Units.

20. **Amendment, Suspension or Termination of the Plan.** By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

21. **Governing Law.** This Award Agreement will be governed by the laws of the state of California, but without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Award Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

**Exhibit 10.8**

**TESLA, INC.**

**2010 EMPLOYEE STOCK PURCHASE PLAN**

(as amended and restated effective August 3, 2011)  
(as further amended and restated effective February 1, 2017)

1. **Purpose.** The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock through accumulated payroll deductions. The Company's intention is to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan, accordingly, will be construed so as to extend and limit Plan participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423 of the Code.

2. **Definitions.**

(a) **"Administrator"** means the Board or any Committee designated by the Board to administer the Plan pursuant to Section 14.

(b) **"Applicable Laws"** means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) **"Board"** means the Board of Directors of the Company.

(d) **"Change in Control"** means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("**Person**"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause, if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection, the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(e) **"Code"** means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(f) **"Committee"** means a committee of the Board appointed in accordance with Section 14 hereof.

(g) **"Common Stock"** means the common stock of the Company.

(h) **"Company"** means Tesla, Inc., a Delaware corporation.

- (i) "Compensation" means an Eligible Employee's regular and recurring straight time gross earnings, payments for overtime and shift premium, but exclusive of payments for incentive compensation, bonuses and other similar compensation. The Administrator, in its discretion, may, on a uniform and nondiscriminatory basis, establish a different definition of Compensation for a subsequent Offering Period.
- (j) "Designated Subsidiary" means any Subsidiary that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan.
- (k) "Director" means a member of the Board.
- (l) "Eligible Employee" means any individual who is a common law employee of an Employer and is customarily employed for at least twenty (20) hours per week and more than five (5) months in any calendar year by the Employer. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence that the Employer approves. Where the period of leave exceeds three (3) months and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated three (3) months and one (1) day following the commencement of such leave. The Administrator, in its discretion, from time to time may, prior to an Offering Date for all options to be granted on such Offering Date, determine (on a uniform and nondiscriminatory basis) that the definition of Eligible Employee will or will not include an individual if he or she: (i) has not completed at least two (2) years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (ii) customarily works not more than twenty (20) hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (iii) customarily works not more than five (5) months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (iv) is an executive, officer or other manager, or (v) is a highly compensated employee under Section 414(q) of the Code.
- (m) "Employer" means any one or all of the Company and its Designated Subsidiaries. With respect to a particular Eligible Employee, Employer means the Company or Designated Subsidiary, as the case may be, that directly employs the Eligible Employee.
- (n) "Exchange Act" means the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.
- (o) "Exercise Date" means the last Trading Day in February and August of each year. Notwithstanding the preceding, the first Exercise Date under the Plan will be February 22, 2011.
- (p) "Fair Market Value" means, as of any date and unless the Administrator determines otherwise, the value of Common Stock determined as follows:
- (i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;
- (ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value will be the mean of the closing bid and asked prices for the Common Stock on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;
- (iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof will be determined in good faith by the Administrator; or
- (iv) For purposes of the Offering Date of the first Offering Period under the Plan, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement on Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Common Stock (the "Registration Statement").
- (q) "Fiscal Year" means the fiscal year of the Company.
- (r) "New Exercise Date" means a new Exercise Date set by shortening any Offering Period then in progress.
- (s) "Offering Date" means the first Trading Day of each Offering Period.
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(t) "Offering Periods" means the periods of approximately six (6) months during which an option granted pursuant to the Plan may be exercised, (i) commencing on the first Trading Day on or after March 1 of each year and terminating on the last Trading Day in the subsequent August, approximately six (6) months later, and (ii) commencing on the first Trading Day on or after September 1 of each year and terminating on the last Trading Day in the subsequent February, approximately six (6) months later. Notwithstanding the preceding, the first Offering Period under the Plan commenced with the first Trading Day on or after the date on which the Securities and Exchange Commission declared the Company's Registration Statement effective and will end on February 22, 2011. The next Offering Period under the Plan will begin on March 1, 2011. The duration and timing of future Offering Periods may be changed pursuant to Sections 4 and 20.

(u) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(v) "Participant" means an Eligible Employee who participates in the Plan.

(w) "Plan" means this Tesla, Inc. 2010 Employee Stock Purchase Plan.

(x) "Purchase Price" means an amount equal to eighty-five percent (85%) of the Fair Market Value of a share of Common Stock on the Offering Date or on the Exercise Date, whichever is lower; provided however, that the Purchase Price may be determined for subsequent Offering Periods by the Administrator, in its discretion, subject to compliance with Section 423 of the Code or pursuant to Section 20.

(y) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

(z) "Trading Day" means a day on which the national stock exchange upon which the Common Stock is listed is open for trading.

3. Eligibility.

(a) First Offering Period. Any individual who is an Eligible Employee immediately prior to the first Offering Period will be automatically enrolled in the first Offering Period.

(b) Subsequent Offering Periods. Any Eligible Employee on a given Offering Date subsequent to the first Offering Period will be eligible to participate in the Plan, subject to the requirements of Section 5.

(c) Limitations. Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options to purchase such stock possessing five percent (5%) or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate which exceeds twenty-five thousand dollars (\$25,000) worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan will be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after March 1 and September 1 of each year, or on such other date as the Administrator will determine. The Administrator will have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation.

(a) First Offering Period. An Eligible Employee will be entitled to continue to participate in the first Offering Period pursuant to Section 3(a) only if such individual submits a subscription agreement authorizing payroll deductions in a form determined by the Administrator (which may be similar to the form attached hereto as Exhibit A) to the Company's designated plan administrator (i) no earlier than the effective date of the Form S-8 registration statement with respect to the issuance of Common Stock under this Plan and (ii) no later than ten (10) business days following the effective date of such S-8 registration statement or such other period of time as the Administrator may determine (the "Enrollment Window"). An Eligible Employee's failure to submit the subscription agreement during the Enrollment Window will result in the automatic termination of such individual's participation in the first Offering Period.

(b) Subsequent Offering Periods. An Eligible Employee may participate in the Plan pursuant to Section 3(b) by (i) submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Administrator prior to an applicable Offering Date, a properly completed subscription agreement authorizing payroll deductions in the form provided by the Administrator for such purpose, or (ii) following an electronic or other enrollment procedure prescribed by the Administrator.

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6. Payroll Deductions.

(a) At the time a Participant enrolls in the Plan pursuant to Section 5, he or she will elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding fifteen percent (15%) of the Compensation which he or she receives on each pay day during the Offering Period; provided, however, that should a pay day occur on an Exercise Date, a Participant will have the payroll deductions made on such day applied to his or her account under the subsequent Offering Period. A Participant's subscription agreement will remain in effect for successive Offering Periods unless terminated as provided in Section 10 hereof.

(b) Payroll deductions for a Participant will commence on the first pay day following the Offering Date and will end on the last pay day prior to the Exercise Date of such Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 10 hereof; provided, however, that for the first Offering Period, payroll deductions will commence on the first pay day on or following the end of the Enrollment Window.

(c) All payroll deductions made for a Participant will be credited to his or her account under the Plan and will be withheld in whole percentages only. A Participant may not make any additional payments into such account.

(d) A Participant may discontinue his or her participation in the Plan as provided in Section 10. If permitted by the Administrator, as determined in its sole discretion, for an Offering Period, a Participant may increase or decrease the rate of his or her payroll deductions during the Offering Period by (i) properly completing and submitting to the Company's payroll office (or its designee), on or before a date prescribed by the Administrator prior to an applicable Exercise Date, a new subscription agreement authorizing the change in payroll deduction rate in the form provided by the Administrator for such purpose, or (ii) following an electronic or other procedure prescribed by the Administrator. If a Participant has not followed such procedures to change the rate of payroll deductions, the rate of his or her payroll deductions will continue at the originally elected rate throughout the Offering Period and future Offering Periods (unless terminated as provided in Section 10). The Administrator may, in its sole discretion, limit the nature and/or number of payroll deduction rate changes that may be made by Participants during any Offering Period. Any change in payroll deduction rate made pursuant to this Section 6(d) will be effective as of the first full payroll period following five (5) business days after the date on which the change is made by the Participant (unless the Administrator, in its sole discretion, elects to process a given change in payroll deduction rate more quickly).

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(c), a Participant's payroll deductions may be decreased to zero percent (0%) at any time during an Offering Period. Subject to Section 423(b)(8) of the Code and Section 3(c) hereof, payroll deductions will recommence at the rate originally elected by the Participant effective as of the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 10.

(f) At the time the option is exercised, in whole or in part, or at the time some or all of the Common Stock issued under the Plan is disposed of, the Participant must make adequate provision for the Company's or Employer's federal, state, or any other tax liability payable to any authority, national insurance, social security or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company or the Employer may, but will not be obligated to, withhold from the Participant's compensation the amount necessary for the Company or the Employer to meet applicable withholding obligations, including any withholding required to make available to the Company or the Employer any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Eligible Employee.

7.

Grant of Option. On the Offering Date of each Offering Period, each Eligible Employee participating in such Offering Period will be granted an option to purchase on each Exercise Date with respect to an Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such Eligible Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Eligible Employee's account as of the Exercise Date by the applicable Purchase Price; provided that in no event will an Eligible Employee be permitted to purchase during each Offering Period more than 500 shares of the Common Stock (subject to any adjustment pursuant to Section 19), and provided further that such purchase will be subject to the limitations set forth in Sections 3(c) and 13. The Eligible Employee may accept the grant of such option with respect to the first Offering Period by submitting a properly completed subscription agreement in accordance with the requirements of Section 5(a) on or before the last day of the Enrollment Window, and (ii) with respect to any future Offering Period under the Plan, by electing to participate in the Plan in accordance with the requirements of Section 5(b). The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of Common Stock that an Eligible Employee may purchase during each Offering Period. Exercise of the option will occur as provided in Section 8, unless the Participant has withdrawn pursuant to Section 10. The option will expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a Participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of shares of Common Stock will be exercised automatically on the Exercise Date, and the maximum number of full shares subject to the option will be purchased for such Participant at the applicable Purchase Price with the accumulated payroll deductions in his or her account. No fractional shares of Common Stock will be purchased; any payroll deductions accumulated in a Participant's account, which are not sufficient to purchase a full share will be returned to the Participant. Any other funds left over in a Participant's account after the Exercise Date will be returned to the Participant. During a Participant's lifetime, a Participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares of Common Stock with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Offering Date of the applicable Offering Period, or (ii) the number of shares of Common Stock available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on such Offering Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all Participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect or terminate all Offering Periods then in effect pursuant to Section 20. The Company may make a pro rata allocation of the shares available on the Offering Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Date.

9. Delivery. As soon as reasonably practicable after each Exercise Date on which a purchase of shares of Common Stock occurs, the Company will arrange the delivery to each Participant of the shares purchased upon exercise of his or her option in a form determined by the Administrator (in its sole discretion) and pursuant to rules established by the Administrator. The Company may permit or require that shares be deposited directly with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Company may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. No Participant will have any voting, dividend, or other stockholder rights with respect to shares of Common Stock subject to any option granted under the Plan until such shares have been purchased and delivered to the Participant as provided in this Section 9.

10. Withdrawal.

(a) A Participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by (i) submitting to the Company's payroll office (or its designee) a written notice of withdrawal in the form prescribed by the Administrator for such purpose (which may be similar to the form attached hereto as Exhibit B), or (ii) following an electronic or other withdrawal procedure prescribed by the Administrator. All of the Participant's payroll deductions credited to his or her account will be paid to such Participant promptly after receipt of notice of withdrawal and such Participant's option for the Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made for such Offering Period. If a Participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period, unless the Participant re-enrolls in the Plan in accordance with the provisions of Section 5.

(b) A Participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods, which commence after the termination of the Offering Period from which the Participant withdraws.

11. Termination of Employment. Upon a Participant's ceasing to be an Eligible Employee, for any reason, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such Participant's account during the Offering Period but not yet used to purchase shares of Common Stock under the Plan will be returned to such Participant or, in the case of his or her death, to the person or persons entitled thereto under Section 15, and such Participant's option will be automatically terminated.

12. Interest. No interest will accrue on the payroll deductions of a Participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 19 hereof, the maximum number of shares of Common Stock which will be made available for sale under the Plan will be 1,666,666 shares, plus an annual increase to be added on the first day of each Fiscal Year beginning with the 2011 Fiscal Year, equal to the least of (i) 1,000,000 shares of Common Stock, (ii) one percent (1%) of the outstanding shares of Common Stock on such date, or (iii) an amount determined by the Administrator.

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(b) Until the shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), a Participant will only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a stockholder will exist with respect to such shares.

(c) Shares of Common Stock to be delivered to a Participant under the Plan will be registered in the name of the Participant or in the name of the Participant and his or her spouse.

14. **Administration.** The Plan will be administered by the Board or a Committee appointed by the Board, which Committee will be constituted to comply with Applicable Laws. The Administrator will have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Administrator will, to the full extent permitted by law, be final and binding upon all parties. Notwithstanding any provision to the contrary in this Plan, the Administrator may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures for jurisdictions outside of the United States. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures regarding eligibility to participate, the definition of Compensation, handling of payroll deductions, making of contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold payroll deductions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates which vary with local requirements.

15. **Designation of Beneficiary.**

(a) A Participant may file a designation of a beneficiary who is to receive any shares of Common Stock and cash, if any, from the Participant's account under the Plan in the event of such Participant's death subsequent to an Exercise Date on which the option is exercised but prior to delivery to such Participant of such shares and cash. In addition, a Participant may file a designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of such Participant's death prior to exercise of the option. If a Participant is married and the designated beneficiary is not the spouse, spousal consent will be required for such designation to be effective.

(b) Such designation of beneficiary may be changed by the Participant at any time by notice in a form determined by the Administrator. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company will deliver such shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

(c) All beneficiary designations will be in such form and manner as the Administrator may designate from time to time.

16. **Transferability.** Neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 15 hereof) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition will be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10 hereof.

17. **Use of Funds.** The Company may use all payroll deductions received or held by it under the Plan for any corporate purpose, and the Company will not be obligated to segregate such payroll deductions. Until shares of Common Stock are issued, Participants will only have the rights of an unsecured creditor with respect to such shares.

18. **Reports.** Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to participating Eligible Employees at least annually, which statements will set forth the amounts of payroll deductions, the Purchase Price, the number of shares of Common Stock purchased and the remaining cash balance, if any.

19. **Adjustments, Dissolution, Liquidation, Merger or Change in Control.**

(a) **Adjustments.** In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Stock occurs, the Administrator, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will, in such manner as it may deem equitable, adjust the number and class of Common Stock that may be delivered under the Plan, the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised, and the numerical limits of Sections 7 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, any Offering Period then in progress will be shortened by setting a New Exercise Date, and will terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date will be before the date of the Company's proposed dissolution or liquidation. The Administrator will notify each Participant in writing, at least ten (10) business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

(c) Merger or Change in Control. In the event of a merger or Change in Control, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Period with respect to which such option relates will be shortened by setting a New Exercise Date and will end on the New Exercise Date. The New Exercise Date will occur before the date of the Company's proposed merger or Change in Control. The Administrator will notify each Participant in writing prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10 hereof.

20. Amendment or Termination.

(a) The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Common Stock on the next Exercise Date (which may be sooner than originally scheduled, if determined by the Administrator in its discretion), or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 19). If the Offering Periods are terminated prior to expiration, all amounts then credited to Participants' accounts which have not been used to purchase shares of Common Stock will be returned to the Participants (without interest thereon, except as otherwise required under local laws) as soon as administratively practicable.

(b) Without stockholder consent and without limiting Section 20(a), the Administrator will be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

- (i) amending the Plan to conform with the safe harbor definition under Financial Accounting Standards Board Accounting Standards Codification Topic 718, including with respect to an Offering Period underway at the time;
- (ii) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
- (iii) shortening any Offering Period by setting a New Exercise Date, including an Offering Period underway at the time of the Administrator action;
- (iv) reducing the maximum percentage of Compensation a Participant may elect to set aside as payroll deductions; and
- (v) reducing the maximum number of Shares a Participant may purchase during any Offering Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan Participants.

21. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan will be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

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22. Conditions Upon Issuance of Shares. Shares of Common Stock will not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto will comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and will be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. Term of Plan. The Plan will become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It will continue in effect for a term of ten (10) years, unless sooner terminated under Section 20.

24. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

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**EXHIBIT A**  
**TESLA, INC.**  
**2010 EMPLOYEE STOCK PURCHASE PLAN**  
**SUBSCRIPTION AGREEMENT**

1. I hereby elect to participate in the Tesla, Inc. 2010 Employee Stock Purchase Plan (the "Plan") and subscribe to purchase shares of the Company's Common Stock in accordance with this Subscription Agreement and the Plan.

2. I hereby authorize payroll deductions from each paycheck following my entry into the Plan, and have designated my rate of payroll deduction at \_\_\_\_\_ (from 1 to 15% of my Compensation), on each payday during the Offering Period in accordance with the Plan. (Please note that no fractional percentages are permitted.) I understand that such payroll deductions will be accumulated for the purchase of shares of Common Stock at the applicable Purchase Price determined in accordance with the Plan. I understand that if I do not withdraw from an Offering Period, any accumulated payroll deductions will be used to automatically exercise my option and purchase Common Stock under the Plan.

3. I have received and read a copy of the Plan document and the prospectus that describes the Plan. I understand that my participation in the Plan is in all respects subject to the terms of the Plan.

4. *For U.S. Taxpayers:* I understand that if I dispose of any shares received by me pursuant to the Plan within two (2) years after the Offering Date (the first day of the Offering Period during which I purchased such shares) or one (1) year after the Exercise Date, I will be treated for federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares at the time such shares were purchased by me over the price which I paid for the shares. I hereby agree to notify the Company in writing within thirty (30) days after the date of any disposition of my shares and I will make adequate provision for federal, state or other tax withholding obligations, if any, which arise upon the disposition of the Common Stock. The Company may, but will not be obligated to, withhold from my compensation the amount necessary to meet any applicable withholding obligation including any withholding necessary to make available to the Company any tax deductions or benefits attributable to sale or early disposition of Common Stock by me. If I dispose of such shares at any time after the expiration of the two (2)-year and one (1)-year holding periods, I understand that I will be treated for federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (a) the excess of the fair market value of the shares at the time of such disposition over the purchase price which I paid for the shares, or (b) fifteen percent (15%) of the fair market value of the shares on the first trading day of the Offering Period. The remainder of the gain, if any, recognized on such disposition will be taxed as capital gain.

5. I hereby agree to be bound by the terms of the Plan, including (but not limited to) the power of the Administrator of the Plan to interpret the Plan, to make all determinations under the Plan and to amend or terminate the Plan at any time. The effectiveness of this Subscription Agreement is dependent upon my eligibility to participate in the Plan.

\_\_\_\_\_  
Name

\_\_\_\_\_  
Employee ID Nur

\_\_\_\_\_  
Social Security Number

\_\_\_\_\_  
Date

**EXHIBIT B**  
**TESLA, INC.**  
**2010 EMPLOYEE STOCK PURCHASE PLAN**

**NOTICE OF WITHDRAWAL**

The undersigned Participant in the Offering Period of the Tesla, Inc. 2010 Employee Stock Purchase Plan that began on \_\_\_\_\_, \_\_\_\_\_ (the "Offering Date") hereby notifies the Company that he or she hereby withdraws from the Offering Period. He or she hereby directs the Company to pay to the undersigned as promptly as practicable all the payroll deductions credited to his or her account with respect to such Offering Period. The undersigned understands and agrees that his or her option for such Offering Period will be automatically terminated. The undersigned understands further that no further payroll deductions will be made for the purchase of shares in the current Offering Period and the undersigned will be eligible to participate in succeeding Offering Periods only by delivering to the Company a new Subscription Agreement.

Name and Address of Participant:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Exhibit 12.1**

**Ratio of Earnings to Fixed Charges**

The ratio of earnings to fixed charges for each of the periods indicated is as follows.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Ratio of earnings to fixed charges (1)	—	—	—	—	—

(1) For the purpose of calculating such ratios, "earnings" consist of income from continuing operations before income taxes plus fixed charges and "fixed charges" consist of interest expense (net of capitalized portion), capitalized interest, amortization of debt discount and the portion of rental expense representative of interest expense. Earnings were inadequate to cover the fixed charges by \$783.3 million, \$912.8 million, \$295.4 million, \$73.5 million, and \$403.3 million, for the years ended December 31, 2016, 2015, 2014, 2013, and 2012, respectively.

**Exhibit 21.1**

**SUBSIDIARIES OF TESLA, INC.**

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Afton Solar, LLC	Delaware
Allegheny Solar 1, LLC	Delaware
Allegheny Solar Manager 1, LLC	Delaware
Ancon Holdings II, LLC	Delaware
Ancon Holdings, LLC	Delaware
Ancon Solar Corporation	Delaware
Ancon Solar I, LLC	Delaware
Ancon Solar II Lessee Manager, LLC	Delaware
Ancon Solar II Lessee, LLC	Delaware
Ancon Solar II Lessor, LLC	Delaware
Ancon Solar Managing Member I, LLC	Delaware
Andrews County Solar, LLC	Delaware
Arpad Solar Borrower, LLC	Delaware
Arpad Solar I, LLC	Delaware
Arpad Solar Manager I, LLC	Delaware
AU Solar 1, LLC	Delaware
AU Solar 2, LLC	Delaware
Banyan SolarCity Manager 2010, LLC	Delaware
Banyan SolarCity Owner 2010, LLC	Delaware
Basking Solar I, LLC	Delaware
Beatrix Solar I, LLC	Delaware
Bernese Solar Manager I, LLC	Delaware
Blue Skies Solar I, LLC	Delaware
Blue Skies Solar II, LLC	Delaware
Building Solutions Acquisition Corporation	Delaware
Caballero Solar Managing Member I, LLC	Delaware
Caballero Solar Managing Member II, LLC	Delaware
Cardinal Blue Solar, LLC	Delaware
Castello Solar I, LLC	Delaware
Castello Solar II, LLC	Delaware
Castello Solar III, LLC	Delaware
Chaparral SREC Borrower, LLC	Delaware
Chaparral SREC Holdings, LLC	Delaware
Chompie Solar I, LLC	Delaware
Chompie Solar Manager I, LLC	Delaware
City UB Solar, LLC	Delaware
Clydesdale SC Solar I, LLC	Delaware
Common Assets Capital, LLC	Delaware
Common Assets Financial, LLC	Delaware

Common Assets Securities, LLC	Delaware
Common Assets Technologies, LLC	Delaware
Common Assets, LLC	Delaware
Corcoran Solar, LLC	Delaware
Cottage Grove Solar, LLC	Delaware
Dahlia Holdings I, LLC	Delaware
Dahlia Holdings II, LLC	Delaware
Dom Solar General Partner I, LLC	Delaware
Dom Solar Lessor I, LP	Cayman
Dom Solar Limited Partner I, LLC	Delaware
Domino Solar Ltd	Cayman
Eiger Lease Co, LLC	Delaware
Energy Freedom Coalition of America, LLC	Delaware
Ever CT Solar Farm, LLC	California
Falconer Solar Manager I, LLC	Delaware
Firehorn Finance Company, LLC	Delaware
Firehorn Solar I, LLC	Cayman
Firehorn Solar Manager I, LLC	Delaware
FocalPoint Solar Borrower, LLC	Delaware
FocalPoint Solar I, LLC	Delaware
FocalPoint Solar Manager I, LLC	Delaware
Fontane Solar I, LLC	Delaware
FOTOVOLTAICA GI 4, S. de R.L. de C.V.	Mexico
FOTOVOLTAICA GI 5, S. de R.L. de C.V.	Mexico
FTE Solar I, LLC	Delaware
Grohmann USA Inc.	Arizona
Grohmann Automation Ltd	Canada
Grohmann Engineering GmbH	Germany
Grohmann Engineering Trading (Shanghai) Co. Ltd.	China
Hammer Solar, LLC	Delaware
Hammerhead Solar, LLC	Delaware
Harpoon Solar I, LLC	Delaware
Harpoon Solar Manager I, LLC	Delaware
Haymarket Holdings, LLC	Delaware
Haymarket Manager 1, LLC	Delaware
Haymarket Solar 1, LLC	Delaware
Ikehu Manager I, LLC	Delaware
IL Buono Solar I, LLC	Delaware
ILIOSSON, S.A. de C.V.	Mexico
Juniper Solar, LLC	Delaware
Klamath Falls Solar 1, LLC	Delaware
Klamath Falls Solar 2, LLC	Delaware
Klamath Falls Solar 3, LLC	Delaware
Knight Solar Managing Member I, LLC	Delaware
Knight Solar Managing Member II, LLC	Delaware

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Knight Solar Managing Member III, LLC	Delaware
Landlord 2008-A, LLC	Delaware
Louis Solar II, LLC	Delaware
Louis Solar III, LLC	Delaware
Louis Solar Manager II, LLC	Delaware
Louis Solar Manager III, LLC	Delaware
Louis Solar Master Tenant I, LLC	Delaware
Louis Solar MT Manager I, LLC	Delaware
Louis Solar Owner I, LLC	Delaware
Louis Solar Owner Manager I, LLC	Delaware
Mako GB SPV Holdings, LLC	Delaware
Mako GB SPV, LLC	Delaware
Mako Solar Holdings, LLC	Delaware
Mako Solar, LLC	Delaware
Master Tenant 2008-A, LLC	Delaware
Matterhorn Solar I, LLC	Delaware
Megalodon Solar, LLC	Delaware
Monte Rosa Solar I, LLC	Delaware
Monticello Solar, LLC	Delaware
Mound Solar Manager V, LLC	Delaware
Mound Solar Manager VI, LLC	Delaware
Mound Solar Manager X, LLC	Delaware
Mound Solar Manager XI, LLC	Delaware
Mound Solar Manager XII, LLC	Delaware
Mound Solar Master Tenant IX, LLC	Delaware
Mound Solar Master Tenant V, LLC	California
Mound Solar Master Tenant VI, LLC	Delaware
Mound Solar Master Tenant VII, LLC	Delaware
Mound Solar Master Tenant VIII, LLC	Delaware
Mound Solar MT Manager IX, LLC	Delaware
Mound Solar MT Manager VII, LLC	Delaware
Mound Solar MT Manager VIII, LLC	Delaware
Mound Solar Owner IX, LLC	Delaware
Mound Solar Owner Manager IX, LLC	Delaware
Mound Solar Owner Manager VII, LLC	Delaware
Mound Solar Owner Manager VIII, LLC	Delaware
Mound Solar Owner V, LLC	California
Mound Solar Owner VI, LLC	Delaware
Mound Solar Owner VII, LLC	Delaware
Mound Solar Owner VIII, LLC	Delaware
Mound Solar Partnership X, LLC	Delaware
Mound Solar Partnership XI, LLC	Delaware
Mound Solar Partnership XII, LLC	Delaware
MS SolarCity 2008, LLC	Delaware
MS SolarCity Commercial 2008, LLC	Delaware

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MS SolarCity ResiDelawarential 2008, LLC	Delaware
MT Solar Corporation	Delaware
NBA SolarCity AFB, LLC	California
NBA SolarCity Commercial I, LLC	California
NBA SolarCity Solar Phoenix, LLC	California
Northern Nevada Research Co., LLC	Nevada
Pacific Solar Storage 1 (Guam) LLC	Guam
Paramount Energy Fund I Lessee, LLC	Delaware
Paramount Energy Fund I Lessor, LLC	Delaware
PEF I MM, LLC	Delaware
Poppy Acquisition LLC	Delaware
Presidio Solar I, LLC	Delaware
Presidio Solar II, LLC	Delaware
Pukana La Solar I, LLC	Delaware
Roadster Automobile Sales and Service (Beijing) Co., Ltd.	China
Roadster Finland Oy	Finland
Scandia Trail Solar, LLC	Delaware
Sequoia Pacific Holdings, LLC	Delaware
Sequoia Pacific Manager I, LLC	Delaware
Sequoia Pacific Solar I, LLC	Delaware
Sequoia SolarCity Owner I, LLC	Delaware
SERVICIOS DE TECNOLOGÍA Y ADMINISTRACIÓN ILIOSS, S.A. de C.V.	Mexico
Sierra Solar Power (Hong Kong) Limited	Hong Kong
Silevo China Co. Ltd	China
Silevo Germany GmbH	Germany
Silevo, LLC	Delaware
Silver Springs Solar, LLC	Delaware
Solar Aquarium Holdings, LLC	Delaware
Solar Energy of America 1, LLC	Delaware
Solar Energy of America Holdco, LLC	Delaware
Solar Energy of America Manager 1, LLC	Delaware
Solar Explorer, LLC	Delaware
Solar Grove Holdings, LLC	Delaware
Solar House I, LLC	Delaware
Solar House II, LLC	Delaware
Solar House III, LLC	Delaware
Solar House IV, LLC	Delaware
Solar Integrated Fund I, LLC	Delaware
Solar Integrated Fund II, LLC	Delaware
Solar Integrated Fund III, LLC	Delaware
Solar Integrated Fund IV-A, LLC	Delaware
Solar Integrated Manager I, LLC	Delaware
Solar Integrated Manager II, LLC	Delaware
Solar Integrated Manager III, LLC	Delaware
Solar Integrated Manager IV-A, LLC	Delaware

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Solar Odyssey Holdings, LLC	Delaware
Solar Services Company, LLC	Delaware
Solar Ulysses Manager I, LLC	Delaware
Solar Ulysses Manager II, LLC	Delaware
Solar Voyager, LLC	Delaware
Solar Warehouse Manager I, LLC	Delaware
Solar Warehouse Manager II, LLC	Delaware
SolarCity Corporation	Delaware
Solar Warehouse Manager III, LLC	Delaware
Solar Warehouse Manager IV, LLC	Delaware
SolarCity Alpine Holdings, LLC	Delaware
SolarCity Amphitheatre Holdings, LLC	Delaware
SolarCity Arbor Holdings, LLC	Delaware
SolarCity Arches Holdings, LLC	Delaware
SolarCity AU Holdings, LLC	Delaware
SolarCity Corporation	Delaware
SolarCity Electrical New York Corporation	Delaware
SolarCity Electrical, LLC	Delaware
SolarCity Engineering, Inc.	California
SolarCity Finance Company, LLC	Delaware
SolarCity Finance Holdings, LLC	Delaware
SolarCity Foxborough Holdings, LLC	Delaware
SolarCity FTE Series 1, LLC	Delaware
SolarCity FTE Series 2, LLC	Delaware
SolarCity Fund Holdings, LLC	Delaware
SolarCity Giants Holdings, LLC	Delaware
SolarCity Grand Canyon Holdings, LLC	Delaware
SolarCity Holdings 2008, LLC	Delaware
SolarCity International, Inc.	Delaware
SolarCity Investments Canada Ltd.	Canada
SolarCity Leviathan Holdings, LLC	Delaware
SolarCity LMC Series I, LLC	Delaware
SolarCity LMC Series II, LLC	Delaware
SolarCity LMC Series III, LLC	Delaware
SolarCity LMC Series IV, LLC	Delaware
SolarCity LMC Series V, LLC	Delaware
SolarCity Mid-Atlantic Holdings, LLC	Delaware
SolarCity Nitro Holdings, LLC	Delaware
SolarCity Orange Holdings, LLC	Delaware
SolarCity Pierpont Holdings, LLC	Delaware
SolarCity Series Holdings I, LLC	Delaware
SolarCity Series Holdings II, LLC	Delaware
SolarCity Series Holdings IV, LLC	Delaware
SolarCity Steep Holdings, LLC	Delaware
SolarCity Ulu Holdings, LLC	Delaware

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SolarCity Village Holdings, LLC	Delaware
SolarRock, LLC	Delaware
SolarStrong Holdings, LLC	Delaware
SolarStrong, LLC	Delaware
SOLIN AG	Germany
Sparrowhawk Solar I, LLC	Delaware
SREC Holdings, LLC	Delaware
Sunshine Storage I, LLC	Delaware
Sunshine Storage II, LLC	Delaware
Sunshine Storage III, LLC	Delaware
Symax Systemtechnik Sondermaschinenbau GmbH	Germany
Tesla 2014 Warehouse SPV LLC	Delaware
Tesla Automobile Distribution (Beijing) Co., Ltd.	China
Tesla Automobile Sales and Service (Beijing) Co., Ltd.	China
Tesla Automobile Sales and Service (Chengdu) Co., Ltd.	China
Tesla Automobile Sales and Service (Guangzhou) Co., Ltd.	China
Tesla Automobile Sales and Service (Hangzhou) Co., Ltd.	China
Tesla Automobile Sales and Service (Nanjing) Co., Ltd.	China
Tesla Automobile Sales and Service (Shanghai) Co., Ltd.	China
Tesla Automobile Sales and Service (Shenzhen) Co., Ltd.	China
Tesla Automobile Sales and Service (Tianjin) Co., Ltd.	China
Tesla Automobile Sales and Service (Wuhan) Co., Ltd.	China
Tesla Automobile Sales and Service (Xi'an) Co., Ltd.	China
Tesla Automobiles Mexico, S. de R.L. de C.V.	Mexico
Tesla Automobiles Sales and Service Mexico, S. de R.L. de C.V.	Mexico
Tesla Canada GP Inc.	Canada
Tesla Canada LP	Canada
Tesla Energia Macau Limitada	Macau
Tesla Finance LLC	Delaware
Tesla Financial Services GmbH	Germany
Tesla Financial Services Holdings B.V.	Netherlands
Tesla Financial Services Limited	UK
Tesla International B.V.	Netherlands
Tesla Korea Limited	South Korea
Tesla Lease Trust	Delaware
Tesla LLC	Delaware
Tesla Motors Australia, Pty Ltd	Australia
Tesla Motors Austria GmbH	Austria
Tesla Motors Belgium SPRL	Belgium
Tesla Motors Canada ULC	Canada
Tesla Motors Coöperatief U.A.	Netherlands
Tesla Motors Denmark ApS	Denmark
Tesla Motors Exports LLC	Delaware
Tesla Motors FL, Inc.	Florida
Tesla Motors France S.à r.l.	France

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Tesla Motors GmbH	Germany
Tesla Motors HK Limited	Hong Kong
Tesla Motors Italy S.r.l.	Italy
Tesla Motors Japan GK	Japan
Tesla Motors Leasing, Inc.	Delaware
Tesla Motors Limited	UK
Tesla Motors Luxembourg S.à r.l.	Luxembourg
Tesla Motors MA, Inc.	Massachusetts
Tesla Motors Netherlands B.V.	Netherlands
Tesla Motors Netherlands Incorporated in (The Netherlands) External Profit Company	Netherlands
Tesla Motors Netherlands BV (Dubai Branch) 1	Netherlands
Tesla Motors New York LLC	New York
Tesla Motors NL LLC	Delaware
Tesla Motors Norway AS	Norway
Tesla Motors NV, Inc.	Nevada
Tesla Motors PA, Inc.	Pennsylvania
Tesla Motors SARL	Monaco
Tesla Motors Singapore Holdings Pte. Ltd.	Singapore
Tesla Motors Singapore Private Limited	Singapore
Tesla Motors Stichting	Netherlands
Tesla Motors Switzerland GmbH	Switzerland
Tesla Motors Taiwan Limited	Taiwan
Tesla Motors TN, Inc.	Tennessee
Tesla Motors TX, Inc.	Texas
Tesla Motors UT, Inc.	Utah
Tesla New Zealand ULC	New Zealand
Tesla Portugal, Sociedade Unipessoal LDA	Portugal
The Big Green Solar Holdings, LLC	Delaware
The Big Green Solar I, LLC	Delaware
The Big Green Solar Manager I, LLC	Delaware
Tesla Sales, Inc.	Delaware
Tesla Spain, S.L.	Spain
Three Rivers Solar 1, LLC	Delaware
Three Rivers Solar 2, LLC	Delaware
Three Rivers Solar 3, LLC	Delaware
Three Rivers Solar Holding Company, LLC	Delaware
Three Rivers Solar Manager 1, LLC	Delaware
Three Rivers Solar Manager 2, LLC	Delaware
Three Rivers Solar Manager 3, LLC	Delaware
Tiller Solar, LLC	Delaware
TM International C.V.	Netherlands
TM Sweden AB	Sweden
USB SolarCity Manager 2009, LLC	Delaware
USB SolarCity Manager 2009-2010, LLC	Delaware
USB SolarCity Manager III, LLC	Delaware

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USB SolarCity Manager IV, LLC  
USB SolarCity Master Tenant 2009, LLC  
USB SolarCity Master Tenant 2009-2010, LLC  
USB SolarCity Master Tenant IV, LLC  
USB SolarCity Owner 2009, LLC  
USB SolarCity Owner 2009-2010, LLC  
USB SolarCity Owner IV, LLC  
Viceroy Solar Holdings, LLC  
Visigoth Solar 1, LLC  
Visigoth Solar Holdings, LLC  
Visigoth Solar Managing Member 1, LLC  
Zep Solar Australia Pty Limited  
Zep Solar Hong Kong Limited  
Zep Solar LLC  
Zep Solar Trading Ltd  
Zep Solar UK Limited

Delaware  
California  
California  
California  
California  
California  
California  
Delaware  
Delaware  
Delaware  
Delaware  
Australia  
Hong Kong  
California  
China  
UK

**Exhibit 23.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-211437) and S-8 (Nos. 333-209696, 333-198002, 333-187113, 333-183033, and 333-167874) of Tesla, Inc. of our report dated March 1, 2017 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
March 1, 2017

**Exhibit 23.2**

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Form 10-K of Tesla, Inc. (the Company) and in the following Registration Statements:

- Form S-3 (No. 333-211437) of the Company; and
- Forms S-8 (Nos. 333-167874, 333-183033, 333-187113, 333-198002 and 333-209696) pertaining to the Tesla, Inc. 2010 Equity Incentive Plan, the Tesla, Inc. 2010 Employee Stock Purchase Plan and/or the Tesla Motors, Inc. 2003 Equity Incentive Plan of the Company

of our report dated March 1, 2017, with respect to the consolidated financial statements of SolarCity Corporation incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Los Angeles, California  
March 1, 2017

**Exhibit 31.1**

**CERTIFICATIONS**

I, Elon Musk, certify that:

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

Date: March 1, 2017

/s/ Elon Musk  
Elon Musk  
Chief Executive Officer  
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATIONS**

I, Jason Wheeler, certify that:

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

Date: March 1, 2017

/s/ Jason Wheeler  
Jason Wheeler  
Chief Financial Officer  
(Principal Financial Officer)

**SECTION 1350 CERTIFICATIONS**

I, Elon Musk, certify, pursuant to 18 U.S.C. Section 1350, that, to my knowledge, the Annual Report of Tesla, Inc. on Form 10-K for the annual period ended December 31, 2016, (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Tesla, Inc.

Date: March 1, 2017

\_\_\_\_\_  
 /s/ Elon Musk  
 Elon Musk  
 Chief Executive Officer  
 (Principal Executive Officer)

I, Jason Wheeler, certify, pursuant to 18 U.S.C. Section 1350, that, to my knowledge, the Annual Report of Tesla, Inc. on Form 10-K for the annual period ended December 31, 2016, (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Tesla, Inc.

Date: March 1, 2017

\_\_\_\_\_  
 /s/ Jason Wheeler  
 Jason Wheeler  
 Chief Financial Officer  
 (Principal Financial Officer)

EX-99.1 16 tsla-ex991\_2714.htm EX-99.1

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder of  
 SolarCity Corporation

We have audited the accompanying consolidated balance sheets of SolarCity Corporation (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SolarCity Corporation at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP  
 Los Angeles, California  
 March 1, 2017

**SolarCity Corporation**  
**Consolidated Balance Sheets**  
(In Thousands, Except Shares and Share Par Values)

	December 31,	
	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 290,710	\$ 382,544
Short-term investments	—	11,311
Restricted cash	74,717	39,864
Accounts receivable (net of allowances for doubtful accounts of \$14,829 and \$4,292 as of December 31, 2016 and December 31, 2015, respectively)	66,949	33,998
Rebates receivable (net of reserves of \$2,803 and \$2,207 as of December 31, 2016 and December 31, 2015, respectively)	10,339	11,545
Inventories	172,713	342,951
Prepaid expenses and other current assets	77,497	79,925
Total current assets	692,925	902,138
Solar energy systems, leased and to be leased - net	5,828,755	4,375,553
Property, plant and equipment - net	244,736	262,387
Build-to-suit lease asset under construction	807,593	284,500
Goodwill and intangible assets - net	461,989	517,109
MyPower customer notes receivable, net of current portion	517,244	488,461
MyPower deferred costs	232,369	215,708
Other assets	345,145	241,262
Total assets(1)	<u>\$ 9,130,756</u>	<u>\$ 7,287,118</u>

	December 31,	
	2016	2015
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable	\$ 207,643	\$ 364,973
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	24,085	26,769
Payable to parent - net	11,693	-
Current portion of deferred U.S. Treasury grant income	14,348	15,336
Accrued and other current liabilities	265,987	276,506
Current portion of deferred revenue	124,722	103,078
Current portion of long-term debt	617,588	180,048
Current portion of solar bonds	16,582	13,189
Current portion of solar bonds issued to related parties	165,000	165,120
Current portion of solar asset-backed notes	19,628	13,864
Current portion of financing obligation	52,031	34,479
Total current liabilities	1,519,307	1,193,362
Deferred revenue, net of current portion	1,086,417	1,010,491
Long-term debt, net of current portion	1,092,426	1,006,595
Solar bonds, net of current portion	50,179	35,678
Solar bonds issued to related parties, net of current portion	100,100	100
Convertible senior notes	873,194	881,585
Convertible senior notes issued to related parties	11,669	12,975
Solar asset-backed notes, net of current portion	549,205	395,667
Long-term deferred tax liability	481	1,373
Financing obligation, net of current portion	81,917	68,940
Deferred U.S. Treasury grant income, net of current portion	343,264	382,283
Build-to-suit lease liability	807,593	284,500
Other liabilities and deferred credits	339,951	279,006
Total liabilities(1)	6,855,703	5,552,555
Commitments and contingencies (Note 23)		
Redeemable noncontrolling interests in subsidiaries	343,623	320,935
Parent's equity:		
Common stock:		
as of December 31, 2016, \$0.01 par value, 1.0 million shares authorized, 100 shares issued and outstanding;	-	10
as of December 31, 2015, \$0.0001 par value, 1 billion shares authorized, 97.9 million shares issued and outstanding	-	-
Additional paid-in capital	1,301,201	1,195,246
Accumulated deficit	(77,916)	(316,690)
Total parent's equity	1,223,285	878,556
Total noncontrolling interests in subsidiaries	708,145	535,062
Noncontrolling interests in subsidiaries	708,145	535,062
Total equity	1,931,430	1,413,628
Total liabilities and equity	\$ 9,130,756	\$ 7,287,118

(1) SolarCity Corporation's, or the Company's, consolidated assets as of December 31, 2016 and 2015 included \$4,133,472 and \$2,866,882, respectively, of assets of variable interest entities, or VIEs, that can only be used to settle obligations of the VIEs. These assets included solar energy systems, leased and to be leased - net of \$3,975,214 and \$2,779,363 as of December 31, 2016 and 2015, respectively; property, plant and equipment - net of \$0 and \$21,960 as of December 31, 2016 and 2015, respectively; cash and cash equivalents of \$44,091 and \$33,537 as of December 31, 2016 and 2015, respectively; inventory of \$0 and \$1,000 as of December 31, 2016 and 2015, respectively; restricted cash, current, of \$20,916 and \$522 as of December 31, 2016 and 2015, respectively; accounts receivable - net of \$16,023 and \$10,267 as of December 31, 2016 and 2015, respectively; prepaid expenses and other current assets of \$7,532 and \$2,713 as of December 31, 2016 and 2015, respectively; rebates receivable of \$6,646 and \$6,220 as of December 31, 2016 and 2015, respectively; and other assets of \$63,050 and \$11,300 as of December 31, 2016 and 2015, respectively. The Company's consolidated liabilities as of December 31, 2016 and 2015 included \$596,802 and \$33,475, respectively, of liabilities of VIEs whose creditors have no recourse to the Company. These liabilities included distributions payable to noncontrolling interests in subsidiaries and redeemable noncontrolling interests in subsidiaries of \$24,085 and \$26,769 as of December 31, 2016 and 2015, respectively; accounts payable of \$20 and \$1,954 as of December 31, 2016 and 2015, respectively; customer deposits of \$1,169 and \$2,928 as of December 31, 2016 and 2015, respectively; accrued liabilities and other payables of \$8,524 and \$1,824 as of December 31, 2016 and 2015, respectively; current portion of long-term debt of \$87,467 and \$0 as of December 31, 2016 and 2015, respectively; and long-term debt, net of current portion, of \$475,537 and \$0 as of December 31, 2016 and 2015, respectively.

See the further description in Note 13, *VIE Arrangements*.

See accompanying notes.

**SolarCity Corporation**  
**Consolidated Statements of Operations**  
(In Thousands)

	Year Ended December 31,		
	2016	2015	2014
<b>Revenue:</b>			
Operating leases and solar energy systems incentives	\$ 422,326	\$ 293,543	\$ 173,636
Solar energy systems and components sales	308,016	106,076	81,395
Total revenue	730,342	399,619	255,031
<b>Cost of revenue:</b>			
Operating leases and solar energy systems incentives	253,653	165,546	92,920
Solar energy systems and components sales	225,269	115,245	83,512
Total cost of revenue	478,922	280,791	176,432
Gross profit	251,420	118,828	78,599
<b>Operating expenses:</b>			
Sales and marketing	442,590	457,185	238,608
General and administrative	228,980	244,508	156,426
Pre-production expense	69,306	—	—
Restructuring and other	105,922	—	—
Research and development	54,963	64,925	19,162
Total operating expenses	901,761	766,618	414,196
Loss from operations	(650,341)	(647,790)	(335,597)
<b>Interest and other expenses:</b>			
Interest expense - recourse debt	42,162	28,145	14,522
Interest expense - non-recourse debt	74,527	29,905	13,537
Other interest expense and amortization of debt discounts and fees, net	39,965	33,889	27,699
Other expense, net	13,660	25,767	10,611
Total interest and other expenses	170,314	117,706	66,369
Loss before income taxes	(820,655)	(765,496)	(401,966)
Income tax benefit (provision)	308	(3,326)	26,736
Net loss	(820,347)	(768,822)	(375,230)
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests	(1,059,121)	(710,492)	(319,196)
Net income (loss) attributable to parent	\$ 238,774	\$ (58,330)	\$ (56,034)

See accompanying notes.

**SolarCity Corporation**  
**Consolidated Statements of Equity**  
(In Thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Parent's Equity	Noncontrolling Interests in Subsidiaries	Total Equity
	Shares	Amount					
Balance at January 1, 2014	91,009	\$ 10	\$ 819,914	\$ (202,326)	\$ 617,598	\$ 186,817	\$ 804,415
Contributions from noncontrolling interests	—	—	—	—	—	517,471	517,471
Issuance of common stock upon acquisition of Silevo	2,284	—	137,958	—	137,958	—	137,958
Issuance of restricted stock units upon acquisition of Silevo	—	—	132	—	132	—	132
Purchase of capped call options	—	—	(65,203)	—	(65,203)	—	(65,203)
Stock-based compensation expense	—	—	88,936	—	88,936	—	88,936
Issuance of common stock upon exercise of stock options for cash	3,176	—	20,255	—	20,255	—	20,255
Issuance of common stock upon vesting of restricted stock units	52	—	—	—	—	—	—
Acquisition of noncontrolling interest in subsidiaries	—	—	2,000	—	2,000	—	2,000
Net loss	—	—	—	(56,034)	(56,034)	(178,124)	(234,158)
Transfers to redeemable noncontrolling interests in subsidiaries	—	—	—	—	—	(25,248)	(25,248)
Distributions to noncontrolling interests	—	—	—	—	—	(90,974)	(90,974)
Balance at December 31, 2014	96,521	\$ 10	\$ 1,003,992	\$ (258,360)	\$ 745,642	\$ 409,942	\$ 1,155,584
Contributions from noncontrolling interests	—	—	—	—	—	681,994	681,994
Tax benefit of stock option exercises	—	—	63,019	—	63,019	—	63,019
Stock-based compensation expense	—	—	116,585	—	116,585	—	116,585
Issuance of common stock upon exercise of stock options for cash	951	—	11,650	—	11,650	—	11,650
Issuance of common stock to employees and board members upon vesting of restricted stock units	392	—	—	—	—	—	—
Net loss	—	—	—	(58,330)	(58,330)	(451,999)	(510,329)
Distributions to noncontrolling interests	—	—	—	—	—	(104,875)	(104,875)
Balance at December 31, 2015	97,864	10	1,195,246	(316,690)	878,566	535,062	1,413,628
Contributions from noncontrolling interests	—	—	—	—	—	847,979	847,979
Tax impact of stock option exercises	—	—	(11,650)	—	(11,650)	—	(11,650)
Stock-based compensation expense	—	—	74,775	—	74,775	—	74,775
Issuance of common stock upon exercise of stock options for cash	605	—	4,072	—	4,072	—	4,072
Issuance of common stock to employees and board members upon vesting of restricted stock units	1,150	—	—	—	—	—	—
Issuance of stock to settle accrued compensation	—	—	631	—	631	—	631
Issuance of stock on settlement of Silevo contingent consideration	1,514	—	34,170	—	34,170	—	34,170
Common stock purchased by Tesla, Inc. and retired	(101,133)	(10)	(1,297,244)	—	(1,297,254)	—	(1,297,254)
Issuance of common stock to Tesla, Inc.	100	—	1,297,254	—	1,297,254	—	1,297,254
Stock compensation expense for Tesla, Inc. stock	—	—	485	—	485	—	485
Reclassification of capped call options	—	—	3,462	—	3,462	—	3,462
Net income (loss)	—	—	—	238,774	238,774	(573,553)	(334,779)
Distributions to noncontrolling interests	—	—	—	—	—	(101,343)	(101,343)
Balance at December 31, 2016	100	\$ —	\$ 1,301,201	\$ (77,916)	\$ 1,223,285	\$ 708,145	\$ 1,931,430

See accompanying notes.

**SolarCity Corporation**  
**Consolidated Statements of Cash Flows**  
(In Thousands)

	Year Ended December 31,		
	2016	2015	2014
<b>Operating activities:</b>			
Net loss	\$ (820,347)	\$ (768,822)	\$ (375,230)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation, amortization and write-offs	308,773	166,653	97,880
Change in fair value of interest rate swaps	2,954	11,560	—
Non-cash interest and other expense	(76,023)	16,427	13,631
Stock-based compensation, net of amounts capitalized	49,988	86,369	65,562
Tax impact of stock option exercises	11,650	(63,019)	—
Loss on extinguishment of long-term debt	798	1,093	4,533
Deferred income taxes	(892)	(527)	(26,680)
Non-cash reduction in financing obligation	(50,342)	(48,132)	(48,837)
Loss on disposal of property, plant and equipment and construction in progress	1,798	3,840	1,404
Changes in operating assets and liabilities:			
Restricted cash	(91,388)	(48,650)	(17,699)
Accounts receivable	(32,951)	(11,049)	945
Rebates receivable	1,206	18,476	(9,890)
Inventories	170,582	(125,337)	(97,347)
Prepaid expenses and other current assets	4,701	(24,485)	(23,155)
MyPower deferred costs	(17,067)	(202,899)	(13,571)
Other assets	(27,607)	(70,016)	(18,872)
Accounts payable	(149,686)	125,472	112,480
Payable to parent company, net	5,115	—	—
Accrued and other liabilities	132,826	131,657	(20,944)
Deferred revenue	67,135	11,505	137,941
Net cash used in operating activities	(508,777)	(789,884)	(217,849)
<b>Investing activities:</b>			
Payments for the cost of solar energy systems, leased and to be leased	(1,611,010)	(1,665,641)	(1,162,963)
Purchase of property, plant and equipment	(62,895)	(176,540)	(22,892)
Purchases of short-term investments	—	(44,592)	(167,397)
Proceeds from sales and maturities of short-term investments	11,243	170,737	28,764
Acquisition of business, net of cash acquired	—	(9,509)	1,874
Payments for the acquisition of noncontrolling interests	(13,664)	—	—
Payments for settlements of interest rate swaps	(13,003)	—	—
Other investments	—	(1,189)	(22,200)
Net cash used in investing activities	(1,689,329)	(1,726,734)	(1,344,814)

	Year Ended December 31,		
	2016	2015	2014
<b>Financing activities:</b>			
<i>Investment fund financings, bank and other borrowings:</i>			
Borrowings under long-term debt	1,376,177	1,093,261	369,801
Repayments of long-term debt	(866,946)	(215,933)	(336,557)
Proceeds from issuance of solar bonds	32,436	47,146	3,122
Proceeds from issuance of solar bonds issued to related parties	265,010	165,020	530
Repayments of borrowings under solar bonds	(14,827)	(1,820)	—
Repayments of borrowings under solar bonds issued to related parties	(165,110)	(330)	—
Proceeds from issuance of solar asset-backed notes	221,035	119,790	262,880
Repayments of borrowings under solar asset-backed notes	(64,090)	(15,863)	(5,932)
Payment of deferred purchase consideration	—	(3,747)	(2,206)
Proceeds from financing obligation	69,007	43,125	44,563
Repayments of financing obligation	(481)	(5,259)	(12,460)
Repayment of capital lease obligations	(10,318)	(6,036)	(2,772)
Proceeds from investments by noncontrolling interests and redeemable noncontrolling interests in subsidiaries	1,420,819	1,097,487	777,963
Distributions paid to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	(148,862)	(109,511)	(117,125)
Proceeds from U.S. Treasury grants	—	—	342
Net cash provided by financing activities before equity and convertible senior notes issuances	2,113,850	2,207,330	982,149
<i>Equity issuances and convertible senior notes issuances:</i>			
Proceeds from issuance of convertible senior notes	—	99,805	552,765
Proceeds from issuance of convertible senior notes issued to related parties	—	12,975	—
Purchase of capped call options	—	—	(65,203)
Proceeds from exercise of stock options	4,072	11,650	20,255
Tax impact of stock option exercises	(11,650)	63,019	—
Net cash provided by equity issuances and convertible senior notes issuances	(7,578)	187,449	507,817
Net cash provided by financing activities	2,106,272	2,394,779	1,489,966
Net decrease in cash and cash equivalents	(91,834)	(121,839)	(72,697)
Cash and cash equivalents, beginning of period	382,544	504,383	577,080
Cash and cash equivalents, end of period	<u>\$ 290,710</u>	<u>\$ 382,544</u>	<u>\$ 504,383</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the period for interest	\$ 107,157	\$ 53,971	\$ 22,702
Cash paid during the period for taxes, net of refunds	\$ 11,221	\$ 2,846	\$ 1,881

See accompanying notes.



**SolarCity Corporation**  
**Notes to Consolidated Financial Statements**

**1. Organization**

SolarCity Corporation, or the Company, was incorporated as a Delaware corporation on June 21, 2006. The Company is primarily engaged in the design, manufacture, installation and sale or lease of solar energy systems, or sale of electricity generated by solar energy systems. The Company's headquarters are located in San Mateo, California.

On November 21, 2016, the Company was acquired by and now operates as a wholly owned subsidiary of Tesla, Inc., or Tesla. Pursuant to the terms of the merger agreement, each share of the Company's common stock then outstanding was converted into 0.11 shares of Tesla's common stock, or the Exchange Ratio. The Company's outstanding option and restricted stock unit awards were also converted into corresponding equity awards of Tesla's common stock based on the Exchange Ratio, with the awards retaining the same vesting and other terms and conditions as in effect immediately prior to the merger.

**2. Summary of Significant Accounting Policies and Procedures**

***Basis of Presentation and Principles of Consolidation***

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, and reflect the accounts and operations of the Company and those of its subsidiaries in which the Company has a controlling financial interest. In accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 810, *Consolidation*, the Company consolidates any variable interest entity, or VIE, of which it is the primary beneficiary. The Company forms VIEs with its financing fund investors in the ordinary course of business in order to facilitate the funding and monetization of certain attributes associated with its solar energy systems. The typical condition for a controlling financial interest ownership is holding a majority of the voting interests of an entity; however, a controlling financial interest may also exist in entities, such as VIEs, through arrangements that do not involve controlling voting interests. ASC 810 requires a variable interest holder to consolidate a VIE if that party has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The Company does not consolidate a VIE in which it has a majority ownership interest when the Company is not considered the primary beneficiary. The Company has determined that it is the primary beneficiary of a number of VIEs (see Note 13, *VIE Arrangements*). The Company evaluates its relationships with all the VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation. In addition, the consolidated financial statements reflect the Company's historical amounts and balances and do not reflect pushdown accounting from the acquisition by Tesla.

***Reclassifications***

Certain prior period balances have been reclassified to conform to the current period presentation. In particular, the consolidated statements of operations have been expanded to separately present net interest expense between (i) interest expense on recourse debt excluding the amortization of any debt discounts or fees, (ii) interest expense on non-recourse debt excluding the amortization of any debt discounts or fees and (iii) all other net interest expense including the amortization of all debt discounts and fees.

***Use of Estimates***

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Management regularly makes significant estimates and assumptions regarding the selling price of undelivered elements for revenue recognition purposes, the collectability of accounts and rebates receivable, the valuation of inventories, the labor costs for long-term contracts used as a basis for determining the percentage of completion for such contracts, the fair values and residual values of solar energy systems subject to leases, the accounting for business combinations, the fair values and useful lives of acquired tangible and intangible assets, the fair value of contingent consideration payable under business combinations, the useful lives of solar energy systems, property, plant and equipment, the determination of accrued warranty, the determination of accrued liability for solar energy system performance guarantees, the determination of lease pass-through financing obligations, the discount rates used to determine the fair values of investment tax credits, the valuation of stock-based compensation, the determination of valuation allowances associated with deferred tax assets, asset impairment, the valuation of build-to-suit lease assets, the fair value of interest rate swaps, the fair value of capped call options, the fair value of convertible senior note conversion features and other items. Management bases its estimates on historical experience and on various other assumptions believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ materially from those estimates.

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***Cash and Cash Equivalents***

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. The Company maintains cash and cash equivalents, which consist principally of demand deposits with high credit-quality financial institutions. The Company has exposure to credit risk to the extent cash and cash equivalent balances, including any restricted cash balances on deposit, exceed amounts covered by federal deposit insurance. The Company believes that its credit risk is not significant.

***Restricted Cash***

Restricted cash includes cash received from certain fund investors that had not been released for use by the Company, cash held to service certain payments under various secured debt facilities, including management fee, principal and interest payments, and balances collateralizing outstanding letters of credit, outstanding credit card borrowing facilities and obligations under certain operating leases.

***Accounts Receivable***

Accounts receivable primarily represent trade receivables from billings and sales to residential and commercial customers recorded at net realizable value. The Company maintains an allowance for doubtful accounts to reserve for potentially uncollectible accounts receivable. The Company reviews its accounts receivable by aging category to identify significant customer balances with known disputes or collection issues. In determining the allowance, the Company makes judgments about the creditworthiness of a majority of its customers based on ongoing credit evaluations. The Company also considers its historical level of credit losses and current economic trends that might impact the level of future credit losses. The Company writes off accounts receivable when they are deemed uncollectible.

***Customer Notes Receivable***

In the fourth quarter of 2014, the Company launched MyPower, a program that offered residential customers the option to finance the purchase of solar energy systems through a 30-year loan provided by a wholly owned subsidiary of the Company. The Company ceased offering MyPower in the third quarter of 2016. During the periods in which MyPower was offered, in order to qualify for a loan, a customer had to pass the Company's credit evaluation process, and the loans are secured by the solar energy systems financed. The outstanding loan balances that remain from when MyPower was offered, net of any allowance for potentially uncollectible amounts, are presented on the consolidated balance sheets as a component of prepaid expenses and other current assets for the current portion and as customer notes receivable, net of current portion, for the long-term portion. In determining the allowance and credit quality for customer loans under MyPower, the Company identifies significant customers with known disputes or collection issues and also considers its historical level of credit losses and current economic trends that might impact the level of future credit losses. Customer notes receivable that are individually impaired are charged-off as a write-off of allowance for losses. As of December 31, 2016 and 2015, there were no significant customers with known disputes or collection issues, and the amount of potentially uncollectible amounts was insignificant. Accordingly, the Company did not establish an allowance for losses against customer notes receivable. In addition, there were no material non-accrual or past due customer notes receivable as of December 31, 2016 and 2015.

***Rebates Receivable***

Rebates receivable represent rebates due from utility companies and government agencies. These receivables include rebates that have been assigned to the Company by its cash customers on state-approved solar energy system installations sold to the customers and also uncollected incentives from state and local government agencies for solar energy system installations that have been leased to customers or are used to generate and sell electricity to customers under power purchase agreements. For the rebates assigned to the Company by its customers, the Company assumes the responsibility for the application and collection of the rebate. The processing cycle for these rebates and incentives involves a multi-step process in which the Company accumulates and submits information required by the utility company or state agency necessary for the collection of the rebate. The entire process typically can take up to several months to complete. The Company recognizes rebates receivable upon the solar energy system passing inspection by the utility or authority having jurisdiction after completion of system installation. The Company maintains an allowance to reserve for potentially uncollectible rebates. In determining the allowance, the Company makes judgments based on the length of period that a rebate amount has been outstanding and reasons for the delays in collecting the rebate.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**Derivatives**

In the second quarter of 2015, the Company began entering into fixed-for-floating interest rate swap agreements to swap variable interest payments on certain debt for fixed interest payments, as required by its lenders. The Company has not designated any interest rate swaps as hedging instruments. Accordingly, all interest rate swaps are recognized at fair value on the consolidated balance sheets within other assets or other liabilities and deferred credits, with any changes in fair value recognized as other income or expense in the consolidated statements of operations and with any cash flows recognized as investing activities in the consolidated statements of cash flows.

Upon the acquisition by Tesla, the Company now accounts for its convertible senior notes' conversion features and capped call options as derivatives (see Note 12, *Indebtedness*). The Company has not designated these derivatives as hedging instruments. Accordingly, these derivatives are recognized at fair value on the consolidated balance sheets within other assets or other liabilities and deferred credits, with any changes in fair value recognized as other income or expense in the consolidated statements of operations and with any cash flows recognized as financing activities in the consolidated statements of cash flows.

As of and for the year ended December 31, 2016, the Company had derivatives outstanding as follows (in thousands):

	Aggregate Notional Amount	Gross Asset at Fair Value	Gross Liability at Fair Value	Gross Gains	Gross Losses
Interest rate swaps	\$ 789,620	\$ 10,619	\$ 12,109	\$ 49,266	\$ 52,216
Convertible senior note conversion features	\$ 909,000	\$ —	\$ 19,400	\$ —	\$ 5,100
Capped call options	745,377 shares	\$ 5,252	\$ —	\$ 1,789	\$ —

As of and for the year ended December 31, 2015, the Company had derivatives outstanding as follows (in thousands):

	Aggregate Notional Amount	Gross Asset at Fair Value	Gross Liability at Fair Value	Gross Gains	Gross Losses
Interest rate swaps	\$ 640,628	\$ —	\$ 11,544	\$ —	\$ 11,544

**Concentrations of Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, customer notes receivable, rebates receivable and interest rate swaps. The associated risk of concentration for cash and cash equivalents is mitigated by banking with creditworthy institutions. At certain times, amounts on deposit exceed federal deposit insurance limits. The associated risk of concentration for short-term investments is mitigated by holding a diversified portfolio of highly rated short-term investments. The associated risk of concentration for accounts receivable and customer notes receivable is mitigated by placing liens on the related solar energy systems and performing periodic and ongoing credit evaluations of the Company's customers. Rebates receivable are due from various states and local governments as well as various utility companies. The associated risk of concentration for interest rate swaps is mitigated by transacting with several highly rated multinational banks. The Company maintains reserves for any amounts that it considers to be uncollectable.

**Fair Value of Financial Instruments**

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

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

- Level 1—Observable inputs that reflect quoted prices for identical assets or liabilities in active markets.
- Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

• Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The assets and liabilities carried at fair value on a recurring basis included cash equivalents, short-term investments, capped call options, interest rate swaps, convertible senior note conversion features and contingent consideration. As of December 31, 2016, their fair values were as follows (in thousands):

	Level 1	Level 2	Level 3
<b>Cash equivalents:</b>			
Money market funds	\$ 3,438	\$ —	\$ —
<b>Other assets:</b>			
Capped call options	\$ —	\$ 5,252	\$ —
<b>Liabilities:</b>			
Interest rate swaps	\$ —	\$ 1,490	\$ —
Convertible senior note conversion features	\$ —	\$ 19,400	\$ —

As of December 31, 2015, their fair values were as follows (in thousands):

	Level 1	Level 2	Level 3
<b>Cash equivalents:</b>			
Money market funds	\$ 69,080	\$ —	\$ —
<b>Short-term investments:</b>			
Corporate debt securities	\$ —	\$ 9,311	\$ —
Asset-backed securities	\$ —	\$ 2,000	\$ —
<b>Liabilities:</b>			
Interest rate swaps	\$ —	\$ 11,544	\$ —
Contingent consideration	\$ —	\$ —	\$ 123,008

The Company classified its money market funds within Level 1 because their fair values are based on their quoted market prices. The Company classified its corporate debt securities, asset-backed securities, capped call options, interest rate swaps and convertible senior note conversion features within Level 2 because their fair values are determined using alternative pricing sources or models that utilized market observable inputs, including interest rates, share prices and volatilities and default rates. The Company classified its contingent consideration within Level 3 because its fair value is determined using unobservable probability estimates and unobservable estimated discount rates applicable to the acquisition. During the years ended December 31, 2016, 2015 and 2014, there were no transfers between the levels of the fair value hierarchy.

The contingent consideration is dependent on the achievement of the specified production milestones by the acquired business, Silevo. The Company determined the fair value of the contingent consideration using a probability-weighted expected return methodology that considers the timing and probabilities of achieving these milestones and uses discount rates that reflect the appropriate cost of capital. The Company reassesses the valuation assumptions each reporting period, with any changes in the fair value accounted for in the consolidated statements of operations. The fair value of the contingent consideration is directly proportional to the estimated probabilities of achieving these milestones.

As of March 31, 2016, the Company determined that the first milestone was achieved and adjusted the accrued contingent consideration balance associated with the first milestone to the full amount payable of \$48.3 million. On May 5, 2016, the Company issued 1.6 million shares of its common stock, valued at \$34.2 million based on its stock price on the issuance date, to settle the liability. Accordingly, the Company recognized a gain of \$14.1 million upon the settlement of the liability associated with the first milestone, which is included as an offset to general and administrative expense.

As of December 31, 2016, the Company determined that the two remaining milestones will not be achieved by Silevo. As a result, the Company changed the estimated probabilities and adjusted the accrued contingent consideration balance to \$0, for the two remaining milestones. Accordingly, the Company recognized a gain of \$84.0 million, which is included as an offset to general and administrative expense.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

As of December 31, 2015, the estimated probabilities ranged from 90% to 95%, the estimated discount rates ranged from 5% to 7%, \$42.9 million was included under accrued and other current liabilities on the consolidated balance sheets and \$80.1 million was included under other liabilities and deferred credits on the consolidated balance sheets.

The following table summarizes the activity of the Level 3 contingent consideration balance in the years ended December 31, 2016, 2015 and 2014 (in thousands):

Balance at January 1, 2015	\$	117,197
Change in fair value		5,811
Balance at December 31, 2015		123,008
Settlement of liability		(34,170)
Change in fair value		(88,838)
Balance at December 31, 2016	\$	—

The Company's financial instruments that are not carried at fair value include accounts receivable, customer notes receivable, rebates receivable, accounts payable, customer deposits, distributions payable to noncontrolling interests and redeemable noncontrolling interests, the participation interest, solar asset-backed notes, solar loan-backed notes, convertible senior notes, Solar Bonds and long-term debt. The carrying values of these financial instruments other than customer notes receivable, the participation interest, solar asset-backed notes, solar loan-backed notes, convertible senior notes, Solar Bonds and long-term debt approximated their fair values due to the fact that they were short-term in nature as of December 31, 2016 and 2015 and 2014.

The Company estimates the fair value of convertible senior notes based on their last actively traded prices (Level 1) or market-observable inputs (Level 2). The Company estimates the fair value of customer notes receivable, the participation interest, solar asset-backed notes, solar loan-backed notes, Solar Bonds and long-term debt based on rates currently offered for instruments with similar maturities and terms (Level 3). The following table presents their estimated fair values and their carrying values (in thousands):

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Participation interest	\$ 16,713	\$ 15,025	\$ 15,919	\$ 14,525
Solar asset-backed notes	\$ 438,002	\$ 428,551	\$ 409,531	\$ 432,797
Solar loan-backed notes	\$ 130,831	\$ 132,129	\$ —	\$ —
Convertible senior notes	\$ 884,863	\$ 773,100	\$ 894,560	\$ 842,752
MyPower customer notes receivable	\$ 523,944	\$ 513,002	\$ 493,510	\$ 493,510
Long-term debt	\$ 1,710,014	\$ 1,728,670	\$ 1,186,643	\$ 1,186,643
Solar bonds	\$ 331,861	\$ 330,530	\$ 214,087	\$ 214,087

**Goodwill**

Goodwill represents the difference between the purchase price and the aggregate fair value of the identifiable assets acquired and the liabilities assumed in a business combination. The Company assesses goodwill impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying value of goodwill may exceed its fair value at the consolidated-level, which is the sole reporting unit. When assessing goodwill for impairment, the Company considers its market value adjusted for a control premium and, if necessary, the Company's discounted cash flow model, which involves significant assumptions and estimates, including the Company's future financial performance, weighted-average cost of capital and interpretation of currently enacted tax laws. Circumstances that could indicate impairment and require the Company to perform an impairment test include a significant decline in the Company's financial results, a significant decline in the Company's market value relative to its net book value, an unanticipated change in competition or the Company's market share and a significant change in the Company's strategic plans.

**Inventories**

Inventories include raw materials that include silicon wafers, process gasses, chemicals and other consumables used in solar cell production, solar cells, photovoltaic panels, inverters, mounting hardware and miscellaneous electrical components. Inventories also include work in process that includes raw materials partially installed and direct and indirect capitalized installation costs. Raw materials and work in process are stated at the lower of cost or market (on a first-in-first-out basis). Work in process primarily relates to solar energy systems that will be sold to customers, which are under construction and have yet to pass inspection.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

The Company also evaluates its inventory reserves on a quarterly basis and writes down the value of inventories for estimated excess and obsolete inventories based upon assumptions about future demand and market conditions.

**Solar Energy Systems, Leased and To Be Leased**

The Company is the operating lessor of the solar energy systems under leases that qualify as operating leases. The Company accounts for the leases in accordance with ASC 840, *Leases*. To determine lease classification, the Company evaluates lease terms to determine whether there is a transfer of ownership or bargain purchase option at the end of the lease, whether the lease term is greater than 75% of the useful life, or whether the present value of minimum lease payments exceed 90% of the fair value at lease inception. The Company utilizes periodic appraisals to estimate useful life and fair values at lease inception, and residual values at lease termination. Solar energy systems are stated at cost, less accumulated depreciation.

As of July 1, 2016, Management increased its estimate of the useful lives of new solar energy systems from 30 years to 35 years. This change-in-estimate was the result of new engineering studies of recently deployed solar energy systems across the industry. The Company applied this change-in-estimate on a prospective basis to solar energy systems placed in service on or after July 1, 2016.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the respective assets as follows.

	<u>Useful Lives</u>
Solar energy systems leased to customers	30 to 35 years
Initial direct costs related to customer solar energy system lease acquisition costs	Lease term (10 to 20 years)

Solar energy systems held for lease to customers are installed systems pending interconnection with the respective utility companies and will be depreciated as solar energy systems leased to customers when the respective systems have been interconnected and placed in service. Solar energy systems under construction represents systems that are under installation, which will be depreciated as solar energy systems leased to customers when the respective systems are completed, interconnected and subsequently leased to customers. Initial direct costs related to customer solar energy system lease acquisition costs are capitalized and amortized over the term of the related customer lease agreements.

**Presentation of Cash Flows Associated with Solar Energy Systems**

The Company classifies cash flows associated with solar energy systems in accordance with ASC 230, *Statement of Cash Flows*. The Company determines the appropriate classification of cash payments related to solar energy systems depending on the activity that is likely to be the predominant source of cash flows for the item being paid for. Accordingly, the Company presents payments made in a period for costs incurred to install solar energy systems that will be leased to customers, including the payments for cost of the inventory that is utilized in such systems, as investing activities in the consolidated statement of cash flows. Payments made for inventory that will be utilized for solar energy systems that will be sold to customers are presented as cash flows from operations in the consolidated statement of cash flows.

**Property, Plant and Equipment**

Property, plant and equipment, including leasehold improvements, are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the respective assets as follows.

	<u>Useful Lives</u>
Furniture and fixtures	3-7 years
Vehicles	5 years
Computer hardware and software	3-10 years
Manufacturing & lab equipment	2 to 3 years
Buildings	20 years
Land use rights	50 years

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

Leasehold improvements are amortized over the shorter of the lease term or their estimated useful lives, currently seven years. Repairs and maintenance costs are expensed as incurred. Upon disposition, the cost and related accumulated depreciation of the assets are removed from property, plant and equipment and the resulting gain or loss is reflected in the consolidated statements of operations.

**Long-Lived Assets**

The Company's long-lived assets include property, plant and equipment, solar energy systems, leased and to be leased, and intangible assets acquired through business combinations. Furthermore, the Company is deemed to be the owner, for accounting purposes, during the construction phase of certain long-lived assets under build-to-suit lease arrangements because of its involvement with the construction, its exposure to any potential cost overruns and its other commitments under the arrangements. In these cases, the Company recognizes a build-to-suit lease asset under construction and a corresponding build-to-suit lease liability on the consolidated balance sheets.

In accordance with ASC 360, *Property, Plant, and Equipment*, the Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of a long-lived asset, or group of assets, as appropriate, may not be recoverable. If the aggregate undiscounted future net cash flows expected to result from the use and the eventual disposition of a long-lived asset is less than its carrying value, then the Company would recognize an impairment loss based on the discounted future net cash flows.

**Capitalization of Software Costs**

For costs incurred in development of internal use software, the Company capitalizes costs incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life of five to 10 years. The Company evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

**Warranties**

The Company provides a warranty on the installation and components of the solar energy systems it sells, including solar energy systems sold under Solar Loans and previously under MyPower, for periods typically between 10 to 30 years. The manufacturer's warranty on the solar energy systems' components, which is typically passed-through to customers, ranges from one to 30 years. However, for the solar energy systems under lease contracts or power purchase agreements, the Company does not accrue a warranty liability because those systems are owned by consolidated subsidiaries of the Company. Instead, any repair costs on those solar energy systems are expensed when they are incurred as a component of operating leases and solar energy systems incentives cost of revenue. The changes in the accrued warranty balance, recorded as a component of accrued and other current liabilities on the consolidated balance sheets, consisted of the following (in thousands):

	As of and for the Year Ended December 31,	
	2016	2015
Balance - beginning of the period	\$ 22,993	\$ 8,607
Increase in liability (including \$3,807 and \$16,983 as of December 31, 2016 and December 31, 2015 related to MyPower contracts)	8,425	18,929
Change in estimate	1,587	(4,282)
Less warranty claims	(314)	(261)
Balance - end of the period	<u>\$ 32,691</u>	<u>\$ 22,993</u>

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**Solar Energy Systems Performance Guarantees**

The Company guarantees certain specified minimum solar energy production output for certain systems leased or sold to customers generally for a term of up to 30 years. The Company monitors the solar energy systems to ensure that these outputs are being achieved. The Company evaluates if any amounts are due to its customers and makes any payments periodically as specified in the customer contracts. As of December 31, 2016 and 2015, the Company had recorded liabilities of \$6.6 million and \$3.1 million, respectively, under accrued and other current liabilities in the consolidated balance sheets, relating to these guarantees based on the Company's assessment of its current exposure.

**Deferred U.S. Treasury Grants Income**

The Company is eligible for U.S. Treasury grants received or receivable on eligible property as defined under Section 1603 of the American Recovery and Reinvestment Act of 2009, as amended by the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of December 2010, which includes solar energy system installations, upon approval by the U.S. Treasury Department. However, to be eligible for U.S. Treasury grants, a solar energy system must have commenced construction in 2011 either physically or through the incurrence of sufficient project costs. For solar energy systems under lease pass-through fund arrangements, as described in Note 14, *Lease Pass-Through Financing Obligation*, the Company reduces the financing obligation and records deferred income for the U.S. Treasury grants which are paid directly to the investors upon receipt of the grants by the investors. The benefit of the U.S. Treasury grants is recorded as deferred income and is amortized on a straight-line basis over the estimated useful lives of the related solar energy systems of 30 years. The amortization of the deferred income is recorded as a reduction to depreciation expense, which is a component of the cost of revenue of operating leases and solar energy systems incentives in the consolidated statements of operations. A catch-up adjustment is recorded in the period in which the grant is approved by the U.S. Treasury Department or received by lease pass-through investors to recognize the portion of the grant that matches proportionally the amortization for the period between the date of placement in service of the solar energy systems and approval by the U.S. Treasury Department or receipt by lease pass-through investors of the associated grant. The changes in deferred U.S. Treasury grants income were as follows (in thousands):

Balance at January 1, 2014	\$ 427,809
U.S. Treasury grants received and receivable	342
Amortized as a credit to depreciation expense	(15,335)
Balance at December 31, 2014	412,816
U.S. Treasury grants received and receivable	144
Amortized as a credit to depreciation expense	(15,341)
Balance at December 31, 2015	397,619
True-up of U.S Treasury grants previously received and receivable	(29,554)
Amortized as a credit to depreciation expense	(10,453)
Balance at December 31, 2016	\$ 357,612

Of the balance outstanding as of December 31, 2016 and 2015, \$343.3 million and \$382.3 million, respectively, are classified as non-current deferred U.S. Treasury grants income in the consolidated balance sheets.

**Deferred Investment Tax Credits Revenue**

The Company's solar energy systems are eligible for investment tax credits, or ITCs, that accrue to eligible property under the Internal Revenue Code of 1986, as amended, or IRC. Under Section 50(d)(5) of the IRC and the related regulations, a lessor of qualifying property may elect to treat the lessee as the owner of such property for the purposes of claiming government ITCs associated with such property. These regulations enable the ITCs to be separated from the ownership of the property and allow the transfer of these ITCs. Under the lease pass-through fund arrangements, the Company can make a tax election to pass through the ITCs to the fund investor, who is the legal lessee of the property. The Company is therefore able to monetize the ITCs to investors who can utilize them in return for cash payments. The Company considers the monetization of ITCs to constitute one of the key elements of realizing the value associated with solar energy systems. The Company therefore views the proceeds from the monetization of ITCs to be a component of revenue generated from the solar energy systems.

For the lease pass-through fund arrangements, the Company allocates a portion of the aggregate payments received from the investor to the estimated fair value of the assigned ITCs and the balance to the future customer lease payments that are also assigned



**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

to the investors. The estimated fair value of the ITCs are determined by discounting the estimated cash flow impact of the ITCs using an appropriate discount rate that reflects a market interest rate.

The Company recognizes the revenue associated with the monetization of ITCs in accordance with ASC 605-10-S99, *Revenue Recognition-Overall-SEC Materials*. The revenue associated with the monetization of the ITCs is recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable and (4) collection of the related receivable is reasonably assured. The ITCs are subject to recapture under the IRC if the underlying solar energy system either ceases to be a qualifying property or undergoes a change in ownership within five years of its placed in service date. The recapture amount decreases on the anniversary of the placed in service date. As the Company has an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs, the Company recognizes revenue as the recapture provisions lapse assuming the other aforementioned revenue recognition criteria have been met. The monetized ITCs are initially recorded as deferred revenue on the consolidated balance sheet, and subsequently, one-fifth of the monetized ITCs is recognized as revenue from operating leases and solar energy systems incentives in the consolidated statement of operations on each anniversary of the solar energy system's placed in service date over the next five years.

The Company guarantees its financing fund investors that in the event of a subsequent recapture of the ITCs by the taxing authority due to the Company's non-compliance with the applicable ITC guidelines, the Company will compensate the investor for any recaptured credits. The Company has concluded that the likelihood of a recapture event is remote and consequently has not recorded any liability in the consolidated financial statements for any potential recapture exposure.

Current deferred investment tax credits revenue, which is included as a part of current portion of deferred revenue in the consolidated balance sheets, as of December 31, 2016 and 2015 was \$66.7 million and \$51.8 million, respectively. Non-current deferred investment tax credits revenue, which is included as a part of deferred revenue, net of current portion, in the consolidated balance sheets, as of December 31, 2016 and 2015 was \$138.3 million and \$130.8 million, respectively. For the years ended December 31, 2016, 2015 and 2014, the Company recognized \$51.8 million, \$47.9 million and \$28.2 million, respectively, of revenue related to the monetization of ITCs, which is included in operating leases and solar energy systems incentives revenue in the consolidated statements of operations.

**Deferred Revenue**

The Company records as deferred revenue any amounts that are collected from customers, including lease prepayments, in excess of revenue recognized. 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 well as the remote monitoring fee (discussed below), which is recognized as revenue ratably over the respective customer contract term. As of December 31, 2016 and 2015, deferred revenue related to customer payments, which is included in the deferred revenue balances on the consolidated balance sheets, amounted to \$316.6 million and \$289.3 million, respectively. As of December 31, 2016 and 2015, deferred revenue from rebates and incentives, which is included in the deferred revenue balances on the consolidated balance sheets, amounted to \$203.5 million and \$186.1 million, respectively. In addition, under MyPower customer contracts (discussed below), all initial revenue associated with financed sales of solar energy systems are also recorded as a component of the deferred revenue balances on the consolidated balance sheets. As of December 31, 2016 and 2015, current deferred revenue from MyPower contracts, which is included in current portion of deferred revenue in the consolidated balance sheets, amounted to \$6.0 million and \$4.6 million, respectively. As of December 31, 2016 and 2015, non-current deferred revenue from MyPower contracts, which is included in deferred revenue, net of current portion, in the consolidated balance sheets, amounted to \$473.8 million and \$448.2 million, respectively. As of December 31, 2016 and 2015, current portion of deferred revenue included \$6.3 million and \$2.8 million, respectively, related to accrued interest on MyPower customer notes receivable.

**Revenue Recognition**

The Company's customers purchase solar energy systems from the Company under fixed-price contracts or lease Company-owned solar energy systems that also include remote monitoring services. A residential customer that purchases a solar energy system has the option to pay the full purchase price for the system at the time of purchase. Beginning in the second quarter of 2016, qualified customers can finance the purchase through up to a 20-year loan directly from third-party lenders under the Solar Loan program (under which the Company is not a party to the loan agreement between the customer and the third-party lender, and the third-party lender has no recourse against the Company with respect to the loan). Prior to the third quarter of 2016, customers could finance the purchase through a 30-year loan from a wholly owned subsidiary of the Company under the MyPower program, which is no longer being offered. The Company also earns incentives that have been assigned to the Company by its customers, where available from utility companies and state and local governments.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

*Operating Leases and Power Purchase Agreements*

The Company is the lessor under lease agreements for solar energy systems, which are accounted for as operating leases in accordance with ASC 840. The Company records operating 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 are met. For incentives that are earned based on the amount of electricity generated by the system, the Company records 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 the Company under power purchase agreements, the Company has determined that these agreements should be accounted for, in substance, 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.

The portion of rebates and incentives recognized within operating leases and solar energy systems incentives revenue for the years ended December 31, 2016, 2015 and 2014 was \$37.1 million, \$34.3 million and \$33.4 million, respectively.

*Solar Energy Systems and Components Sales*

For solar energy systems and components sales wherein customers pay the full purchase price, either directly or through the Solar Loan program, upon the delivery of the system, the Company recognizes revenue, net of any applicable governmental sales taxes, in accordance with ASC 605-25, *Revenue Recognition—Multiple-Element Arrangements*, and ASC 605-10-S99, *Revenue Recognition—Overall—SEC Materials*. Revenue is recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable and (4) collection of the related receivable is reasonably assured. Components are comprised of photovoltaic panels and solar energy system mounting hardware. In instances where there are multiple deliverables in a single arrangement, the Company allocates the arrangement consideration to the various elements in the arrangement based on the relative selling price method. The Company recognizes revenue when it installs a solar energy system and the solar energy system passes inspection by the utility or the authority having jurisdiction, provided all other revenue recognition criteria have been met. Costs incurred on residential installations before the solar energy systems are completed are included in inventories as work in progress in the consolidated balance sheets. However, any fees that are paid or payable by the Company to a Solar Loan lender would be recognized as an offset against solar energy systems and components sales revenue, in accordance with ASC 605-50, *Customer Payments and Incentives*.

The Company recognizes revenue for solar energy systems constructed for certain commercial customers according to ASC 605-35, *Revenue Recognition—Construction-Type and Production Type Contracts*. Revenue is recognized on a percentage-of-completion basis, based on the ratio of labor costs incurred to date to total projected labor costs. Provisions are made for the full amount of any anticipated losses on a contract-by-contract basis. The Company recognized \$7.5 million, \$8.0 million and \$2.1 million of total losses for these types of contracts for the years ended December 31, 2016, 2015 and 2014, respectively. Costs in excess of billings are recorded where costs recognized are in excess of amounts billed to customers of purchased commercial solar energy systems. Costs in excess of billings as of December 31, 2016 and 2015 were \$0.5 million and \$0.2 million, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets. Billings in excess of costs as of December 31, 2016 and 2015 were \$0.1 million and \$0.5 million, respectively, and are included in deferred revenue in the consolidated balance sheets.

For solar energy systems previously sold under a MyPower contract, the Company has determined that the arrangement consideration is not currently fixed or determinable. In making this determination, the Company considered that (i) the MyPower arrangement is unique and the Company does not have company-specific or market history for similar financing arrangements with similar asset classes over an extended term; (ii) customer preferences and satisfaction during the life of these long-term contracts, including as a result of technological advances in solar energy systems over time, may change, and the Company may be incented to offer future inducements or concessions to ensure customers remain satisfied during the life of these long-term contracts; and (iii) possible future decreases in the retail prices of electricity from utilities or from other renewable energy sources that may make the purchase of the solar energy systems less economically attractive and may cause the Company to amend the terms of its contracts to ensure continued performance and to remain competitive. Accordingly, the Company initially defers the revenue associated with the sale of a solar energy system under a MyPower contract when it delivers the system that has passed inspection by the utility or the authority having jurisdiction. In instances where there are multiple deliverables in a single MyPower contract, the Company allocates the arrangement consideration to the various elements in the contract based on the relative selling price method. The Company subsequently recognizes revenue for the system over the term of the contract as cash payments are received for the loan's outstanding principal and interest. The deferred revenue is included in the consolidated balance sheets under current portion of deferred revenue

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

for the portion expected to be recognized as revenue in the next 12 months, and the non-current portion is included under deferred revenue, net of current portion. The Company records a note receivable when the customer secures the loan from a subsidiary of the Company to finance the purchase of the solar energy system.

MyPower deferred revenue activity was as follows (in thousands):

	As of and for the Year Ended December 31,	
	2016	2015
Balance - beginning of the period	\$ 452,797	\$ 33,651
MyPower systems delivered under executed contracts	104,761	442,567
MyPower revenue recognized within solar energy systems and components sales revenue	(77,680)	(23,421)
Balance - end of the period	\$ 479,878	\$ 452,797

As of December 31, 2016 and 2015, \$6.0 million and \$4.6 million, respectively, are included in the consolidated balance sheets under current portion of deferred revenue. The balances in the table above do not include amounts allocated to remote monitoring services, other deliverables or sales taxes.

*Remote Monitoring Services*

The Company provides solar energy system remote monitoring services, which are generally bundled with both sales and leases of solar energy systems. The Company allocates revenue between remote monitoring services and the other elements in a bundled sale of a solar energy system using the relative selling price method. The selling prices used in the allocation are determined by reference to the prices charged by third-parties for similar services and products on a standalone basis. For remote monitoring services bundled with a sale of a solar energy system, the Company recognizes the revenue allocated to remote monitoring services over the term specified in the associated contract or over the warranty period of the solar energy system if the contract does not specify the term. To date, remote monitoring services revenue has not been material and is included in the consolidated statements of operations under both operating leases and solar energy systems incentives revenue, when remote monitoring services are bundled with leases of solar energy systems, and solar energy system sales revenue.

*Sale-Leaseback*

The Company is party to master lease agreements that provide for the sale of solar energy systems to third-parties and the simultaneous leaseback of the systems, which the Company then subleases to customers. In sale-leaseback arrangements, the Company first determines whether the solar energy system under the sale-leaseback arrangement is "integral equipment." A solar energy system is determined to be integral equipment when the cost to remove the system from its existing location, including the shipping and reinstallation costs of the solar energy system at the new site, including any diminution in fair value, exceeds ten-percent of the fair value of the solar energy system at the time of its original installation. When the leaseback arrangements expire, the Company has the option to purchase the solar energy system, and in most cases, the lessor has the option to sell the system back to the Company, though in some instances the lessor can only sell the system back to the Company prior to expiration of the arrangement.

For solar energy systems that the Company has determined to be integral equipment, the Company has concluded that these rights create a continuing involvement. Therefore, the Company uses the financing method to account for the sale-leaseback of such solar energy systems. Under the financing method, the Company does not recognize as revenue any of the sale proceeds received from the lessor that contractually constitutes a payment to acquire the solar energy system. Instead, the Company treats any such sale proceeds received as financing capital to install and deliver the solar energy system and accordingly records the proceeds as a sale-leaseback financing obligation in the consolidated balance sheets. The Company allocates the leaseback payments made to the lessor between interest expense and a reduction to the sale-leaseback financing obligation. Interest on the financing obligation is calculated using the Company's incremental borrowing rate at the inception of the arrangement on the outstanding financing obligation. The Company determines its incremental borrowing rate by reference to the interest rates that it would obtain in the financial markets to borrow amounts equal to the sale-leaseback financing obligation over a term similar to the master lease term.

For solar energy systems that the Company has determined not to be integral equipment, the Company determines if the leaseback is classified as a capital lease or an operating lease. For leasebacks classified as capital leases, the Company initially records a capital lease asset and capital lease obligation in the consolidated balance sheet equal to the lower of the present value of the future

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

minimum leaseback payments or the fair value of the solar energy system. For capital leasebacks, the Company does not recognize any revenue but defers the gross profit comprising of the net of the revenue and the associated cost of sale. For leasebacks classified as operating leases, the Company recognizes a portion of the revenue and the associated cost of sale and defers the portion of revenue and cost of sale that represents the gross profit that is equal to the present value of the future minimum lease payments over the master leaseback term. For both capital and operating leasebacks, the Company records the deferred gross profit in the consolidated balance sheet as deferred income and amortizes the deferred income over the leaseback term as a reduction to the leaseback rental expense included in operating leases and solar energy systems incentives cost of revenue in the consolidated statements of operations.

**Solar Renewable Energy Credits**

The Company accounts for solar renewable energy credits, or SRECs, when they are purchased by the Company or sold to third-parties. For SRECs generated by solar energy systems owned by the Company and minted by government agencies, the Company does not recognize any specifically identifiable costs for those SRECs as there are no specific incremental costs incurred to generate the SRECs. For any SRECs purchased by the Company, the Company would carry these SRECs at their cost, subject to impairment testing. The Company recognizes revenue from the sale of an SREC when the SREC is transferred to the buyer, and the cost of the SREC, if any, is then recorded within operating leases and solar energy systems incentives cost of revenue.

**Cost of Revenue**

Operating leases and solar energy systems incentives cost of revenue is primarily comprised of depreciation of the cost of leased solar energy systems reduced by amortization of U.S. Treasury grants income, maintenance costs associated with those systems and amortization of initial direct lease costs associated with those systems. Initial direct lease costs are customer solar energy system lease acquisition costs (the incremental cost of contract administration, referral fees and sales commissions), are capitalized as an element of solar energy systems, leased and to be leased - net, and are amortized over the term of the related lease or power purchase agreement, which generally ranges from 10 to 25 years. Refer to Note 7, *Solar Energy Systems, Leased and To Be Leased - Net*, for a summary of initial direct lease costs related to customer solar energy system lease acquisition costs.

Solar energy systems and components sales cost of revenue includes direct and indirect material and labor costs, warehouse rent, freight, warranty expense, depreciation on vehicles and other overhead costs. In addition, for solar energy systems and components sales accounted for under the percentage-of-completion method, cost of revenue includes the full amount of any anticipated future losses on a contract-by-contract basis.

Furthermore, the costs associated with solar energy systems previously sold under MyPower contracts, including the costs of acquisition of system components, personnel costs associated with system installations and costs to originate the contracts such as sales commissions, referral fees and some incremental contract administration costs, are initially capitalized as deferred costs. Subsequently, these costs are recognized as a component of cost of revenue from solar energy systems and components sales for the costs associated with system components and installations, or as a component of operating expenses for costs associated with contract origination, generally in proportion to the reduction of the MyPower loans' outstanding principal over the 30-year term. The deferred costs are included in the consolidated balance sheets under prepaid expenses and other current assets for the portion expected to be recognized in the consolidated statements of operations in the next 12 months, and the non-current portion is included as a component of other assets. However, the estimated warranty costs associated with the systems are fully expensed upon the delivery of the systems.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

MyPower deferred costs activity was as follows (in thousands):

	As of and for the Year Ended December 31,	
	2016	2015
Balance - beginning of the period	\$ 217,776	\$ 13,571
MyPower systems delivered under executed contracts(1)	52,305	215,141
Recognized in cost of revenue within solar energy systems and components sales	(33,998)	(10,490)
Recognized in operating expenses	(1,025)	(446)
Balance - end of the period	<u>\$ 235,058</u>	<u>\$ 217,776</u>

(1) Included in MyPower systems delivered under executed contracts was \$4.5 million and \$27.2 million of MyPower contract origination costs incurred in the years ended December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, \$2.7 million and \$2.1 million, respectively, are included in the consolidated balance sheets under prepaid and other current assets.

**Advertising Costs**

Advertising costs are expensed as incurred and are included as an element of sales and marketing expense in the consolidated statements of operations. The Company incurred advertising costs of \$26.3 million, \$28.6 million and \$3.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

**Income Taxes**

The Company accounts for income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, any net operating loss, or NOL, carryforwards and any tax credits, measured using the enacted tax rate expected to apply to the taxable income in the periods in which the differences are expected to be reversed. A valuation allowance is provided when necessary to reduce net deferred tax assets to an amount that is more likely than not to be realized. The Company is eligible for federal ITCs and accounts for them under the flow-through method. As permitted in ASC 740-10-25-46, under the flow-through method, the tax benefit from an ITC is recorded as a reduction of federal income taxes in the period that the ITC is generated.

The Company uses a two-step approach of recognizing and measuring uncertain tax positions. The Company first determines whether any uncertain tax positions are more-likely-than-not of being sustained upon tax authority examination, including the resolution of any related appeals or litigation processes, based on the technical merits of the positions. Then, the Company measures the tax benefits as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

The Company includes interest and penalties related to any unrecognized tax benefits within the provision for taxes in the consolidated statements of operations.

The Company uses the "with and without" approach in determining the order in which tax attributes are utilized. As a result, the Company only recognizes a tax benefit from stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available to the Company have been utilized.

The Company is included in the consolidated return of Tesla for the period from acquisition, November 21, 2016 to December 31, 2016. For purposes of the Company's financial statements, income tax expense has been computed under the separate return method pursuant to the provisions of ASC 740-10-30-27, Allocation of Consolidated Tax Expense to Separate Financial Statements of Members

**Comprehensive Income (Loss)**

The Company accounts for comprehensive income (loss) in accordance with ASC 220, *Comprehensive Income*. Under ASC 220, the Company is required to report comprehensive income (loss), which includes net income (loss) as well as other

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

comprehensive income (loss). There were no significant other comprehensive income (losses) and no significant differences between comprehensive loss as defined by ASC 220 and net loss as reported in the consolidated statements of operations, for the periods presented.

**Stock-Based Compensation**

The Company accounts for stock-based compensation costs under the provisions of ASC 718, *Compensation—Stock Compensation*, which requires the measurement and recognition of compensation costs related to the fair value of stock-based compensation awards that are ultimately expected to vest. Stock-based compensation costs recognized include all share-based payments granted to employees based on the grant date fair values estimated in accordance with the provisions of ASC 718. ASC 718 is also applied to awards modified, repurchased or canceled.

The Company applies ASC 718 and ASC 505-50, *Equity-Based Payments to Non Employees*, to stock-based awards issued to non-employees. In accordance with ASC 718 and ASC 505-50, the Company uses the Black-Scholes option pricing model to measure the fair values of any non-employee stock option awards as of their grant dates. The measurement of non-employee stock-based compensation costs is subject to periodic adjustments as the awards vest and the resulting changes in fair value are recognized in the consolidated statements of operations in the periods that the related services were rendered.

**Noncontrolling Interests and Redeemable Noncontrolling Interests**

Noncontrolling interests and redeemable noncontrolling interests represent third-party interests in the net assets under certain funding arrangements, or funds, that the Company has entered into to finance the cost of solar energy systems under operating leases. The Company has determined that the contractual provisions of the funds represent substantive profit sharing arrangements. The Company has further determined that the appropriate methodology for calculating the noncontrolling interest and redeemable noncontrolling interest balances that reflects the substantive profit sharing arrangements is a balance sheet approach using the hypothetical liquidation at book value, or HLBV, method. The Company, therefore, determines the amount of the noncontrolling interests and redeemable noncontrolling interests in the net assets of the funds at each balance sheet date using the HLBV method, which is presented on the consolidated balance sheets as noncontrolling interests in subsidiaries and redeemable noncontrolling interests in subsidiaries. Under the HLBV method, the amounts reported as noncontrolling interests and redeemable noncontrolling interests in the consolidated balance sheets represent the amounts the third-parties would hypothetically receive at each balance sheet date under the liquidation provisions of the funds, assuming the net assets of the funds were liquidated at the recorded amounts determined in accordance with GAAP and distributed to the third-parties. The third-parties' interests in the results of operations of the funds are determined as the difference in the noncontrolling interest and redeemable noncontrolling interest balances in the consolidated balance sheets between the start and end of each reporting period, after taking into account any capital transactions between the funds and the third-parties. However, the redeemable noncontrolling interest balance is at least equal to the redemption amount. The redeemable noncontrolling interest balance is presented as temporary equity in the mezzanine section of the consolidated balance sheets since these third-parties have the right to redeem their interests in the funds for cash or other assets.

**Segment Information**

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

**Recently Issued Accounting Standards**

In February 2015, the FASB issued Accounting Standards Update, or ASU, No. 2015-02, *Amendments to the Consolidation Analysis*, to amend the criteria for consolidation of certain legal entities. The Company adopted the ASU retrospectively on January 1, 2016, but the adoption had no impact on its consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, to change the accounting for subsequent adjustments to the provisional balances recognized in a business combination from retrospective to prospective. However, the ASU requires separate presentation or disclosure of the impact on prior periods had the adjustments been

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

recognized as of the acquisition date. The Company adopted the ASU prospectively on January 1, 2016, but the adoption had no impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to replace the existing revenue recognition criteria for contracts with customers and to establish the disclosure requirements for revenue from 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, with early adoption permitted. 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. Adoption of the ASUs is either retrospective to each prior period presented or retrospective with a cumulative adjustment to retained earnings or accumulated deficit as of the adoption date. The Company is currently obtaining an understanding of the ASUs but plans to adopt them on January 1, 2018 retrospectively to each prior period presented, which will have a currently undetermined impact on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Going Concern*, to provide guidance within GAAP requiring management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and requiring related disclosures. The Company adopted the ASU prospectively on December 31, 2016, but the adoption had no impact on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, to specify that inventory should be subsequently measured at the lower of cost or net realizable value, which is the ordinary selling price less any completion, transportation and disposal costs. However, the ASU does not apply to inventory measured using the last-in-first-out or retail methods. The ASU is effective for interim and annual periods beginning after December 15, 2016. Adoption of the ASU is prospective. The Company's adoption of the ASU prospectively on January 1, 2017 is not expected to impact its consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, to mainly change the accounting for investments in equity securities and financial liabilities carried at fair value as well as to modify the presentation and disclosure requirements for financial instruments. The ASU is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. Adoption of the ASU is retrospective with a cumulative adjustment to retained earnings or accumulated deficit as of the adoption date. The Company is currently obtaining an understanding of the ASU but plans to adopt the ASU retrospectively on January 1, 2018, which will have a currently undetermined impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, to require lessees to recognize most leases 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. Adoption of the ASU is modified retrospective. The Company is currently obtaining an understanding of the ASU but plans to adopt the ASU modified retrospectively on January 1, 2019, which will have a currently undetermined impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-06, *Contingent Put and Call Options in Debt Instruments*, to clarify when a contingent put or call option to accelerate the repayment of debt is an embedded derivative. The ASU is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. Adoption of the ASU is modified retrospective. The Company's adoption of the ASU modified retrospectively on January 1, 2017 is not expected to have an impact on its consolidated financial statements, since it has already been interpreting GAAP as prescribed in the ASU.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, to simplify the accounting for the income tax effects from share-based compensation, the accounting for forfeitures and the accounting for statutory income tax withholding, among others. In particular, the ASU requires all income tax effects from share-based compensation to be recognized in the consolidated statement of operations when the awards vest or are settled, the ASU permits accounting for forfeitures as they occur and the ASU permits a higher level of statutory income tax withholding without triggering liability accounting. The ASU is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. Adoption of the ASU is modified retrospective, retrospective and prospective, depending on the specific provision being adopted. The Company's adoption of the ASU on January 1, 2017 will impact its recognition and presentation of excess tax benefits and deficiencies and its presentation of tax withholdings and the subsequent payments on the statements of cash flows.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, to require, among others, 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. The Company is currently obtaining an understanding of the ASU but plans to adopt the ASU modified retrospectively on January 1, 2020, and the impact on its consolidated financial statements is not known.

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 presentation of certain cash flows. The ASU is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. Adoption of the ASU is retrospective. The Company is currently obtaining an understanding of the ASU but plans to adopt the ASU retrospectively on January 1, 2018, and the impact on its consolidated financial statements is not known.

In October 2016, the FASB issued ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, to require the recognition of the income tax effects from an intra-entity transfer of an asset other than inventory. The ASU is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. Adoption of the ASU is modified retrospective. The Company is currently obtaining an understanding of the ASU, and the impact on its consolidated financial statements is not known.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows: Restricted Cash*, to require the statement of cash flows to present restricted cash 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, with early adoption permitted. Adoption of the ASU is retrospective. The Company plans to adopt the ASU retrospectively on January 1, 2018, which will impact the classifications within its consolidated statements of cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, to change the determination of the amount of goodwill impairment to the excess of the carrying amount of a reporting unit over the reporting unit's fair value. The ASU is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASU is prospective. The Company plans to adopt the ASU prospectively on January 1, 2020, and the impact on its consolidated financial statements is not known.

### **3. Restructuring and Other Activities**

In the second quarter of 2016, the Company commenced certain restructuring activities in order to reduce costs and improve efficiency. Consequently, during the year ended December 31, 2016, the Company recognized \$6.1 million of one-time employee termination benefits. As of December 31, 2016, the outstanding restructuring liability was \$0.6 million.

Additionally, the Company commenced winding-down its solar module manufacturing operations in China, due to the tariffs imposed by the U.S. government on solar panels manufactured in China, and recognized an impairment charge of \$13.9 million during the year ended December 31, 2016 (see Note 8, *Property, Plant and Equipment - Net*).

Furthermore, the Company concluded that certain acquired intangible assets were fully impaired. As such, the Company recognized an impairment charge of \$26.0 million during the year ended December 31, 2016 (see Note 4, *Goodwill and Intangible Assets*).

In addition, during the year ended December 31, 2016, the Company incurred \$23.6 million of direct costs arising from its acquisition by Tesla.

Moreover, during the year ended December 31, 2016, certain amounts due to the Company related to an uninstalled commercial project, but not related to any customer contracts or loans, were determined to be unrecoverable. Accordingly, the Company recognized a charge of \$16.1 million. Despite this charge, the Company intends to continue its efforts to obtain reimbursement of this amount.

Also, during the year ended December 31, 2016, the Company recorded charges totaling \$20.2 million for write-offs and for a reserve for a certain litigation matter (see Note 23, *Commitments and Contingencies*).

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**4. Goodwill and Intangible Assets**

**Intangible Assets**

The following is a summary of intangible assets as of December 31, 2016 (in thousands):

	Weighted- average useful life (in years)	Gross	Accumulated amortization	Write-offs	Net
Developed technology	9	\$ 175,100	\$ (51,984)	—	\$ 123,116
Trademarks and trade names	7	24,700	(10,785)	—	13,915
Marketing database	5	17,427	(11,579)	(5,848)	—
PowerSaver agreement	10	17,077	(4,815)	(12,262)	—
Non-compete agreements	5	7,189	(4,052)	(3,137)	—
Customer relationships	6	6,190	(1,523)	(4,667)	—
Other	6	10,028	(6,848)	(87)	3,093
<b>Total intangible assets</b>	<b>8.73</b>	<b>\$ 257,711</b>	<b>\$ (91,586)</b>	<b>\$ (26,001)</b>	<b>\$ 140,124</b>

The following is a summary of intangible assets as of December 31, 2015 (in thousands):

	Weighted- average useful life (in years)	Gross	Accumulated amortization	Net
Developed technology	9	\$ 175,100	\$ (32,260)	142,840
Trademarks and trade names	7	24,700	(7,256)	17,444
Marketing database	5	17,427	(9,953)	7,474
PowerSaver agreement	10	17,077	(3,961)	13,116
Non-compete agreements	5	7,189	(3,272)	3,917
Customer relationships	6	6,190	(542)	5,648
Other	6	10,028	(5,223)	4,805
<b>Total intangible assets</b>	<b>8.26</b>	<b>\$ 257,711</b>	<b>\$ (62,467)</b>	<b>\$ 195,244</b>

*Developed Technology*

Developed technology consists of high performance solar cell technology acquired through the Silevo acquisition. The high performance technology would allow the Company to achieve improved solar energy system performance and reduce the overall deployment cost per watt of solar energy systems sold or leased. In addition, the high performance technology would increase the Company's market opportunity to a broader customer base who would benefit economically from more efficient solar energy systems. Developed technology also consists of solar panel interlocking technology acquired through the Zep Solar acquisition. The interlocking technology includes a rail-free installation system, auto-grounding connections and a rapid, drop-in module installation design. The interlocking technology allows solar energy systems to be installed easily and produces significant performance-based and aesthetic improvements compared to other solar energy system installation technologies.

*Trademarks and Trade Names*

Trademarks and trade names are related to established market recognition from acquired businesses and are expected to be retired at the end of their estimated useful lives.

*Marketing Database*

The marketing database is a comprehensive platform for targeted marketing, including a prospective customer scoring engine, a marketing campaign manager and monthly updates. The prospective customer scoring engine improves the results of marketing initiatives by predicting which customer leads in the marketing database will respond favorably to a particular marketing campaign. The marketing campaign manager monitors the results of marketing campaigns and provides feedback for optimizing future marketing campaigns.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**PowerSaver Agreement**

Under the PowerSaver program, Fannie Mae makes available additional loans of up to \$25,000 to eligible Fannie Mae borrowers. The additional loan amounts can only be used for energy efficiency projects that include the installation of solar energy systems. The PowerSaver program provides an additional source of financing for customers and therefore helps broaden the Company's customer base. Under the PowerSaver agreement, the Company is provided with the exclusive right to market solar energy systems to the customers of Paramount Mortgage, an affiliate of Paramount Energy.

**Non-Compete Agreements**

Certain former key employees of businesses acquired by the Company became employees of the Company and executed non-compete agreements with the Company.

**Customer Relationships**

As part of one of its acquisitions, the Company acquired certain pre-existing customer relationships with commercial customers.

**Other**

Other intangible assets included a mortgage database, which contains data pertaining to households that the Company can directly market to. In addition, there is internally developed software, which consists of Zep Solar's Zepulator System Designer, or Zepulator, online application. Zepulator can project the size, scope, layout, materials and costs of potential solar energy system installations, which assists with optimizing solar energy system installations.

All intangible assets are amortized over their estimated useful lives. The changes to the carrying value of intangible assets were as follows (in thousands):

	Year Ended December 31,			
	2016		2015	
Balance - beginning of the period	\$	195,244	\$	223,637
Acquisitions		—	\$	6,420
Amortization		(29,119)		(34,813)
Write-offs		(26,001)		—
Balance - end of the period	\$	140,124	\$	195,244

Amortization expense from intangible assets for the years ended December 31, 2016, 2015 and 2014 was allocated as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Included in operating leases and solar energy incentives cost of revenue	\$ 17,716	\$ 17,428	\$ 9,962
Included in solar energy systems and components sales cost of revenue	2,574	3,337	2,605
Total included in cost of revenue	\$ 20,290	\$ 20,765	\$ 12,567
Included in sales and marketing	8,829	14,048	11,696
Total amortization expense	\$ 29,119	\$ 34,813	\$ 24,263

The intangible assets related to the customer relationships, the PowerSaver agreement, the non-compete agreements and the marketing database were fully impaired during the year ended December 31, 2016 following the restructuring of the Company's operations. The impairment charges are included in restructuring and other expense (see Note 3, *Restructuring and Other Activities*). No intangible assets were impaired during the years ended December 31, 2015 and 2014. However, the Company wrote-off \$0.3 million of solar energy systems backlog related to contracts cancelled after acquisition during the year ended December 31, 2014, which was recorded in sales and marketing expense in the consolidated statements of operations.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

As of December 31, 2016, the total future amortization expense from intangible assets was as follows (in thousands):

	Cost of Revenue	Operating Expense	Total
2017	\$ 16,866	\$ 3,529	\$ 20,395
2018	16,866	3,529	20,395
2019	16,866	3,529	20,395
2020	16,866	3,329	20,195
2021	16,866	—	16,866
Thereafter	41,878	—	41,878
<b>Total</b>	<b>\$ 126,208</b>	<b>\$ 13,916</b>	<b>\$ 140,124</b>

**Goodwill**

The changes to the carrying value of goodwill were as follows (in thousands):

	Year Ended December 31,	
	2016	2015
Balance - beginning of the period	\$ 321,865	\$ 315,920
Acquisitions	—	5,945
<b>Balance - end of the period</b>	<b>\$ 321,865</b>	<b>\$ 321,865</b>

The Company did not recognize any impairment of goodwill during the years ended December 31, 2016, 2015 or 2014.

**5. Non-cancellable Operating Lease Payments Receivable**

As of December 31, 2016, future minimum lease payments to be received from customers under non-cancellable operating leases for each of the next five years and thereafter were as follows (in thousands):

2017	\$ 135,615
2018	138,139
2019	140,740
2020	143,419
2021	145,176
Thereafter	2,122,127
<b>Total</b>	<b>\$ 2,825,216</b>

The Company enters into power purchase agreements with its customers that are accounted for, as leases. These customers are charged solely based on actual power produced by the installed solar energy system at a predefined rate per kilowatt-hour of power produced. The future payments from such arrangements were not included in the table above as they are a function of the power generated by the related solar energy systems in the future.

Included in revenue for the years ended December 31, 2016, 2015 and 2014 was \$193.1 million, \$124.7 million and \$79.5 million, respectively, that were accounted for as contingent rentals. The contingent rentals comprised of customer payments under power purchase agreements and performance-based incentives received or receivable by the Company from various utility companies.

**6. Inventories**

Inventories consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Raw materials, net	\$ 140,888	\$ 335,439
Work in progress	31,825	7,512
<b>Total inventories</b>	<b>\$ 172,713</b>	<b>\$ 342,951</b>

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

Raw materials are comprised of component parts that include silicon wafers, process gasses, chemicals and other consumables used in solar cell production, solar cells, photovoltaic panels, inverters, mounting hardware and miscellaneous electrical components that will be deployed to either solar energy systems that will be sold or solar energy systems that will be leased. Work in progress is comprised of installations in progress and includes component parts, labor and other overhead costs incurred up to the balance sheet date on solar energy systems that will be sold and for which binding sales contracts have already been executed. For solar energy systems, leased and to be leased, the Company commences 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. As of December 31, 2016 and 2015, inventory reserves were \$19.5 million and \$4.5 million, respectively, and are included in the table above under raw materials.

**7. Solar Energy Systems, Leased and To Be Leased - Net**

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

	As of December 31,	
	2016	2015
Solar energy systems leased to customers	\$ 5,008,487	\$ 3,619,214
Initial direct costs related to customer solar energy system lease acquisition costs	539,213	383,506
	5,547,700	4,002,720
Less accumulated depreciation and amortization	(447,011)	(275,158)
	5,100,689	3,727,562
Solar energy systems under construction	404,439	358,010
Solar energy systems to be leased to customers	323,627	289,981
Solar energy systems, leased and to be leased - net(1)(2)	<u>\$ 5,828,755</u>	<u>\$ 4,375,553</u>

(1) Included in solar energy systems leased to customers as of December 31, 2016 and 2015 was \$66.4 million related to capital leased assets with an accumulated depreciation of \$13.3 million and \$10.6 million, respectively.

(2) Included in solar energy systems, leased and to be leased to customers as of December 31, 2016 and 2015 was \$19.3 million and \$6.3 million, respectively, related to energy storage systems with an accumulated depreciation of \$1.0 million and \$0.5 million, respectively.

As of December 31, 2016, future minimum lease payments to the lessor under this capital lease arrangement for each of the next five years and thereafter were as follows (in thousands):

2017	\$ 2,353
2018	2,367
2019	2,383
2020	2,398
2021	2,415
Thereafter	16,259
Total	<u>\$ 28,175</u>

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

As of December 31, 2016, future minimum lease receipts by the Company from sub-lessees under this capital lease arrangement for each of the next five years and thereafter were as follows (in thousands):

2017	\$	2,473
2018		2,503
2019		2,534
2020		2,566
2021		2,599
Thereafter		29,256
Total	\$	<u>41,931</u>

The amounts in the table above are also included as part of the non-cancellable operating lease payments from customers disclosed in Note 5, *Non-cancellable Operating Lease Payments Receivable*.

**8. Property, Plant and Equipment - Net**

Property, plant and equipment consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Manufacturing facilities - Fremont, California:		
Manufacturing and lab equipment	\$ 91,877	\$ 84,418
Leasehold improvements	55,883	53,902
Manufacturing facilities - China:		
Manufacturing and lab equipment	21,789	21,714
Land and buildings	6,786	6,711
Vehicles	34,214	44,036
Computer hardware and software	57,008	41,294
Furniture and fixtures	15,285	13,611
Leasehold improvements - other	29,661	19,546
Other	45,773	30,861
	<u>358,276</u>	<u>316,093</u>
Less accumulated depreciation and amortization	(113,540)	(53,706)
Property, plant and equipment - net	<u>\$ 244,736</u>	<u>\$ 262,387</u>

Certain manufacturing equipment was impaired during the year ended December 31, 2016. The impairment charge is included in restructuring and other expense (see Note 3, *Restructuring and Other Activities*).

Included in other property, plant and equipment - net as of December 31, 2016 and 2015 was \$37.2 million and \$29.1 million, respectively, related to capital leased assets with an accumulated depreciation of \$12.9 million and \$5.6 million, respectively.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**9. Accrued and Other Current Liabilities**

Accrued and other current liabilities consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Accrued expenses	\$ 96,380	\$ 69,034
Income tax payable	—	41,016
Accrued compensation	77,773	64,988
Current portion of contingent consideration	—	42,912
Accrued warranty	32,691	22,993
Accrued professional services fees	22,965	9,915
Current portion of capital lease obligation	11,104	8,208
Other current liabilities	25,074	17,440
<b>Total accrued and other current liabilities</b>	<b>\$ 265,987</b>	<b>\$ 276,506</b>

**10. Other Liabilities and Deferred Credits**

Other liabilities and deferred credits consisted of the following (in thousands):

	As of December 31,	
	2016	2015
Deferred gain on sale-leaseback transactions, net of current portion	\$ 48,304	\$ 51,547
Deferred rent expense	24,110	16,184
Interest rate swaps liability	12,109	11,544
Deferred solar renewable energy credits income	19,390	8,855
Capital lease obligation	34,777	39,475
Liability for receipts from an investor	76,828	17,975
Contingent consideration	—	80,096
Participation interest	16,713	15,919
Liability for assigned notes receivable	44,780	—
Other noncurrent liabilities	62,940	37,411
<b>Total</b>	<b>\$ 339,951</b>	<b>\$ 279,006</b>

The liability for receipts from an investor represents amounts received from an investor under a lease pass-through fund arrangement for monetization of ITCs for assets not yet placed in service. This amount is reclassified to deferred revenue when the assets are placed in service.

The participation interest represents rights granted by the Company to a former fund investor to share in the future residual returns from securitized solar energy systems, as part of the compensation for the termination of a lease pass-through fund arrangement, as described in Note 12, *Indebtedness*.

The contingent consideration relates to the Company's acquisition of Silevo in the third quarter of 2014.

**11. Cash Equity Financings**

On May 2, 2016, the Company pooled and transferred its interests in certain financing funds into a special purpose entity, or SPE, and issued \$121.7 million in aggregate principal of debt of the SPE (see Note 12, *Indebtedness*) and also issued \$100.7 million of equity interests in the SPE, both to the same investor. Of the net proceeds from this transaction, \$125.0 million was used to partially prepay the revolving aggregation credit facility due in December 2018, \$25.7 million was used to partially prepay the term loan due in December 2016 and the remaining amount was retained by the Company to fund its operations.

On September 8, 2016, the Company pooled and transferred its interests in certain financing funds into a SPE and issued \$210.0 million in aggregate principal of debt of the SPE (see Note 12) to a syndicate of banks and also issued \$95.2 million of equity

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

interests in the SPE to an investor. Of the net proceeds from this transaction, \$192.3 million was used to partially prepay the revolving aggregation credit facility due in December 2018 and the remaining amount was retained by the Company to fund its operations.

On December 16, 2016, the Company pooled and transferred its interests in certain financing funds into a SPE and issued \$170.0 million in aggregate principal of debt of the SPE (see Note 12) to a syndicate of banks and also issued \$70.9 million of equity interests in the SPE to an investor. Of the net proceeds from this transaction, \$131.0 million was used to partially prepay the revolving aggregation credit facility due in December 2018 and the remaining amount was retained by the Company to fund its operations.

The debts are secured by, among other things, the SPEs' interests in the financing funds. The Company has determined that the SPEs are VIEs and that the Company is the primary beneficiary of the SPEs by reference to the power and benefits criterion under ASC 810, *Consolidation*. Accordingly, the Company consolidates the SPEs in its consolidated financial statements and accounts for the investors' equity interests in the SPEs as noncontrolling interests (see Note 13, *VIE Arrangements*). The Company did not recognize a gain or loss on the transfers of its interests in the financing funds and continues to consolidate the financing funds. The cash distributed from the financing funds to the SPEs are used to service the principal payments, the interest payments, the SPEs' expenses and the distributions to the investors. Any remaining cash would be distributed to wholly owned subsidiaries of the Company. The SPEs' assets and cash flows are not available to the other creditors of the Company, and the lenders and the investors have no recourse to the Company's other assets.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**12. Indebtedness**

The following is a summary of the Company's debt as of December 31, 2016 (dollars in thousands):

	Unpaid Principal Balance	Net Carrying Value		Unused Committed Amount	Interest Rate	Maturity Dates
		Current	Long-Term			
<b>Recourse debt:</b>						
Secured revolving credit facility	\$ 364,000	\$ 360,957	\$ —	\$ 24,305	4.0%-6.0%	January 2017 - December 2017
Vehicle and other loans	23,771	17,235	6,536	—	2.9%-7.6%	March 2017 - June 2019
2.75% convertible senior notes due in 2018	230,000	—	226,323	—	2.8%	November 2018
1.625% convertible senior notes due in 2019	566,000	—	557,112	—	1.6%	November 2019
Zero-coupon convertible senior notes due in 2020	113,000	—	101,428	—	0.0%	December 2020
Solar Bonds	332,060	181,582	150,279	*	1.1%-6.5%	January 2017 - January 2031
Total recourse debt	1,628,831	559,774	1,041,678	24,305		
<b>Non-recourse debt:</b>						
Term loan due in December 2017	75,467	73,825	—	52,173	4.2%	December 2017
Term loan due in January 2021	183,388	5,860	171,994	—	4.5%	January 2021
MyPower revolving credit facility	133,762	133,578	—	56,238	4.1%-6.6%	January 2017
Revolving aggregation credit facility	424,757	—	413,792	335,243	4.0%-4.8%	December 2018
Solar Renewable Energy Credit Term Loan	38,124	12,491	24,565	—	6.6%-9.9%	April 2017 - July 2021
Cash Equity Debt I	119,753	3,272	115,464	—	5.7%	July 2033
Cash Equity Debt II	206,901	5,376	198,220	—	5.3%	July 2034
Cash Equity Debt III	170,000	4,994	161,855	—	5.8%	January 2035
Solar Asset-backed Notes, Series 2013-1	41,899	3,330	35,826	—	4.8%	November 2038
Solar Asset-backed Notes, Series 2014-1	60,768	3,016	55,197	—	4.6%	April 2044
Solar Asset-backed Notes, Series 2014-2	186,851	7,055	173,625	—	4.0%-Class A 5.4%-Class B	July 2044
Solar Asset-backed Notes, Series 2015-1	119,199	1,511	112,927	—	4.2%-Class A 5.6%-Class B	August 2045
Solar Asset-backed Notes, Series 2016-1	50,119	1,202	44,313	—	5.3%-Class A 7.5%-Class B	September 2046
Solar Loan-backed Notes, Series 2016-A	140,586	3,514	127,317	—	4.8%-Class A 6.9%-Class B	September 2048
Total non-recourse debt	1,951,574	259,024	1,635,095	443,654		
Total debt	\$ 3,580,405	\$ 818,798	\$ 2,676,773	\$ 467,959		

\* Out of the \$350.0 million authorized to be issued by the Company's board of directors, \$17.9 million remained available to be issued. See below and Note 22, *Related Party Transactions*, for Solar Bonds issued to related parties.



**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

The following is a summary of the Company's debt as of December 31, 2015 (dollars in thousands):

	Unpaid Principal Balance	Net Carrying Value		Unused Committed Amount	Interest Rate	Maturity Date
		Current	Long-Term			
<b>Recourse debt:</b>						
Secured revolving credit facility	\$ 360,000	\$ 22,320	\$ 333,287	\$ 13,053	3.5%-5.8%	December 2016 - December 2017
Vehicle and other loans	28,173	12,562	15,610	—	2.5%-7.6%	January 2016 - June 2019
2.75% convertible senior notes due in 2018	230,000	—	225,795	—	2.8%	November 2018
1.625% convertible senior notes due in 2019	566,000	—	555,981	—	1.6%	November 2019
Zero-coupon convertible senior notes due in 2020	113,000	—	112,784	—	0.0%	December 2020
Solar Bonds	214,324	178,309	35,778	#	1.3%-5.8%	January 2016 - December 2030
<b>Total recourse debt</b>	<b>1,511,497</b>	<b>213,191</b>	<b>1,279,235</b>	<b>13,053</b>		
<b>Non-recourse debt:</b>						
Term loan due in May 2016	34,622	33,918	—	—	3.5%	May 2016
Term loan due in December 2016	112,483	111,248	—	—	3.6%-3.7%	December 2016
MyPower revolving credit facility	213,125	—	210,735	26,875	3.0%-5.5%	January 2017
Revolving aggregation credit facility	455,693	—	446,963	194,307	3.1%-3.2%	December 2017
Solar Asset-backed Notes, Series 2013-1	45,845	3,342	39,669	—	4.8%	November 2038
Solar Asset-backed Notes, Series 2014-1	64,431	2,855	58,938	—	4.6%	April 2044
Solar Asset-backed Notes, Series 2014-2	193,755	6,319	181,041	—	4.0%-Class A 5.4%-Class B	July 2044
Solar Asset-backed Notes, Series 2015-1	122,295	1,348	116,019	—	4.2%-Class A 5.6%-Class B	August 2045
<b>Total non-recourse debt</b>	<b>1,242,249</b>	<b>159,030</b>	<b>1,053,365</b>	<b>221,182</b>		
<b>Total debt</b>	<b>\$ 2,753,746</b>	<b>\$ 372,221</b>	<b>\$ 2,332,600</b>	<b>\$ 234,235</b>		

# Out of the \$350.0 million authorized to be issued by the Company's board of directors, \$135.7 million remained available to be issued. See below and Note 22, *Related Party Transactions*, for Solar Bonds issued to related parties.

Recourse debt refers to debt that is recourse to the Company's general assets. Non-recourse debt refers to debt that is recourse to only specified assets or subsidiaries of the Company. The differences between the unpaid principal balances and the net carrying values are due to convertible senior note conversion features, debt discounts and deferred financing costs. As of December 31, 2016, the Company was in compliance with all financial debt covenants. The Company's debt is described further below.

*Recourse Debt Facilities:*

*Secured Revolving Credit Facility*

The Company has entered into a revolving credit agreement with a syndicate of banks to fund working capital, letters of credit and general corporate needs. Borrowed funds bear interest, at the Company's option, at an annual rate of (a) 3.25% plus LIBOR or (b) 2.25% plus the highest of (i) the federal funds rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The fee for undrawn commitments is 0.375% per annum. The secured revolving credit facility is secured by certain of the Company's accounts receivable, inventory, machinery, equipment and other assets.

*Vehicle and Other Loans*

The Company has entered into various vehicle and other loan agreements with various financial institutions. The vehicle loans are secured by the vehicles financed.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

*2.75% Convertible Senior Notes Due in 2018*

In October 2013, the Company issued \$230.0 million in aggregate principal of 2.75% convertible senior notes due on November 1, 2018 through a public offering. The net proceeds from the offering, after deducting transaction costs, were \$222.5 million. The debt issuance costs were recorded as a debt discount and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each \$1,000 of principal of the convertible senior notes is now, as a result of the acquisition by Tesla, convertible into 1.7838 shares of Tesla's common stock, which is equivalent to a conversion price of \$560.60 per share, subject to adjustment upon the occurrence of specified events related to dividends, tender offers or exchange offers. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change, such as significant changes in ownership, corporate structure or tradability of Tesla's common stock, occur prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The maximum conversion rate is capped at 2.3635 shares for each \$1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of \$423.10 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require the Company to repurchase their convertible senior notes for cash only under certain defined fundamental changes. Furthermore, upon the acquisition by Tesla, the conversion feature now meets the criteria for bifurcation as an embedded derivative. Consequently, the value of the conversion feature is now accounted for separately (see Note 2, *Summary of Significant Accounting Policies and Procedures*).

*1.625% Convertible Senior Notes Due in 2019*

In September 2014, the Company issued \$500.0 million in aggregate principal of 1.625% convertible senior notes due on November 1, 2019 through a private placement. The net amount from the issuance, after deducting transaction costs, was \$488.3 million. On October 10, 2014, the Company issued an additional \$66.0 million in aggregate principal of the 1.625% convertible senior notes, pursuant to the exercise of an option by the initial purchasers. The net amount from the additional issuance, after deducting transaction costs, was \$64.5 million. The debt issuance costs were recorded as a debt discount and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each \$1,000 of principal of the convertible senior notes is now, as a result of the acquisition by Tesla, convertible into 1.3169 shares of Tesla's common stock, which is equivalent to a conversion price of \$759.36 per share, subject to adjustment upon the occurrence of specified events related to dividends, tender offers or exchange offers. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change, such as significant changes in ownership, corporate structure or tradability of Tesla's common stock, occur prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The maximum conversion rate is capped at 1.7449 shares for each \$1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of \$573.10 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require the Company to repurchase their convertible senior notes for cash only under certain defined fundamental changes. Furthermore, upon the acquisition by Tesla, the conversion feature now meets the criteria for bifurcation as an embedded derivative. Consequently, the value of the conversion feature is now accounted for separately (see Note 2, *Summary of Significant Accounting Policies and Procedures*).

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

In connection with the issuance of the convertible senior notes in September 2014, the Company paid \$57.6 million to enter into capped call option agreements to reduce the potential equity dilution upon conversion of the convertible senior notes. In connection with the additional issuance of the convertible senior notes on October 10, 2014, the Company paid \$7.6 million to enter into an additional capped call option agreement. Specifically, upon the exercise of the capped call options, the Company would now, as a result of the acquisition by Tesla, receive shares of Tesla's common stock equal to 745,377 shares multiplied by (a) (i) the lower of \$1,146.18 or the then market price of Tesla's common stock less (ii) \$759.36 and divided by (b) the then market price of Tesla's common stock. The results of this formula are that the Company would receive more shares as the market price of Tesla's common stock exceeds \$759.36 and approaches \$1,146.18, but the Company would receive fewer shares as the market price of Tesla's common stock exceeds \$1,146.18. Consequently, if the convertible senior notes are converted, then the number of shares to be issued by Tesla would be effectively partially offset by the shares received by the Company under the capped call options as they are exercised. The Company can also elect to receive the equivalent value of cash in lieu of shares. The capped call options expire on various dates ranging from September 4, 2019 to October 29, 2019, and the formula above would be adjusted in the event of a merger; a tender offer; nationalization; insolvency; delisting of the Company's common stock; changes in law; failure to deliver; insolvency filing; stock splits, combinations, dividends, repurchases or similar events; or an announcement of certain of the preceding actions. Although intended to reduce the net number of shares issued after a conversion of the convertible senior notes, the capped call options were separately negotiated transactions, are not a part of the terms of the convertible senior notes, do not affect the rights of the convertible senior note holders and will take effect regardless of whether the convertible senior notes are actually converted. The capped call options previously met the criteria for equity classification because they were indexed to the Company's common stock and the Company always controls whether settlement will be in shares or cash. As a result, the amounts paid for the capped call options were previously recorded as reductions to additional paid-in capital. However, upon the acquisition by Tesla, the capped call options no longer met the criteria for equity classification and are now accounted for as derivatives (see Note 2, *Summary of Significant Accounting Policies and Procedures*).

*Zero-Coupon Convertible Senior Notes Due in 2020*

In December 2015, the Company issued \$113.0 million in aggregate principal of zero-coupon convertible senior notes due on December 1, 2020 through a private placement. \$13.0 million of the convertible senior notes were issued to related parties and are separately presented on the consolidated balance sheets (see Note 22, *Related Party Transactions*). The net proceeds from the offering, after deducting debt issuance costs, were \$112.8 million. The debt issuance costs were recorded as a debt discount and are being amortized to interest expense over the contractual term of the convertible senior notes.

Each \$1,000 of principal of the convertible senior notes is now, as a result of the acquisition by Tesla, convertible into 3.3333 shares of Tesla's common stock, which is equivalent to a conversion price of \$300.00 per share, subject to adjustment upon the occurrence of specified events related to dividends, tender offers or exchange offers. Holders of the convertible senior notes may convert their convertible senior notes at their option at any time up to and including the second scheduled trading day prior to maturity. If certain events that would constitute a make-whole fundamental change, such as significant changes in ownership, corporate structure or tradability of Tesla's common stock, occur prior to the maturity date, the Company would increase the conversion rate for a holder who elects to convert its convertible senior notes in connection with such an event in certain circumstances. The maximum conversion rate is capped at 4.2308 shares for each \$1,000 of principal of the convertible senior notes, which is equivalent to a minimum conversion price of \$236.36 per share. The convertible senior notes do not have a cash conversion option. The convertible senior note holders may require the Company to repurchase their convertible senior notes for cash only under certain defined fundamental changes. On or after June 30, 2017, the convertible senior notes will be redeemable by the Company in the event that the closing price of Tesla's common stock exceeds 200% of the conversion price for 45 consecutive trading days ending within three trading days of such redemption notice at a redemption price of par plus accrued and unpaid interest to, but excluding, the redemption date. Furthermore, upon the acquisition by Tesla, the conversion feature now meets the criteria for bifurcation as an embedded derivative. Consequently, the value of the conversion feature is now accounted for separately (see Note 2, *Summary of Significant Accounting Policies and Procedures*).

*Solar Bonds*

In October 2014, the Company commenced issuing Solar Bonds, which are senior unsecured obligations that are structurally subordinate to the indebtedness and other liabilities of the Company's subsidiaries. Solar Bonds have been issued under multiple series that have various fixed terms and interest rates. In September 2015, the Company commenced issuing Solar Bonds with variable interest rates that reset quarterly and that can be redeemed quarterly at the option of the bondholder or the Company, with 30-day advance notice.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

In March 2015, Space Exploration Technologies Corporation, or SpaceX, purchased \$90.0 million in aggregate principal amount of 2.00% Solar Bonds due in March 2016. In June 2015, SpaceX purchased an additional \$75.0 million in aggregate principal amount of 2.00% Solar Bonds due in June 2016. In March 2016, \$90.0 million in aggregate principal amount of the Solar Bonds held by SpaceX matured, and the proceeds were reinvested by SpaceX in \$90.0 million in aggregate principal amount of 4.40% Solar Bonds due in March 2017. In June 2016, \$75.0 million in aggregate principal amount of the Solar Bonds held by SpaceX matured, and the proceeds were reinvested by SpaceX in \$75.0 million in aggregate principal amount of 4.40% Solar Bonds due in June 2017.

In August 2016, Tesla's Chief Executive Officer, the Company's Chief Executive Officer and the Company's Chief Technology Officer purchased \$100.0 million in aggregate principal amount of 6.50% Solar Bonds due in February 2018.

SpaceX, Tesla's Chief Executive Officer, the Company's Chief Executive Officer and the Company's Chief Technology Officer were considered related parties; the Company has also issued Solar Bonds to other related parties; and such Solar Bonds are separately presented on the consolidated balance sheets (see Note 22, *Related Party Transactions*).

*Non-Recourse Debt Facilities:*

*Term Loan Due in May 2016*

On May 23, 2014, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan. The term loan bore interest at an annual rate of 3.00% to 4.00%, depending on the cumulative period the term loan was been outstanding, plus LIBOR or, at the Company's option, plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan was secured by certain assets and cash flows of the subsidiary and was non-recourse to the Company's other assets or cash flows. In the first quarter of 2016, the Company fully repaid the term loan.

*Term Loan Due in December 2016*

On February 4, 2014, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan. The term loan bore interest at an annual rate of LIBOR plus 3.25% or, at the Company's option, 3.25% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) Bank of America's published "prime rate" or (iii) LIBOR plus 1.00%. The term loan was secured by the assets and cash flows of the subsidiary and was non-recourse to the Company's other assets or cash flows. During 2016, the Company fully repaid the term loan.

*Term Loan Due in December 2017*

On March 31, 2016, a subsidiary of the Company entered into an agreement for a term loan. The term loan bears interest at an annual rate of the lender's cost of funds plus 3.25%. The fee for undrawn commitments is 0.85% per annum. The term loan is secured by substantially all of the assets and cash flows of the subsidiary and is non-recourse to the Company's other assets or cash flows.

*Term Loan Due in January 2021*

In January 2016, a subsidiary of the Company entered into an agreement with a syndicate of banks for a term loan. The term loan bears interest at an annual rate of three-month LIBOR plus 3.50%. The term loan is secured by substantially all of the assets of the subsidiary, including its interests in certain financing funds, and is non-recourse to the Company's other assets. During 2016, the Company repaid \$4.4 million of the principal outstanding under the term loan.

*MyPower Revolving Credit Facility*

On January 9, 2015, a subsidiary of the Company entered into a \$200.0 million revolving credit agreement with a syndicate of banks to obtain funding for the MyPower customer loan program. The MyPower revolving credit facility initially provided up to \$160.0 million of Class A notes and up to \$40.0 million of Class B notes. On December 16, 2015, the committed amount under the Class A notes was increased to \$200.0 million. On September 30, 2016, the committed amount under the Class A notes was decreased to \$155.0 million, and the committed amount under the Class B notes was decreased to \$35.0 million. The Class A notes bear interest at an annual rate of 2.50% plus (a) the commercial paper rate or (b) 1.50% plus adjusted LIBOR. The Class B notes bear interest at an annual rate of 5.00% plus LIBOR. The fee for undrawn commitments under the Class A notes is 0.50% per annum. The fee for undrawn commitments under the Class B notes is 0.50% per annum. The MyPower revolving credit facility is secured by the payments owed to the Company or its subsidiaries under MyPower customer loans and is non-recourse to the Company's other assets.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

*Revolving Aggregation Credit Facility*

On May 4, 2015, a subsidiary of the Company entered into an agreement with a syndicate of banks for a revolving aggregation credit facility. On March 23, 2016, the agreement was amended to modify the interest rates, extend the availability period and extend the maturity date. The revolving aggregation credit facility bears interest at an annual rate of 3.25% plus (i) for commercial paper loans, the commercial paper rate and (ii) for LIBOR loans, at the Company's option, three-month LIBOR or daily LIBOR. The revolving aggregation credit facility is secured by certain assets and cash flows of certain subsidiaries of the Company and is non-recourse to the Company's other assets or cash flows.

*Solar Renewable Energy Credit Term Loans*

On March 31, 2016, a subsidiary of the Company entered into an agreement for a term loan. The term loan bears interest at an annual rate of one-month LIBOR plus 9.00% or, at the Company's option, 8.00% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the prime rate or (iii) one-month LIBOR plus 1.00%. The term loan is secured by substantially all of the assets of the subsidiary, including its rights under forward contracts to sell solar renewable energy credits, and is non-recourse to the Company's other assets.

On July 14, 2016, the same subsidiary entered into an agreement for another term loan. The term loan bears interest at an annual rate of one-month LIBOR plus 5.75% or, at the Company's option, 4.75% plus the highest of (i) the Federal Funds Rate plus 0.50%, (ii) the prime rate or (iii) one-month LIBOR plus 1.00%. The term loan is secured by substantially all of the assets of the subsidiary, including its rights under forward contracts to sell solar renewable energy credits, and is non-recourse to the Company's other assets.

During 2016, the Company repaid \$18.6 million of the principal outstanding under the term loans.

*Cash Equity Debt I*

In connection with the cash equity financing on May 2, 2016 discussed in Note 11, *Cash Equity Financings*, the Company issued \$121.7 million in aggregate principal of debt that bears interest at a fixed rate of 5.65% per annum. This debt is secured by, among other things, the Company's interests in certain financing funds and is non-recourse to the Company's other assets.

*Cash Equity Debt II*

In connection with the cash equity financing on September 8, 2016 discussed in Note 11, the Company issued \$210.0 million in aggregate principal of debt that bears interest at a fixed rate of 5.25% per annum. This debt is secured by, among other things, the Company's interests in certain financing funds and is non-recourse to the Company's other assets.

*Cash Equity Debt III*

In connection with the cash equity financing on December 16, 2016 discussed in Note 11, the Company issued \$170.0 million in aggregate principal of debt that bears interest at a fixed rate of 5.81% per annum. This debt is secured by, among other things, the Company's interests in certain financing funds and is non-recourse to the Company's other assets.

*Solar Asset-backed Notes, Series 2013-1*

In November 2013, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$54.4 million in aggregate principal of Solar Asset-backed Notes, Series 2013-1, backed by these solar assets to investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. As of December 31, 2016, these solar assets had a carrying value of \$133.0 million and are included under solar energy systems, leased and to be leased — net, in the consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.05%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

In connection with the pooling of the assets that were transferred to the SPE in November 2013, the Company terminated a lease pass-through arrangement with an investor. The lease pass-through arrangement had been accounted for as a borrowing and any amounts outstanding from the lease pass-through arrangement were recorded as a lease pass-through financing obligation. The balance that was then outstanding from the lease pass-through arrangement was \$56.4 million. The Company paid the investor an aggregate of \$40.2 million, and the remaining balance is to be paid over time. The remaining balance is paid using the net cash flows generated by the same assets previously leased under the lease pass-through arrangement, after payment of the principal and interest on the Solar Asset-backed Notes and expenses related to the assets and the Notes, including asset management fees, custodial fees and trustee fees, and was contractually documented as a right to participate in future cash flows of the SPE. This right to participate in future residual cash flows generated by the assets of the SPE has been recorded as a component of other liabilities and deferred credits for the non-current portion and as a component of accrued and other current liabilities for the current portion under the caption "participation interest." The Company accounts for the participation interest as a liability because the investor has no voting or management rights in the SPE, the participation interest would terminate upon the investor achieving a specified return and the investor has the option to put the participation interest to the Company on August 3, 2021 for the amount necessary for the investor to achieve the specified return, which would require the Company to settle the participation interest in cash. In addition, under the terms of the participation interest, the Company has the option to purchase the participation interest from the investor for the amount necessary for the investor to achieve the specified return.

*Solar Asset-backed Notes, 2014-1*

In April 2014, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$70.2 million in aggregate principal of Solar Asset-backed Notes, Series 2014-1, backed by these solar assets to investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. As of December 31, 2016, these solar assets had a carrying value of \$124.8 million and are included under solar energy systems, leased and to be leased — net, in the consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. The cash flows generated by these solar assets are used to service the monthly principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance and administrative services for the qualifying solar energy systems.

*Solar Asset-backed Notes, Series 2014-2*

In July 2014, the Company pooled and transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$160.0 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class A, and \$41.5 million in aggregate principal of Solar Asset-backed Notes, Series 2014-2, Class B, backed by these solar assets to investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. As of December 31, 2016, these solar assets had a carrying value of \$265.7 million and are included under solar energy systems, leased and to be leased — net, in the consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 0.01%. These solar assets and the associated customer contracts are leased to an investor under a lease pass-through arrangement that the Company has accounted for as a borrowing. The rent paid by the investor under the lease pass-through arrangement is used (and, following the expiration of the lease pass-through arrangement, the cash generated by these solar assets will be used) to service the semi-annual principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance and administrative services for certain of the qualifying solar energy systems.

*Solar Asset-backed Notes, Series 2015-1*

In August 2015, the Company pooled and transferred its interests in certain financing funds into a SPE and issued \$103.5 million in aggregate principal of Solar Asset-backed Notes, Series 2015-1, Class A, and \$20.0 million in aggregate principal of Solar Asset-backed Notes, Series 2015-1, Class B, backed by these solar assets to investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets and continues to consolidate the underlying financing funds (see Note 13, *VIE Arrangements*). The

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

Solar Asset-backed Notes were issued at a discount of 0.05% for Class A and 1.46% for Class B. The cash distributed by the underlying financing funds to the SPE are used to service the semi-annual principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The SPE's assets and cash flows are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets.

*Solar Asset-backed Notes, Series 2016-1*

In February 2016, the Company transferred qualifying solar energy systems and the associated customer contracts into a SPE and issued \$52.2 million in aggregate principal of Solar Asset-backed Notes, Series 2016-1, backed by these solar assets to investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these solar assets. As of December 31, 2016, these solar assets had a carrying value of \$71.7 million and are included under solar energy systems, leased and to be leased — net, in the consolidated balance sheets. The Solar Asset-backed Notes were issued at a discount of 6.71%. These solar assets and the associated customer contracts are leased to an investor under a lease pass-through arrangement that the Company has accounted for as a borrowing. The rent paid by the investor under the lease pass-through arrangement is used (and, following the expiration of the lease pass-through arrangement, the cash generated by these solar assets will be used) to service the semi-annual principal and interest payments on the Solar Asset-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The Company recognizes revenue earned from the associated customer contracts in accordance with the Company's revenue recognition policy. The SPE's assets and cash flows are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Asset-backed Note holders, have no recourse to the Company's other assets. The Company contracted with the SPE to provide operations and maintenance and administrative services for certain of the qualifying solar energy systems.

*Solar Loan-backed Notes, Series 2016-A*

On January 21, 2016, the Company pooled and transferred certain MyPower customer notes receivable into a SPE and issued \$151.6 million in aggregate principal of Solar Loan-backed Notes, Series 2016-A, Class A, and \$33.4 million in aggregate principal of Solar Loan-backed Notes, Series 2016-A, Class B, backed by these notes receivable to investors. The SPE is wholly owned by the Company and is consolidated in the Company's financial statements. Accordingly, the Company did not recognize a gain or loss on the transfer of these notes receivable. The Solar Loan-backed Notes were issued at a discount of 3.22% for Class A and 15.90% for Class B. The payments received by the SPE under these notes receivable are used to service the semi-annual principal and interest payments on the Solar Loan-backed Notes and satisfy the SPE's expenses, and any remaining cash is distributed to a wholly owned subsidiary of the Company. The SPE's assets and cash flows are not available to the other creditors of the Company, and the creditors of the SPE, including the Solar Loan-backed Note holders, have no recourse to the Company's other assets.

*Schedule of Principal Maturities of Debt*

The future scheduled principal maturities of debt as of December 31, 2016 were as follows (in thousands):

	Recourse Debt Excluding Convertible Senior Notes	Non-Recourse Debt	Convertible Senior Notes	Total
2017	\$ 563,017	\$ 265,567	\$ —	\$ 828,584
2018	131,564	479,792	230,000	841,356
2019	781	52,978	566,000	619,759
2020	14,994	50,830	113,000	178,824
2021	2,326	195,599	—	197,925
Thereafter	7,149	906,808	—	913,957
<b>Total</b>	<b>\$ 719,831</b>	<b>\$ 1,951,574</b>	<b>\$ 909,000</b>	<b>\$ 3,580,405</b>

**13. VIE Arrangements**

The Company has entered into various arrangements with investors to facilitate funding and monetization of solar energy systems. These arrangements include those described in this Note 13, *VIE Arrangements*, as well as those described in Note 14, *Lease Pass-Through Financing Obligation*, Note 15, *Sale-Leaseback Arrangements*, and Note 16, *Sale-Leaseback Financing Obligation*.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

Wholly owned subsidiaries of the Company and fund investors formed and contributed cash or assets to various financing funds and entered into related agreements. The following table shows the number of funds by investor classification, carrying value of the solar energy systems in the funds, total investor contributions received and undrawn investor contributions as of December 31, 2016 (in thousands, except for number of funds, and unaudited) for funds that have been determined to be VIEs:

Investor Classification	Number of Funds	Total Investor Contributions Received	Undrawn Investor Contributions	Carrying Value of Solar Energy Systems
Financial institutions	34	\$ 2,623,918	\$ 106,850	\$ 2,658,407
Corporations	8	1,020,058	130,209	1,038,946
Utilities	4	278,888	35,033	274,764
Other investors	1	1,788	—	3,097.0
<b>Total</b>	<b>47</b>	<b>\$ 3,924,652</b>	<b>\$ 272,092</b>	<b>\$ 3,975,214</b>

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

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

As the primary beneficiary of these VIEs, the Company consolidates in its financial statements the financial position, results of operations and cash flows of these VIEs, and all intercompany balances and transactions between the Company 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 the Company's subsidiary as specified in contractual agreements.

Generally, the Company's 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 contractual agreements.

As of December 31, 2016 and 2015, the Company was contractually required to make payments to a fund investor in order to ensure the investor is projected to achieve a specified minimum return annually. The amounts of any potential future payments under this guarantee are dependent on the amounts and timing of future distributions to the investor from the fund, the tax benefits that accrue to the investor from the fund's activities and the amount and timing of the Company's purchase of the investor's interest in the fund or the amount and timing of the distributions to the investor upon liquidation of the fund. Due to uncertainties associated with estimating the amount and timing of distributions to the investor and the possibility and timing of the liquidation of the fund, the Company is unable to determine the potential maximum future payments that it would have to make under this guarantee.

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



**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

The Company presents the solar energy systems in the VIEs under solar energy systems, leased and to be leased - net in the consolidated balance sheets. The aggregate carrying values of the VIEs' assets and liabilities, after elimination of intercompany transactions and balances, in the consolidated balance sheets were as follows (in thousands):

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 44,091	\$ 32,105
Restricted cash	20,916	44
Accounts receivable - net	16,023	10,116
Rebates receivable	6,646	6,220
Prepaid expenses and other current assets	7,532	1,740
Total current assets	95,208	50,225
Solar energy systems, leased and to be leased - net	3,975,214	2,779,363
Other assets	63,050	11,204
Total assets	<u>\$ 4,133,472</u>	<u>\$ 2,840,792</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 20	\$ —
Distributions payable to noncontrolling interests and redeemable noncontrolling interests	24,085	26,769
Current portion of deferred U.S. Treasury grant income	6,506	6,506
Accrued and other current liabilities	8,524	598
Customer deposits	1,169	2,928
Current portion of deferred revenue	44,050	24,794
Current portion of long-term debt	87,467	—
Total current liabilities	171,821	61,595
Deferred revenue, net of current portion	394,920	308,798
Long-term debt, net of current portion	475,537	—
Deferred U.S. Treasury grant income, net of current portion	157,665	164,191
Other liabilities and deferred credits	92,410	28,460
Total liabilities	<u>\$ 1,292,353</u>	<u>\$ 563,044</u>

The Company is contractually obligated to make certain fund investors whole if they suffer certain losses resulting from the disallowance or recapture of ITCs or U.S. Treasury grants. The Company accounts for distributions due to the fund investors arising from a reduction of anticipated ITCs or U.S. Treasury grants received under distributions payable to noncontrolling interests and redeemable noncontrolling interests in the consolidated balance sheets. As of December 31, 2016 and 2015, the Company had accrued \$0.3 million and \$2.7 million, respectively, for this obligation.

**14. Lease Pass-Through Financing Obligation**

Through December 31, 2016, the Company had entered into eight transactions referred to as "lease pass-through fund arrangements." Under these arrangements, the Company's wholly owned subsidiaries finance the cost of solar energy systems with investors through arrangements contractually structured as master leases for an initial term ranging between 10 and 25 years. These solar energy systems are subject to lease or power purchase agreements with customers with an initial term not exceeding 20 years. These solar energy systems are included under solar energy systems, leased and to be leased - net in the consolidated balance sheets. As discussed in Note 12, *Indebtedness*, in November 2013, in connection with the Company pooling assets for purposes of issuing Solar Asset-backed Notes, the Company terminated a lease pass-through fund arrangement with an investor.

The cost of the solar energy systems under the lease pass-through fund arrangements as of December 31, 2016 and 2015 was \$963.4 million and \$670.5 million, respectively. The accumulated depreciation related to these assets as of December 31, 2016 and 2015 was \$76.8 million and \$52.8 million, respectively. The total lease pass-through financing obligation as of December 31, 2016 and 2015 was \$120.5 million and \$89.5 million, respectively, of which \$51.5 million and \$34.0 million, respectively, was classified as current liabilities.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

Under lease pass-through fund arrangements, the investors make a large upfront payment to the lessor, which is a subsidiary of the Company, and in some cases, subsequent periodic payments. The Company allocates a portion of the aggregate payments received from the investors to the estimated fair value of the assigned ITCs, and the balance to the future customer lease payments that are also assigned to the investors. The estimated fair value of the ITCs are determined by discounting the estimated cash flows impact of the ITCs using an appropriate discount rate that reflects a market interest rate. The Company has an obligation to ensure the solar energy system is in service and operational for a term of five years to avoid any recapture of the ITCs. The amounts allocated to ITCs are initially recorded as deferred revenue on the consolidated balance sheets, and subsequently, one-fifth of the amounts allocated to ITCs is recognized as revenue from operating leases and solar energy systems incentives on the consolidated statements of operations on each anniversary of the solar energy system's placed in service date over the next five years.

The Company accounts for the residual of the payments received from the investors as a borrowing by recording the proceeds received as a lease pass-through financing obligation, which is repaid from U.S. Treasury grants (where applicable), customer payments and incentive rebates that are expected to be received by the investors. Under this approach, the Company continues to account for the arrangement with the customers in its consolidated financial statements, whether the cash generated from the customer arrangements is received by the Company or paid directly to the investors. A portion of the amounts received by the investors from U.S. Treasury grants (where applicable), customer payments and incentive rebates is applied to reduce the lease pass-through financing obligation, and the balance is allocated to interest expense. The incentive rebates and customer payments are recognized into revenue consistent with the Company's revenue recognition accounting policy. The U.S. Treasury grants are initially recorded as deferred U.S. Treasury grants income and subsequently recognized as a reduction to depreciation expense, consistent with the Company's accounting policy for recognition of U.S. Treasury grants income. Interest is calculated on the lease pass-through financing obligation using the effective interest rate method. The effective interest rate is the interest rate that equates the present value of the cash amounts to be received by an investor over the master lease term with the present value of the cash amounts paid by the investor to the Company, adjusted for any payments made by the Company. The lease pass-through financing obligation is non-recourse once the associated assets have been placed in service and all the customer arrangements have been assigned to the investors.

As of December 31, 2016, the future minimum lease payments to be received from the investors based on the solar energy systems currently under the lease pass-through fund arrangements, for each of the next five years and thereafter, were as follows (in thousands):

2017	\$	37,208
2018		37,653
2019		36,371
2020		35,622
2021		35,413
Thereafter		381,289
Total	\$	563,556

For two of the lease pass-through fund arrangements, the Company's subsidiaries have pledged its assets to the investors as security for their obligations under the contractual agreements.

For each of the lease pass-through fund arrangements, the Company is required to comply with certain financial covenants specified in the contractual agreements, which the Company had met as of December 31, 2016. In addition, the Company is responsible for any warranties, performance guarantees, accounting and performance reporting. Furthermore, there is a one-time future lease payment reset mechanism that is set to occur after all of the solar energy systems are delivered and placed in service in a fund. This reset date occurs when the installed capacity of the solar energy systems and their in-service dates are known or on an agreed upon date. As part of this reset process, the lease prepayment is updated to reflect certain specified conditions as they exist at such date, including the final installed capacity, cost and placed-in-service dates of the solar energy systems. As a result of this reset process, the Company might be obligated to refund a portion of an investor's master lease prepayments or might be entitled to receive an additional master lease prepayment from an investor. Any additional master lease prepayments by an investor would be recorded as an additional lease pass-through financing obligation, while any refunds of master lease prepayments would reduce the lease pass-through financing obligation.

#### **15. Sale-Leaseback Arrangements**

In 2010, the Company executed a sale-leaseback arrangement with an existing investor, under which a wholly owned subsidiary of the Company entered into a 15-year master leaseback arrangement. The assets sold to the investor were valued at \$25.2 million.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

The Company's subsidiary leased the solar energy systems to end-user customers. The obligations of the Company's subsidiary to the investor are guaranteed by the Company and supported by a \$0.25 million restricted cash escrow. Under this arrangement, the Company's subsidiary is responsible for services such as warranty support, accounting, lease servicing and performance reporting.

As of December 31, 2016 and 2015, the Company had contributed assets with a cost of \$44.6 million to its wholly owned subsidiary that in turn sold the assets to a new investor and then executed a 15-year master leaseback agreement with the investor. Under this arrangement, the tax benefits from ITCs or Treasury grants in lieu of tax credits inure to the investor as the owner of the assets.

The Company has committed to make investors that have executed sale-leaseback arrangements with the Company whole for any reductions in the tax credit or U.S. Treasury awards resulting from changes in the tax basis submitted. The Company accrues any such payments due to these investors. As of December 31, 2016, no such amounts were due to these investors.

**16. Sale-Leaseback Financing Obligation**

In November 2009, the Company entered into an arrangement with an investor to finance the development, construction and installation of a ground mounted solar energy system that was leased to a customer. The Company also entered into an agreement to sell the system to the investor for a cash consideration of \$27.2 million, of which \$23.7 million has been received as of December 31, 2016 and the balance of \$3.5 million is receivable at the end of the lease period and accrues interest at an annual rate of 4.37%. Concurrent with the sale, a subsidiary of the Company entered into an agreement with the investor to lease back the solar energy system from the investor with lease payments being made on a quarterly basis. The Company's subsidiary has the option to purchase the system at the end of the lease term of 10 years for a price which is the greater of the fair market value or a predetermined agreed upon value. Additionally, the investor has the option to put its interest in the solar energy system to the Company within two years following the expiry of six years after placement in service of the system, for the amount that is the greater of the fair value of the system or the predetermined agreed upon value. As a result of these put and call options, the Company has concluded that it has a continuing involvement with the solar energy system.

The Company has determined that the ground mounted solar energy system qualifies as integral equipment and therefore as a real estate transaction under ASC 360-20, *Real Estate Sales*, and has been accounted for as a financing. Under the financing method, the receipts from the investor are reflected as a sale-leaseback financing obligation on the consolidated balance sheets, and the Company retains the solar energy system asset on the consolidated balance sheets within solar energy systems and depreciates the solar energy system over its estimated useful life of 30 years. The Company also continues to report all of the results of the operations of the system, with the revenue and expenses from the system operations being presented on the consolidated statements of operations on a "gross" basis. As of December 31, 2016, the balance of the sale-leaseback financing obligation outstanding was \$13.4 million, of which \$0.5 million has been classified as current and the balance of \$12.9 million has been classified as non-current. As of December 31, 2015, the balance of the sale-leaseback financing obligation outstanding was \$13.9 million, of which \$0.5 million has been classified as current and the balance of \$13.4 million has been classified as non-current.

As of December 31, 2016, future minimum annual rentals to be received from the customer for each of the next five years and thereafter were as follows (in thousands):

2017	\$	494
2018		504
2019		514
2020		524
2021		535
Thereafter		1,720
Total	\$	<u>4,291</u>

The amounts in the table above are also included as part of the non-cancellable operating lease payments from customers disclosed in Note 5, *Non-cancellable Operating Lease Payments Receivable*.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

As of December 31, 2016, future minimum annual payments to be paid to the investor under the financing arrangement for each of the next five years and thereafter were as follows (in thousands):

2017	\$	1,270
2018		1,277
2019		1,284
2020		—
2021		—
Thereafter		—
<b>Total</b>	<b>\$</b>	<b>3,831</b>

The obligations of the Company's subsidiary to the investor are guaranteed by the Company and supported by a \$0.26 million restricted cash escrow.

**17. Redeemable Noncontrolling Interests in Subsidiaries**

Noncontrolling interests in subsidiaries that are redeemable at the option of the holder are classified as redeemable noncontrolling interests in subsidiaries between liabilities and equity in the consolidated balance sheets. The redeemable noncontrolling interests in subsidiaries balance is determined using the hypothetical liquidation at book value method for the VIE funds or allocation of share of income or losses in other subsidiaries subsequent to initial recognition, however, the noncontrolling interests balance cannot be less than the estimated redemption value. The activity of the redeemable noncontrolling interests in subsidiaries balance was as follows (in thousands):

Balance at January 1, 2014	\$	44,709
Contributions from redeemable noncontrolling interests		260,492
Net loss		(141,072)
Distributions to redeemable noncontrolling interests		(14,313)
Transfers from noncontrolling interests in subsidiaries		25,248
Redeemable noncontrolling interests arising from acquisition of Silevo		14,174
Acquisition of redeemable noncontrolling interests in subsidiaries		(2,450)
Balance at December 31, 2014		186,788
Contributions from redeemable noncontrolling interests		415,493
Net loss		(258,493)
Distributions to redeemable noncontrolling interests		(22,853)
Balance at December 31, 2015		320,935
Contributions from redeemable noncontrolling interests		572,840
Net loss		(485,568)
Distributions to redeemable noncontrolling interests		(50,920)
Acquisition of redeemable noncontrolling interests		(13,664)
Balance at December 31, 2016	<b>\$</b>	<b>343,623</b>

The acquisition of redeemable noncontrolling interests above relates to the Company's purchase of the third-party investors' interests in the Chinese joint venture between one of its subsidiaries, Silevo, and the investors, for \$13.7 million.

**18. Equity**

On November 21, 2016, each share of the Company's outstanding common stock was converted into 0.11 shares of Tesla's common stock as a result of its acquisition by Tesla (see Note 1, *Organization*). Following the acquisition, the Company has 100 shares of common stock issued and outstanding, all of which are held by Tesla.

#### 19. Equity Award Plans

As a result of the Company's acquisition by Tesla, its equity award plans (as described below) were fully assumed by Tesla and its outstanding equity awards were converted into equity awards to acquire Tesla common stock in share amounts and prices based on the Exchange Ratio, with the equity awards retaining the same vesting and other terms and conditions as in effect immediately prior to the acquisition. The Company did not grant any equity awards from the acquisition date through December 31, 2016. The equity award plan descriptions below reflect the impacts of the acquisition.

Under the Company's 2012 Equity Incentive Plan, the Company granted incentive stock options, non-statutory stock options and restricted stock units, or RSUs, for the Company's common stock to employees, directors and consultants. Stock options were granted at exercise prices per share not less than 100% of the fair market value per share on the grant date. When an incentive stock option was granted to a 10% or greater holder of the Company's common stock, the exercise price per share was not less than 110% of the fair market value per share on the grant date. Stock options granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years. No additional equity awards will be granted under this plan.

In September 2012, the Company adopted a director compensation program for future non-employee directors. Under the director compensation program, each individual who joined the board of directors as a non-employee director following the adoption of the program received an initial stock option grant to purchase 30,000 shares of the Company's common stock at the time of initial election or appointment and additional triennial stock option grants to purchase 15,000 shares of the Company's common stock, as well as an annual cash retainer of \$15,000, all of which were subject to continued service on the board of directors. Such non-employee directors who served on committees of the board of directors received various specified additional equity awards and cash retainers. Effective as of June 2015, the Company revised the director compensation program, pursuant to which non-employee directors received an initial stock option grant to purchase 33,333 shares of the Company's common stock at the time of initial election or appointment and additional triennial stock option grants to purchase 30,000 shares of the Company's common stock, as well as an annual cash retainer of \$20,000, all of which were subject to continued service on the board of directors. Such non-employee directors who served on committees of the board of directors received various specified additional equity awards and cash retainers. All equity awards granted pursuant to the director compensation programs were granted under the terms of the Company's 2012 Equity Incentive Plan. Upon the Company's acquisition by Tesla, the unvested awards immediately vested and became fully exercisable, because the exercise prices exceeded the then current trading price of Tesla's common stock, these awards expired pursuant to their terms. No additional equity awards will be granted under this program.

Pursuant to the acquisition of Zep Solar, the Company assumed the Zep Solar, Inc. 2010 Equity Incentive Plan, or Zep Solar Plan, and issued fully vested stock options to purchase 303,151 shares of the Company's common stock to replace certain fully vested stock options originally issued by Zep Solar. No additional equity awards were or will be granted under this plan.

On September 15, 2015, the Chief Executive Officer and the Chief Technology Officer, who are the Company's founders, were granted non-statutory stock option awards of the Company's common stock with both market and performance vesting conditions, or Founder Awards. The exercise price per share of the Founder Awards was \$48.97. The Chief Executive Officer's Founder Award would have entitled him to up to 3.0 million shares of the Company's common stock, and the Chief Technology Officer's Founder Award would have entitled him to up to 2.0 million shares of the Company's common stock. The Founder Awards had a maximum term of 10 years from the date of grant and vested in 10 equal tranches based on the achievement of specified operational goals and the 90-trading day average price of the Company's common stock achieving certain targets on specified measurement dates. As of immediately prior to the Company's acquisition by Tesla, no vesting tranches had been achieved and the Founder Awards were entirely unvested. Upon the Company's acquisition by Tesla, all vesting under the Founder Awards ceased, and the Founder Awards automatically expired pursuant to their original terms. Consequently, the Company reversed the previously recognized stock-based compensation expense for the Founder Awards, which resulted in a gain of \$7.1 million to general and administrative expense.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**Stock Options**

A summary of stock option activity, presented in terms of Tesla's common stock, is as follows (in thousands, except per share amounts):

	Stock Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding - January 1, 2014	1,534	134.27	7.52	586,740
Granted (weighted-average fair value of \$431.36)	610	597.18		
Exercised	(349)	58.00		185,822
Canceled	(260)	350.09		
Outstanding - December 31, 2014	1,535	299.00	7.64	342,293
Granted (weighted-average fair value of \$284.00)	709	451.55		
Exercised	(105)	111.36		37,929
Canceled	(125)	509.73		
Outstanding - December 31, 2015	2,014	349.36	7.74	293,855
Granted (weighted-average fair value of \$137.53)	142	235.81		
Exercised	(89)	60.60		12,754
Canceled	(873)	452.05		
Outstanding - December 31, 2016	1,194	\$ 282.44	6.04	\$ 90,408
Options vested and exercisable - December 31, 2014	719	\$ 115.64	6.30	\$ 272,140
Options vested and exercisable - December 31, 2015	883	\$ 195.73	5.88	\$ 258,310
Options vested and exercisable - December 31, 2016	901	\$ 230.75	5.33	\$ 88,387
Options vested and expected to vest - December 31, 2014	1,367	\$ 274.09	7.46	\$ 333,813
Options vested and expected to vest - December 31, 2015	1,670	\$ 326.73	7.37	\$ 287,673
Options vested and expected to vest - December 31, 2016	1,128	\$ 268.38	5.89	\$ 89,865

As of December 31, 2016, 34.3% of the unvested stock options outstanding had a performance feature that is required to be satisfied before they become vested and exercisable. The grant date fair market value of the stock options that vested in 2016, 2015 and 2014 was \$80.0 million, \$109.7 million and \$54.9 million, respectively.

As of December 31, 2016 and 2015, there was \$71.0 million and \$265.3 million, respectively, of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to unvested stock options, which are expected to be recognized over the weighted-average period of 3.70 years and 5.56 years, respectively.

Under ASC 718, the Company estimates the fair value of stock options granted on each grant date using the Black-Scholes option valuation model, except for the Founder Awards for which the Company used a Monte Carlo simulation, and applies the straight-line method of expense attribution, except for stock options with a performance feature, for which the Company applies graded vesting. The fair values were estimated on each grant date with the following weighted-average assumptions used in the Black-Scholes option valuation model:

	Year Ended December 31,		
	2016	2015	2014
Dividend yield	0%	0%	0%
Annual risk-free rate of return	1.50%	2.14%	1.95%
Expected volatility	61.94%	65.76%	83.66%
Expected term (years)	6.28	7.02	6.25

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

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

**Restricted Stock Units**

A summary of RSU activity, presented in terms of Tesla's common stock, is as follows (in thousands, except per share amounts):

	Restricted Stock Units	Weighted- Average Fair Value
Outstanding - January 1, 2014	2	\$ 231.45
Granted	121	562.91
Released	(6)	552.82
Cancelled	(4)	589.00
Outstanding - December 31, 2014	113	556.00
Granted	367	436.27
Released	(43)	547.18
Cancelled	(43)	511.73
Outstanding - December 31, 2015	394	450.27
Granted	262	450.28
Vested	(132)	397.33
Cancelled	(162)	369.04
Outstanding - December 31, 2016	362	\$ 505.99
Expected to vest - December 31, 2016	236	\$ 315.46

The grant date fair value of RSUs vested was \$50.3 million, \$23.5 million and \$3.2 million for the years ended December 31, 2016, 2015 and 2014, respectively. Under ASC 718, the Company determined the fair value of RSUs granted on each grant date based on the fair value of the Company's common stock on each grant date and applies the straight-line method of expense attribution. As of December 31, 2016 and 2015, there was \$83.9 million and \$121.5 million, respectively, of total unrecognized stock-based compensation expense, net of estimated forfeitures, from RSUs, which are expected to be recognized over the weighted-average period of 3.02 years and 3.31 years, respectively.

**Stock-Based Compensation Expense**

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

The amount of stock-based compensation expense recognized in the years ended December 31, 2016, 2015 and 2014 was \$75.1 million, \$116.8 million and \$88.9 million, respectively. The amount of capitalized stock-based compensation expense was as follows (in thousands):

	Year Ended December 31,	
	2016	2015
<b>Capitalized under:</b>		
Inventories	\$ (157)	\$ 226
Other assets	\$ 666	\$ 3,136
Property, plant and equipment - net	\$ 3,422	\$ 2,997
Solar energy systems, leased and to be leased - net	\$ 21,755	\$ 24,075

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

Stock-based compensation expense was included in cost of revenue and operating expenses as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Total cost of revenue	\$ 3,692	\$ 2,855	\$ 2,251
Sales and marketing	\$ 19,124	\$ 24,176	\$ 16,391
General and administrative	\$ 18,193	\$ 45,135	\$ 40,897
Pre-production expense	\$ (496)	\$ —	\$ —
Research and development	\$ 8,853	\$ 14,203	\$ 6,023

**20. Income Taxes**

The following table presents the domestic and foreign components of (loss) income before income taxes for the periods presented (in thousands):

	Year Ended December 31,		
	2016	2015	2014
United States	\$ (1,849,436)	\$ (1,467,184)	\$ (718,416)
Noncontrolling interest and redeemable noncontrolling interests	1,059,121	710,492	319,196
Foreign	(30,340)	(8,804)	(2,746)
Total	\$ (820,655)	\$ (765,496)	\$ (401,966)

The income tax provision (benefit) was composed of the following (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ 206	\$ 2,946	\$ 10
State	272	812	473
Foreign	106	95	100
Total current provision	584	3,853	583
Deferred:			
Federal	370	13	(26,528)
State	50	3	(791)
Foreign	(1,312)	(543)	—
Total deferred provision	(892)	(527)	(27,319)
Total provision (benefit) for income taxes	\$ (308)	\$ 3,326	\$ (26,736)



**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

The following table presents a reconciliation of the federal statutory rate and the Company's effective tax rate for the periods presented:

	Year Ended December 31,		
	2016	2015	2014
Tax benefit at federal statutory rate	(35.00)%	(35.00)%	(34.00)%
State income taxes (net of federal benefit)	0.58	(5.66)	(1.71)
Foreign income and withholding taxes	0.64	(0.04)	0.44
Noncontrolling interests and redeemable noncontrolling interests adjustment	44.24	27.99	5.18
Investment in certain financing funds	2.24	(0.45)	16.49
Stock-based compensation	2.48	0.89	2.35
Prepaid tax expense	(19.00)	(19.38)	(5.45)
Other	(0.67)	0.03	1.24
Tax credits	(2.09)	(1.65)	(1.49)
Change in valuation allowance	6.55	33.70	10.30
Effective tax rate	(0.03)%	0.43%	(6.65)%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents significant components of the Company's deferred tax assets and liabilities for the periods presented (in thousands):

	As of December 31,	
	2016	2015
<b>Deferred tax assets:</b>		
Accruals and reserves	\$ 186,875	\$ 156,225
Net operating losses	178,995	23,869
Accelerated gain on assets	24,586	26,005
Investment in certain financing funds	383,147	485,159
Tax rebate revenue	39,523	43,037
Stock-based compensation	34,938	47,605
Other deferred tax assets	9,585	9,887
Tax credits	39,944	7,946
Gross deferred tax assets	897,593	799,733
Valuation allowance	(422,889)	(369,157)
Net deferred tax assets	474,704	430,576
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(269,685)	(279,492)
Initial direct costs related to customer solar energy system lease acquisition costs and Other deferred tax liabilities	(205,500)	(152,457)
Gross deferred tax liabilities	(475,185)	(431,949)
Net deferred taxes	\$ (481)	\$ (1,373)

An analysis of deferred tax assets and liabilities is as follows (in thousands):

	As of December 31,	
	2016	2015
<b>Noncurrent:</b>		
Deferred tax assets	\$ 422,408	\$ 367,784
Deferred tax liabilities	—	—
Total noncurrent gross deferred tax assets	422,408	367,784
Less: valuation allowance	(422,889)	(369,157)
Net noncurrent deferred tax liabilities	\$ (481)	\$ (1,373)

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

As of December 31, 2016, the Company had federal, California and other state income tax net operating loss, or NOL, carryforwards of \$437.3 million, \$206.0 million and \$212.5 million, respectively. The NOL carryforwards will start to expire in 2026 if not utilized. Included in the other state NOL carryovers above, \$63.9 million relates to stock option windfall deductions. The federal ITC, R&D, minimum tax credit and foreign tax credits of \$20.1 million, \$16.0 million, \$10.8 million, and \$2.2 million, respectively, will start to expire in 2023 if not utilized. The California R&D and minimum tax credit of \$10.9 million and \$1.6 million, respectively, can be carried forward indefinitely. The carryforwards have been determined as if the Company was a stand-alone entity. As of December 31, 2015, the Company had federal, California and other state income tax net operating loss, or NOL, carryforwards of \$29.5 million, \$27.9 million and \$235.5 million, respectively.

The Company has applied a valuation allowance against its deferred tax assets net of the expected income from the reversal of its deferred tax liabilities. The Company's valuation allowance increased by \$53.7 million during the year ended December 31, 2016 and increased by \$257.9 million during the year ended December 31, 2015. The increase in the valuation allowance was primarily related to the Company's investments in financing funds. The valuation allowance was determined in accordance with the provisions of ASC 740, *Income Taxes*, which require an assessment of both negative and positive evidence when measuring the need for a valuation allowance. Based on the available objective evidence and the Company's history of losses, the Company believes it is more likely than not that its net deferred tax assets will not be realized.

The utilization of the remaining NOL carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the IRC Section 382 and similar state provisions. The annual limitation may result in the expiration of NOL carryforwards and credits before utilization. The Company completed an IRC Section 382 analysis during 2016, which resulted in an ownership change. Based on the analysis, the NOL carryforwards presented have accounted for any limited and potential lost attributes due to any ownership changes and expiration dates.

As part of its asset monetization strategy, the Company has agreements to sell solar energy systems to its financing funds. The gains on the sales are eliminated in the consolidated financial statements because the sales are treated as intra-entity sales. As such, income taxes are not recognized on the sales until the Company no longer benefits from the underlying assets. Specifically, the Company defers the income tax expense and amortizes it over the estimated useful life of the underlying assets, which has been estimated to be 30 to 35 years. The deferral of income tax expense results in the recognition of a prepaid tax expense that is included in the consolidated balance sheets as other assets. In 2015, the Company's tax profitability resulted in the utilization of the available NOL carryforwards, including NOLs related to excess tax benefits from stock options. The utilization of excess tax benefits from stock options was recognized as an increase in additional paid in capital. The Company, pursuant to ASC 810, *Consolidation*, deferred the impact of both the current tax payable as well as the amount recorded in additional paid in capital on the consolidated balance sheet as an increase of prepaid tax expense. As of December 31, 2016 and 2015, the Company has a balance in the prepaid tax expense, net of amortization, of \$58.3 million and \$105.8 million, respectively. The amortization of prepaid tax expense makes-up the major component of the income tax provision for each period.

The Company had an immaterial amount of undistributed earnings of foreign subsidiaries as of December 31, 2016. Those earnings are considered to be indefinitely reinvested; accordingly, no provisions for federal or state income taxes were provided thereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable due to the complexities associated with its hypothetical calculation. An immaterial amount of withholding taxes may be payable upon the remittance of all previously unremitted earnings as of December 31, 2016.

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**Uncertain Tax Positions**

The Company applies a two-step approach with respect to uncertain tax positions. This approach involves recognizing any uncertain tax positions that are more-likely-than-not of being ultimately realized and then measuring those positions to determine the amounts to be recognized. The Company had \$13.4 million of unrecognized tax benefits as of December 31, 2016, of which \$1.5 million would affect the Company's effective tax rate if recognized. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows (in thousands):

Balance, January 1, 2014	\$	120
Acquired from Silevo		434
True-up to prior year ending balance		(23)
Balance, December 31, 2014		531
Additions related to positions from the current year		1,384
Additions related to positions from the prior years		8,181
Balance, December 31, 2015		10,096
Additions related to positions from the current year		2,882
Additions related to positions from the prior years		453
Balance, December 31, 2016	\$	13,431

The interest and penalties for uncertain tax positions is presented in the consolidated statements of operations as income tax expense. Interest and penalties accrued for uncertain tax positions as of December 31, 2016, 2015 and 2014 were \$0.4 million, \$0.0 million and \$0.0 million, respectively.

The Company does not anticipate any significant increases or decreases to the total amount of gross unrecognized tax benefits within the 12 months after December 31, 2016.

The Company is subject to taxation and files income tax returns in the U.S. and various state, local and foreign jurisdictions. The U.S. and state jurisdictions have statutes of limitations that generally range from three to five years. Due to the Company's net operating losses, substantially all of its federal, state, local and foreign income tax returns since inception are still subject to audit. However, the Company utilized a significant amount of its federal and state NOLs in 2015, starting the statute of limitation for the years that NOLs were utilized. In addition, the Company generated a tax loss in 2016 for which the statute of limitation will not begin until they are utilized in a subsequent tax year.

**21. Defined Contribution Plan**

In January 2007, the Company established a 401(k) plan, or the Retirement Plan, available to employees who meet the Retirement Plan's eligibility requirements. Participants may elect to contribute a percentage of their compensation to the Retirement Plan, up to a statutory limit. Participants are fully vested in their contributions. The Company may make discretionary contributions to the Retirement Plan as a percentage of participant contributions, subject to established limits. The Company did not make any contributions to the Retirement Plan during 2016, 2015 or 2014.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

**22. Related Party Transactions**

The Company's operations included the following related party transactions (in thousands):

	Year Ended December 31,		
	2016	2015	2014
<b>Revenue:</b>			
Solar energy systems sales to related parties	\$ 12	\$ 79	\$ 2,479
<b>Expenditures:</b>			
Purchases of inventories or equipment from related parties	\$ 21,126	\$ 7,809	\$ 3,383
Fees paid or payable to related parties (included in sales and marketing expense)	\$ —	\$ —	\$ 103
Interest paid or payable to related parties (included in interest expense (excluding amortization of debt discounts and fees) - recourse debt)	\$ 8,123	\$ 2,125	\$ 3

Related party balances were comprised of the following (in thousands):

	December 31,	
	2016	2015
Due from related parties (included in accounts receivable)	\$ —	\$ 30
Due to related parties (included in accounts payable)	\$ —	\$ 3,961
Payable to parent, net	\$ 11,693	\$ —
Solar Bonds issued to related parties	\$ 265,100	\$ 165,220
Convertible senior note principal outstanding to related parties	\$ 13,000	\$ 12,975
Due to related parties (included in accrued and other current liabilities)	\$ 5,019	\$ 1,249

The related party transactions were primarily purchases of batteries from Tesla; issuances and maturities of Solar Bonds held by SpaceX, Tesla's Chief Executive Officer, the Company's Chief Executive Officer and the Company's Chief Technology Officer; and issuances of convertible senior notes to an entity affiliated with Tesla's Chief Executive Officer, the Company's Chief Executive Officer and the Company's Chief Technology Officer. SpaceX is considered a related party because Tesla's Chief Executive Officer is the Chief Executive Officer, Chief Designer, Chairman and a significant stockholder of SpaceX.

In March 2015, SpaceX purchased \$90.0 million in aggregate principal amount of 2.00% Solar Bonds due in March 2016. In June 2015, SpaceX purchased an additional \$75.0 million in aggregate principal amount of 2.00% Solar Bonds due in June 2016. In March 2016, \$90.0 million in aggregate principal amount of the Solar Bonds held by SpaceX matured, and the proceeds were reinvested by SpaceX in \$90.0 million in aggregate principal amount of 4.40% Solar Bonds due in March 2017. In June 2016, \$75.0 million in aggregate principal amount of the Solar Bonds held by SpaceX matured, and the proceeds were reinvested by SpaceX in \$75.0 million in aggregate principal amount of 4.40% Solar Bonds due in June 2017.

In August 2016, Tesla's Chief Executive Officer, the Company's Chief Executive Officer and the Company's Chief Technology Officer purchased \$100.0 million in aggregate principal amount of 6.50% Solar Bonds due in February 2018.

**23. Commitments and Contingencies**

***Non-cancellable Leases***

The Company leases offices, manufacturing and warehouse facilities, equipment, vehicles and solar energy systems under non-cancellable leases. Aggregate rent expense for facilities and equipment for the years ended December 31, 2016, 2015 and 2014 was \$49.3 million, \$41.1 million and \$32.9 million, respectively.

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

Future minimum lease payments under non-cancellable leases as of December 31, 2016 were as follows (in thousands):

2017	\$	60,306
2018		50,329
2019		38,616
2020		22,217
2021		16,154
Thereafter		65,483
<b>Total minimum lease payments</b>	<b>\$</b>	<b>253,105</b>

***Build-to-Suit Lease Arrangement***

In September 2014, a subsidiary of the Company entered into a build-to-suit lease arrangement with the Research Foundation for the State University of New York, or the Foundation, for the construction of an approximately 1.0 million square-foot solar panel manufacturing facility with a capacity of 1.0 gigawatt on an approximately 88.2 acre site located in Buffalo, New York. Under the terms of the arrangement, which has been amended, the Foundation will construct the manufacturing facility and install certain utilities and other improvements, with participation by the Company as to the design and construction of the manufacturing facility, and acquire certain manufacturing equipment designated by the Company to be used in the manufacturing facility. The Foundation will cover (i) construction costs related to the manufacturing facility in an amount up to \$350.0 million, (ii) the acquisition and commissioning of the manufacturing equipment in an amount up to \$348.1 million and (iii) \$51.9 million for additional specified scope costs, in cases (i) and (ii) only, subject to the maximum funding allocation from the State of New York, and the Company will be responsible for any construction and equipment costs in excess of such amounts. The Foundation will own the manufacturing facility and the manufacturing equipment purchased by the Foundation. Following completion of the manufacturing facility, the Company will lease the manufacturing facility and the manufacturing equipment owned by the Foundation from the Foundation for an initial period of 10 years, with an option to renew, for \$2 per year plus utilities.

Under the terms of the build-to-suit lease arrangement, the Company is required to achieve specific operational milestones during the initial term of the lease, which include employing a certain number of employees at the facility, within western New York and within the State of New York within specified time periods following the completion of the facility. The Company is also required to spend or incur approximately \$5.0 billion in combined capital, operational expenses and other costs in the State of New York over the 10 years following the achievement of full production. On an annual basis during the initial lease term, as measured on each anniversary of the commissioning of the facility, if the Company fails to meet the specified investment and job creation obligations, then it would be obligated to pay a \$41.2 million "program payment" to the Foundation for each year that it fails to meet these requirements. Furthermore, if the agreement is terminated due to a material breach by the Company, then additional amounts might be payable by the Company.

Due to the Company's involvement with the construction of the facility, its exposure to any potential cost overruns and its other commitments under the arrangement, the Company is deemed to be the owner of the facility and the manufacturing equipment owned by the Foundation for accounting purposes during the construction phase. Accordingly, the Company recognizes a non-cash investment in build-to-suit lease asset under construction and a corresponding non-cash build-to-suit lease liability on the consolidated balance sheets. The non-cash investing and financing activities related to the arrangement in the years ended December 31, 2016, 2015 and 2014 amounted to \$499.4 million, \$284.5 million and \$26.5 million, respectively.

***Manufacturing Relationship with Panasonic***

In December 2016, Tesla entered into a 10-year arrangement with Panasonic to manufacture custom solar cells and solar panels for the Company, primarily at the Riverbend manufacturing facility. Upon the commencement of production, the Company will purchase up to 1.0 gigawatt of solar panels annually under the arrangement, with adjustable pricing provisions.

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***Indemnification and Guaranteed Returns***

As disclosed in Notes 13, *VIE Arrangements*, the Company is contractually committed to compensate certain fund investors for any losses that they may suffer in certain limited circumstances resulting from reductions in 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, the Company assesses and recognizes, when applicable, 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. The Company believes that any payments to the fund investors in excess of the amount already recognized by the Company for this obligation are not probable based on the facts known at the reporting date.

The maximum potential future payments that the Company 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 the Company 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. The Company claims U.S. Treasury grants based on guidelines provided by the U.S. Treasury department and the statutory regulations from the IRS. The Company uses fair values determined with the assistance of independent third-party appraisals commissioned by the Company as the basis for determining the ITCs that are passed-through to and claimed by the fund investors. Since the Company cannot determine future revisions to U.S. Treasury Department guidelines governing system values or how the IRS will evaluate system values used in claiming ITCs or U.S. Treasury grants, the Company is unable to reliably estimate the maximum potential future payments that it could have to make under this obligation as of each balance sheet date.

The Company is 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. The Company also currently participates 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 the Company and fund investors in accordance with the contractual provisions of each fund. The Company is 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.

As disclosed in Note 13, the Company is contractually required to make payments to one fund investor to ensure that the fund investor achieves a specified minimum internal rate of return. The fund investor has already received a significant portion of the projected economic benefits from U.S. Treasury grant distributions and tax depreciation benefits. The contractual provisions of the fund state that the fund has an indefinite term unless the members agree to dissolve the fund. Based on the Company's current financial projections regarding the amount and timing of future distributions to the fund investor, the Company does not expect to make any payments as a result of this guarantee and has not accrued any liabilities for this guarantee. The amount of potential future payments under this guarantee is dependent on the amount and timing of future distributions to the fund investor and future tax benefits that accrue to the fund investor. Due to the uncertainties surrounding estimating the amounts of these factors, the Company is unable to estimate the maximum potential payments under this guarantee. To date, the fund investor has achieved the specified minimum internal rate of return as determined in accordance with the contractual provisions of the fund.

As disclosed in Note 14, *Lease Pass-Through Financing Obligation*, the 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, the Company 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 December 31, 2016, the Company had \$30.2 million of unused letters of credit outstanding, which carry a fee of 3.4% per annum.

***Other Contingencies***

In July 2012, the Company, along with other companies in the solar energy industry, received a subpoena from the U.S. Treasury Department's Office of the Inspector General to deliver certain documents in the Company's possession that were dated, created, revised or referred to after January 1, 2007 and that relate to the Company's applications for U.S. Treasury grants or communications with certain other solar energy development companies or with certain firms that appraise solar energy property for

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**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

U.S Treasury grant application purposes. The Inspector General and the Civil Division of the U.S. Department of Justice are investigating the administration and implementation of the U.S Treasury grant program relating to the fair market value of the solar energy systems that the Company submitted in U.S. Treasury grant applications. The Company has accrued a reserve for its potential liability associated with this ongoing investigation as of December 31, 2016.

In February 2013, two of the Company's financing funds filed a lawsuit in the United States Court of Federal Claims against the United States government, seeking to recover approximately \$14.0 million that the United States Treasury was obligated to pay, but failed to pay, under Section 1603 of the American Recovery and Reinvestment Act of 2009. In February 2016, the government filed a motion seeking leave to assert a counterclaim against the two plaintiff funds on the grounds that the government, in fact, paid them more, not less, than they were entitled to as a matter of law. The Company believes that the government's claims are without merit and expects the plaintiff funds to litigate the case vigorously. Trial in the case is set for the latter half of 2017. The Company is unable to estimate the possible loss, if any, associated with this lawsuit.

On March 28, 2014, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company 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 the Company'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 the Company's favor on August 9, 2016. The plaintiffs have filed a notice of appeal. The Company believes that the claims are without merit and intends to defend against this lawsuit vigorously. The Company is unable to estimate the possible loss, if any, associated with this lawsuit.

On June 5 and 11, 2014, stockholder derivative actions were filed in the Superior Court of California for the County of San Mateo, purportedly on behalf of the Company and against the board of directors, alleging that the board of directors breached its duties to the Company by failing to prevent the conduct alleged in the pending purported stockholder class action lawsuit. The Company and the individual board member defendants filed a motion to dismiss the complaint, which the Superior Court granted on December 17, 2015, while allowing the plaintiffs an opportunity to file an amended complaint to remedy the defects in the original complaint. On or about March 2, 2016, the plaintiffs informed the Company and the Superior Court that they had sold their shares in the Company during the pendency of the suit. Consequently, the plaintiffs no longer had standing to bring their lawsuit, which they voluntarily dismissed.

In June 2014, the Company along with Sunrun, Inc., or Sunrun, filed a lawsuit in the Superior Court of Arizona against the Arizona Department of Revenue, or DOR, challenging DOR's interpretation of Arizona state law to impose property taxes on solar energy systems that are leased by customers. On June 1, 2015, the Superior Court issued an order rejecting the interpretation of the Arizona state law under which the DOR had sought to tax leased solar energy systems. In that same order, the Superior Court held that a separate Arizona statute, which provides that such systems are deemed to have no value for purposes of calculating property tax, violated certain provisions of the Arizona state constitution. Both the DOR and the Company have appealed the Superior Court's ruling, and the Court of Appeals heard argument on November 15, 2016. The Company will continue to vigorously pursue its claims.

On March 2, 2015, the Company filed a lawsuit in the United States District Court for the District of Arizona against the Salt River Project Agricultural Improvement and Power District and the Salt River Valley Water Users' Association, or SRP, alleging that SRP's imposition of distribution charges and demand charges on new solar energy customers in its territory violates state and federal antitrust laws. On June 23, 2015, SRP moved to dismiss the complaint. On October 27, 2015, the District Court denied SRP's motion to dismiss in part and granted it in part. In particular, the District Court held that the Company may proceed on its antitrust claims against SRP to seek an injunction blocking SRP's new charges and may proceed with claims for damages under state laws other than antitrust laws. Furthermore, the District Court held that the Company may not recover monetary damages on its antitrust theories and dismissed two of its antitrust claims while allowing the others to proceed. Discovery has concluded. On September 20, 2016, the District Court entered a stay of the litigation while SRP appeals the District Court's earlier decision, holding that SRP is subject to state and federal antitrust laws. The Court of Appeals heard argument on November 18, 2016. The Company intends to pursue its claims vigorously.

In April 2015, Borrego Solar Systems Inc., or Borrego, commenced an arbitration against the Company alleging that the Company wrongfully terminated a construction services agreement. The Company engaged in discovery and participated in an arbitration hearing in February 2016. After the hearing, on April 12, 2016, the arbitrator entered an interim award in favor of Borrego and ultimately entered a final award in the amount of \$2.0 million, which the Company has satisfied in full.

On September 18, 2015, a stockholder derivative action was filed in the Court of Chancery of the State of Delaware, purportedly on behalf of the Company and against the board of directors, alleging that the board of directors breached its duties to the Company by approving stock-based compensation to the non-employee directors that the plaintiff claims is excessive compared to the

**SolarCity Corporation**  
**Notes to Consolidated Financial Statements (continued)**

compensation paid to directors of peer companies. At the Company's 2016 annual meeting of stockholders, the non-employee director compensation plan was approved and ratified, including by a majority of the shares held by the disinterested stockholders of the Company. As a result, the case has been dismissed, and the matter has been resolved.

On September 21, 2015, the Company filed a lawsuit in the United States District Court for the District of Massachusetts against Seaboard Solar Operations LLC, or Seaboard, and its principal, Stuart Longman, alleging breaches of the various written contracts between the Company and Seaboard, fraud, conversion and unfair business practices. The Company sought a declaratory judgment that it owns and has the right to develop the specified projects and of damages of approximately \$16.0 million. In December 2015, the Company settled the lawsuit in exchange for \$16.1 million to be paid by Seaboard; upon making the payment, Seaboard will have the rights to the projects.

On November 6, 2015, a putative class action lawsuit, *Morris v. SolarCity*, was filed in the United States District Court for the Northern District of California against the Company. The complaint alleges that the Company made unlawful telephone marketing calls to the plaintiff and others, in violation of the federal Telephone Consumer Protection Act. The plaintiff seeks injunctive relief and statutory damages, on behalf of himself and a certified class. The Company filed a motion to dismiss the complaint, which the District Court denied on April 6, 2016. Following discovery, plaintiff filed a motion for class certification on December 15, 2016. Briefing on class certification is expected to be complete in late February 2017, and the certification motion will be heard in March 2017. SolarCity continues to believe that the claims are without merit and intends to defend itself vigorously. The Company has accrued a reserve for its potential liability associated with this matter and the *Gibbs* matter described below, as of December 31, 2016.

On June 1, 2016, a putative class action lawsuit, *Gibbs v. SolarCity*, alleging that the Company made unlawful telephone marketing calls in violation of the federal Telephone Consumer Protection Act, was filed against the Company in the United States District Court for the District of Massachusetts. The two named plaintiffs seek injunctive relief and statutory damages, on behalf of themselves and a certified class. The Company has moved to dismiss the complaint; the hearing on that motion was held on December 8, 2016. The Company believes that the claims are without merit and intends to defend itself vigorously. The Company has accrued a reserve for its potential liability associated with this matter and the *Morris* matter described above, as of December 31, 2016.

On August 15, 2016, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company, two of its officers and a former officer. The complaint alleges that the Company made projections of future sales and installations that the Company failed to achieve and that these projections were fraudulent when made. The plaintiffs claim violations of federal securities laws and seek unspecified compensatory damages and other relief on behalf of a purported class of purchasers of the Company's securities from May 5, 2015 to February 16, 2016. The Company believes that the claims are without merit and intends to defend against them vigorously. The Company is unable to estimate the possible loss, if any, associated with this lawsuit.

On September 26, 2016, Cogenra Solar Inc., or Cogenra, and Khosla Ventures III, L.P. filed a lawsuit in the United States District Court for the Northern District of California alleging that the Company and its subsidiary, Silevo Inc., had misappropriated trade secrets obtained from Cogenra during interactions governed by non-disclosure agreements and during the course of diligence in 2014, when the Company considered acquiring Cogenra. The Company believes that the claims are without merit and intends to defend itself vigorously. The Company is unable to estimate the possible loss, if any, associated with this lawsuit.

From time to time, claims have been asserted, and may in the future be asserted, including claims from regulatory authorities related to labor practices and other matters. Such assertions arise in the normal course of the Company's operations. The resolution of any such assertions or claims cannot be predicted with certainty. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the Company's results of operations, prospects, cash flows, financial and position.

## **24. Subsequent Events**

### ***New Debt Facility***

On January 27, 2017, a subsidiary of the Company issued \$145.0 million in aggregate principal of solar loan-backed notes with a final maturity date of September 2049. The solar loan-backed notes are secured by certain customer loans under the MyPower program.

### ***Repayment of Debt Facilities***

In January 2017, \$25.0 million of the secured revolving credit facility matured and was fully repaid.

On January 27 2017, the MyPower revolving credit facility matured, and the aggregate outstanding principal amount of \$133.8 million was fully repaid.