

TESLA MOTORS INC
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

Commission File Number: 001-34756

Tesla Motors, Inc.

(Exact name of registrant as specified in its charter)

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

3500 Deer Creek Road

Palo Alto, California 94304
(Address of principal executive offices) (Zip Code)

(650) 681-5000

(Registrant's telephone number, including area code)

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

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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 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

As of April 29, 2016, there were 133,944,622 shares of the registrant's Common Stock outstanding.

TESLA MOTORS, INC.

FORM 10-Q FOR THE QUARTER ENDED March 31, 2016

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Forward-Looking Statements

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Tesla Motors, Inc.

Consolidated Balance Sheets

(in thousands)

(unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$1,441,789	\$1,196,908
Restricted cash and marketable securities	23,980	22,628
Accounts receivable	318,056	168,965
Inventory	1,301,961	1,277,838
Prepaid expenses and other current assets	153,757	115,667
Total current assets	3,239,543	2,782,006
Operating lease vehicles, net	2,244,210	1,791,403
Property, plant and equipment, net	3,593,014	3,403,334
Restricted cash	47,783	31,522
Other assets	67,152	59,674
Total assets	\$9,191,702	\$8,067,939
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$1,013,486	\$916,148
Accrued liabilities	438,522	422,798
Deferred revenue	516,620	423,961
Resale value guarantees	192,423	136,831
Customer deposits	391,363	283,370
Current portion of long-term debt and capital leases	635,285	627,927
Total current liabilities	3,187,699	2,811,035
Long-term debt and capital leases	2,484,329	2,021,093
Deferred revenue	496,997	446,105
Resale value guarantees	1,583,075	1,293,741
Other long-term liabilities	426,611	364,976
Total liabilities	8,178,711	6,936,950
Commitments and contingencies (Note 10)		
Convertible senior notes (Notes 8)	42,626	47,285
Stockholders' equity:		

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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 March 31, 2016 and December 31, 2015; 133,858 and 131,425 shares issued and outstanding as of March 31, 2016 and December 31, 2015	134	131
Additional paid-in capital	3,561,256	3,409,452
Accumulated other comprehensive loss	13,565	(3,556)
Accumulated deficit	(2,604,590)	(2,322,323)
Total stockholders' equity	970,365	1,083,704
Total liabilities and stockholders' equity	\$9,191,702	\$8,067,939

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

Tesla Motors, Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Revenues		
Automotive	\$ 1,026,064	\$ 893,320
Services and other	120,984	46,560
Total revenues	1,147,048	939,880
Cost of revenues		
Automotive	779,316	631,745
Services and other	115,264	48,062
Total cost of revenues	894,580	679,807
Gross profit	252,468	260,073
Operating expenses		
Research and development	182,482	167,154
Selling, general and administrative	318,210	195,365
Total operating expenses	500,692	362,519
Loss from operations	(248,224)	(102,446)
Interest income	1,251	184
Interest expense	(40,625)	(26,574)
Other income (expense), net	9,177	(22,305)
Loss before income taxes	(278,421)	(151,141)
Provision for income taxes	3,846	3,040
Net loss	\$(282,267)	\$(154,181)
Net loss per share of common stock, basic and diluted	\$(2.13)	\$(1.22)
Weighted average shares used in computing net loss per share		
of common stock, basic and diluted	132,676	125,947

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

Tesla Motors, Inc.

Consolidated Statements of Comprehensive Loss

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net loss	\$(282,267)	\$(154,181)
Other comprehensive income (loss), net of tax:		
Unrealized net gain on derivatives and short-term marketable securities	20,805	204
Foreign currency translation adjustment	(3,684)	(16,147)
Other comprehensive income (loss)	17,121	(15,943)
Comprehensive loss	\$(265,146)	\$(170,124)

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

Tesla Motors, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash Flows From Operating Activities		
Net loss	\$(282,267)	\$(154,181)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	156,460	77,112
Stock-based compensation	89,658	43,026
Amortization of discount on convertible debt	20,613	17,941
Inventory write-downs	13,010	5,901
Disposal of property and equipment	26,171	2,753
Other non-cash operating activities	7,135	2,862
Foreign currency transaction (gain) loss	(9,356)	27,977
Changes in operating assets and liabilities		
Accounts receivable	(159,327)	2,175
Inventories and operating lease vehicles	(512,671)	(307,209)
Prepaid expenses and other current assets	(9,134)	(43,475)
Other assets	(6,862)	(6,055)
Accounts payable and accrued liabilities	60,593	47,493
Deferred revenue	89,671	50,729
Customer deposits	100,804	(3,012)
Resale value guarantee	150,636	62,712
Other long-term liabilities	15,261	41,457
Net cash used in operating activities	(249,605)	(131,794)
Cash Flows From Investing Activities		
Purchases of property and equipment excluding capital leases	(216,859)	(426,060)
(Increase) decrease in other restricted cash	(16,960)	(6,284)
Net cash used in investing activities	(233,819)	(432,344)
Cash Flows From Financing Activities		
Collateralized lease borrowing	241,763	77,961
Proceeds from issuance of convertible and other debt	430,000	77,661
Proceeds from exercise of stock options and other stock issuances	52,838	35,218
Principal payments on capital leases and other debt	(8,128)	(3,726)
Common stock and debt issuance costs	(1,038)	(958)
Net cash provided by financing activities	715,435	186,156
Effect of exchange rate changes on cash and cash equivalents	12,870	(17,655)
Net increase (decrease) in cash and cash equivalents	244,881	(395,637)
Cash and cash equivalents at beginning of period	1,196,908	1,905,713
Cash and cash equivalents at end of period	\$1,441,789	\$1,510,076

Supplemental noncash investing activities

Acquisition of property and equipment included in accounts payable and accrued

liabilities	235,829	235,582
Estimated fair value of facilities under build-to-suit lease	39,034	29,212

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

Tesla Motors, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Overview of the Company

Tesla Motors, Inc. (Tesla, 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 Tesla Energy products. We have wholly-owned subsidiaries in North America, Europe and Asia. The primary purpose of these subsidiaries is to market, manufacture, sell and/or service our vehicles and Tesla Energy products.

Note 2 - Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Tesla and its wholly-owned subsidiaries. Intercompany balances and transactions between consolidated entities have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, residual value of operating lease vehicles, inventory valuation, warranties, fair value of financial instruments, depreciable lives of property and equipment, inputs used to value stock-based compensation including volatility, lives of stock option awards and forfeiture rates, income taxes, and contingencies. Actual results could differ from those estimates.

Unaudited Interim Financial Statements

The accompanying consolidated balance sheet as of March 31, 2016, the consolidated statements of operations and consolidated statements of comprehensive loss for the three months ended March 31, 2016 and 2015 and the consolidated statements of cash flows for the three months ended March 31, 2016 and 2015, and other information disclosed in the related notes are unaudited. The consolidated balance sheet as of December 31, 2015, was derived from our audited consolidated financial statements at that date. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our

Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission.

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued an accounting update 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. 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 April 2015, the FASB issued new authoritative accounting guidance 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 this standard as of March 31, 2016, and as a result, on the 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 the Company's 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 the December 31, 2015 consolidated balance sheet.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016 - 02, Leases (Topic 842). The new standard is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The standard will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The standard 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 this guidance on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update 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. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

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.

Vehicle sales include standard features, customer selected options and accessories, 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.

As of March 31, 2016, we had deferred \$55.7 million, \$58.3 million, \$37.6 million, and \$2.6 million related to the purchase of vehicle maintenance and service plans, access to our Supercharger network, internet connectivity, and future software updates. As of December 31, 2015, we had deferred \$53.6 million, \$49.5 million, \$32.4 million, and \$2.7 million related to these same performance obligations.

Resale Value Guarantees and Other Financing Programs

Vehicle sales to customers with a residual value guarantee

We offer resale value guarantees or similar buy-back terms to all customers who purchase vehicles and who finance their vehicle through one of our specified commercial banking partners. Under this program, customers have the option of selling their vehicle back to us during the guarantee period for a pre-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 residual 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. 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 to leased vehicles on our Consolidated Balance Sheets and depreciate their value, less salvage value, to cost of automotive 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 revenue and the net book value of the leased vehicle is expensed to costs of automotive 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 revenue and we reclassify the net book value of the vehicle on our balance sheet to pre-owned vehicle inventory. As of March 31, 2016 and December 31, 2015, \$192.4 million and \$136.8 million of the guarantees were exercisable by customers within the next twelve months.

Vehicle sales to leasing partners with a residual value guarantee

In the fourth quarter of 2014, we also began offering residual 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 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 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 on our Consolidated Balance Sheets and we record depreciation from these vehicles to cost of automotive 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 residual 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 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 revenue. The maximum cash we could be required to pay under this program, should we decide to repurchase all vehicles is \$498.7 million at March 31, 2016.

As of March 31, 2016 and December 31, 2015, we had \$716.3 million and \$527.5 million of such borrowings recorded in resale value guarantee and \$179.4 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.

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

	Three Months Ended	
	March 31, 2016	March 31, 2015
Operating Lease Vehicles		
Operating lease vehicles—beginning of period	\$1,556,529	\$684,590
Net increase in operating lease vehicles	413,981	139,791
Depreciation expense recorded in cost of automotive revenues	(44,818)	(22,041)
Additional depreciation expense recorded in cost of automotive revenues as a result of		
early cancellation of resale value guarantee	(3,086)	(4,396)
Increases to inventory from vehicles returned under our trade-in program	(13,296)	(5,233)
Operating lease vehicles—end of period		