

TESLA MOTORS INC
Form 10-Q
May 09, 2014
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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, 2014

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
(State or other jurisdiction of
incorporation or organization)

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

3500 Deer Creek Road

Palo Alto, California
(Address of principal executive offices)

94304
(Zip Code)

(650) 681-5000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 30, 2014, there were 124,090,160 shares of the registrant's Common Stock outstanding.

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TESLA MOTORS, INC.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2014

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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 are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, Risk Factors in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission. We do not assume any obligation to update any forward-looking statements.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Tesla Motors, Inc.****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)****(Unaudited)**

	March 31, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 2,393,908	\$ 845,889
Short-term marketable securities	189,111	
Restricted cash	1,049	3,012
Accounts receivable	72,380	49,109
Inventory	450,730	340,355
Prepaid expenses and other current assets	48,869	27,574
Total current assets	3,156,047	1,265,939
Operating lease vehicles, net	451,729	382,425
Property, plant and equipment, net	849,389	738,494
Restricted cash	7,102	6,435
Other assets	36,143	23,637
Total assets	\$ 4,500,410	\$ 2,416,930
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 375,778	\$ 303,969
Accrued liabilities	128,674	108,252
Deferred revenue	112,740	91,882
Capital lease obligations, current portion	8,397	7,722
Customer deposits	198,006	163,153
Convertible debt	589,875	182
Total current liabilities	1,413,470	675,160
Capital lease obligations, less current portion	12,572	12,855
Deferred revenue, less current portion	210,817	181,180
Long-term debt, net, less current portion	1,519,967	586,119
Resale value guarantee	290,617	236,299

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Other long-term liabilities	70,969	58,197
Total liabilities	3,518,412	1,749,810
Commitments and contingencies (Notes 6 and 10)		
1.50% convertible senior notes due 2018 (2018 Notes)	69,942	
Stockholders' equity		
Preferred stock; \$0.001 par value; 100,000,000 shares authorized; no shares issued and outstanding		
Common stock; \$0.001 par value; 2,000,000,000 shares authorized as of March 31, 2014 and December 31, 2013, respectively; 124,040,756 and 123,090,990 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	124	123
Additional paid-in capital	2,101,352	1,806,617
Accumulated deficit	(1,189,420)	(1,139,620)
Total stockholders' equity	912,056	667,120
Total liabilities and stockholders' equity	\$ 4,500,410	\$ 2,416,930

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

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Tesla Motors, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Revenues		
Automotive sales	\$ 618,811	\$ 555,203
Development services	1,731	6,589
Total revenues	620,542	561,792
Cost of revenues		
Automotive sales	462,471	461,818
Development services	2,943	3,654
Total cost of revenues	465,414	465,472
Gross profit	155,128	96,320
Operating expenses		
Research and development	81,544	54,859
Selling, general and administrative	117,551	47,045
Total operating expenses	199,095	101,904
Loss from operations	(43,967)	(5,584)
Interest income	141	10
Interest expense	(11,883)	(118)
Other income, net	6,718	17,091
Income (loss) before income taxes	(48,991)	11,399
Provision for income taxes	809	151
Net income (loss)	\$ (49,800)	\$ 11,248
Net income (loss) per share of common stock, basic	\$ (0.40)	\$ 0.10
Weighted average shares used in computing net income (loss) per share of common stock, basic	123,472,782	114,711,899
Net income (loss) per share of common stock, diluted	\$ (0.40)	\$ 0.00
	123,472,782	124,265,292

Weighted average shares used in computing net income (loss) per share of
common stock, diluted

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

Table of Contents**Tesla Motors, Inc.****Condensed Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

	Three Months Ended March 31,	
	2014	2013
Cash Flows From Operating Activities		
Net income (loss)	\$ (49,800)	\$ 11,248
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	44,268	17,850
Stock-based compensation	37,038	14,868
Inventory write-downs	1,578	1,532
Amortization of discount on convertible debt	8,493	
Change in fair value of Department of Energy (DOE) warrant liability		(10,692)
Other non-cash operating activities	2,562	390
Foreign currency transaction gain	(807)	
Changes in operating assets and liabilities		
Accounts receivable	(23,800)	(19,297)
Inventories and operating lease vehicles	(197,734)	18,220
Prepaid expenses and other current assets	(11,427)	(2,575)
Other assets	149	158
Accounts payable	78,533	25,661
Accrued liabilities	19,224	926
Deferred revenue	50,282	4,059
Customer deposits	35,026	(8,103)
Resale value guarantee	54,318	
Other long-term liabilities	12,738	9,834
Net cash provided by operating activities	60,640	64,079
Cash Flows From Investing Activities		
Purchase of marketable securities	(189,111)	
Purchases of property and equipment, excluding capital leases	(141,364)	(57,727)
Decrease in other restricted cash	1,295	2,560
Withdrawals out of our dedicated DOE accounts, net		(69)
Net cash used in investing activities	(329,180)	(55,236)
Cash Flows From Financing Activities		
Proceeds from issuance of convertible debt	2,000,000	
Proceeds from issuance of warrants	338,400	

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Proceeds from exercise of stock options and other stock issuances	35,726	17,903
Purchase of convertible note hedges	(524,720)	
Convertible debt issuance costs	(30,302)	
Principal payments on capital leases and other debt	(2,545)	(14,219)
Net cash provided by financing activities	1,816,559	3,684
Net increase in cash and cash equivalents	1,548,019	12,527
Cash and cash equivalents at beginning of period	845,889	201,890
Cash and cash equivalents at end of period	\$ 2,393,908	\$ 214,417

Supplemental disclosure of noncash investing activities:

Acquisition of property and equipment included in accounts payable and accrued liabilities	\$ 36,835	\$ 30,105
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tesla Motors, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 advanced electric vehicle powertrain components. 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.

Public Offerings

In March 2014, we issued \$800.0 million principal amount of 0.25% convertible senior notes due March 2019 (2019 Notes) and \$1.20 billion principal amount of 1.25% convertible senior notes due March 2021 (2021 Notes) in a public offering. In connection with the issuance of these 2019 Notes and 2021 Notes, we entered into convertible note hedge transactions for which we paid an aggregate \$524.7 million. In addition, we sold warrants and received aggregate proceeds of approximately \$338.4 million from the sale of the warrants. Taken together, we received total cash proceeds of approximately \$1.78 billion, net of underwriting discounts and offering costs (see Note 6).

In May 2013, we completed a public offering of common stock and sold a total of 3,902,862 shares of our common stock for total cash proceeds of approximately \$355.5 million (which includes 487,857 shares or \$45.0 million sold to Elon Musk, our Chief Executive Officer (CEO)), net of underwriting discounts and offering costs. We also sold 596,272 shares of our common stock to our CEO and received total cash proceeds of \$55.0 million in a private placement at the public offering price. Concurrent with these equity transactions, we also issued \$660.0 million principal amount of 1.50% convertible senior notes due June 2018 (2018 Notes) in a public offering. In connection with the issuance of the 2018 Notes, we entered into convertible note hedge transactions and paid an aggregate \$177.5 million. In addition, we sold warrants and received aggregate proceeds of approximately \$120.3 million from the sale of the warrants. Taken together, we received total cash proceeds of approximately \$590.8 million, net of underwriting discounts and offering costs. (see Note 6).

2. Summary of Significant Accounting Policies

Basis of Consolidation

The condensed consolidated financial statements include the accounts of Tesla and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

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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 at the date of the financial statements, and reported amounts of expenses during the reporting period, including revenue recognition, residual value of operating lease vehicles, inventory valuation, warranties, fair value of financial instruments and stock-based compensation. Actual results could differ from those estimates.

Unaudited Interim Financial Statements

The accompanying condensed consolidated balance sheet as of March 31, 2014, the condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013 and the condensed consolidated statements of cash flows for the three months ended March 31, 2014 and 2013 and other information disclosed in the related notes are unaudited. The condensed consolidated balance sheet as of December 31, 2013 was derived from our audited consolidated financial statements at that date. The accompanying condensed 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, 2013 filed with the Securities and Exchange Commission.

The accompanying interim condensed 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 condensed 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.

Revenue Recognition

We recognize revenues from sales of Model S and the Tesla Roadster, including vehicle options and accessories, vehicle service and sales of regulatory credits, such as zero emission vehicle and greenhouse gas emission credits, as well as sales of electric vehicle powertrain components and systems, such as battery packs and drive units. We recognize revenue when: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and there are no uncertainties regarding customer acceptance; (iii) fees are fixed or determinable; and (iv) collection is reasonably assured.

For Model S sales, revenue is generally recognized when all risks and rewards of ownership are transferred to our customers. In certain circumstances, we may deliver a vehicle to a customer without all of the options ordered by the customer, provided that such options do not limit the functionality of the vehicle. In such cases, we continue to defer the related revenue based on the undelivered items' fair value, as evidenced by the contractual price of the option in stand-alone transactions, where available, or using the selling price hierarchy where such prices do not exist. Additionally, if a customer purchases a vehicle option that requires us to provide services in the future, we defer the related revenue based on the undelivered items' fair value and recognize the associated revenue over our expected performance period. As of March 31, 2014, we had deferred \$30.2 million, \$13.9 million and \$3.9 million related to the purchase of vehicle maintenance and service plans, access to our Supercharger network and Model S connectivity, respectively. As of December 31, 2013, we had deferred \$27.6 million, \$10.3 million and \$0.7 million related to these same performance obligations, respectively.

Table of Contents***Resale Value Guarantee***

In April 2013, we began offering a resale value guarantee to all customers who purchased a Model S in the United States and financed their vehicle through one of our specified commercial banking partners, and in October 2013, we introduced this program in Canada. Under the program, Model S customers have the option of selling their vehicle back to us during the period of 36 to 39 months after delivery for a pre-determined resale value. Although we receive the full amount of cash for the vehicle sales price at delivery, we account for transactions under the resale value guarantee program as operating leases. Accordingly, we defer and amortize to automotive sales revenue the initial purchase consideration less resale value guarantee amount on a straight-line basis, over the contractual term of the guarantee program (i.e., the proxy operating lease term). Similarly, we capitalize and depreciate the cost of the respective operating lease vehicles less expected salvage value to cost of automotive sales over the same period. If a customer decides not to sell their vehicle back to us by the end of the resale value guarantee term, or the resale value guarantee is forfeited, any unamortized deferred revenue (including the amount of the resale value guarantee) and operating lease vehicle net book value is then recognized in automotive sales and cost of automotive sales, respectively.

The resale value guarantee amount represents management's best estimate as to the resale value of the Model S vehicle and related vehicle options during the 36 to 39 month period after delivery. Since we are depreciating our operating lease vehicles to the resale value guarantee amount, which approximates the expected salvage value of our operating lease vehicles at the end of their economic useful life (i.e. the end of their expected operating lease term), we will adjust our depreciation estimates as needed, if the expected salvage value is projected to be lower in future periods. As we accumulate more actual data related to the resale experience of Model S, we may be required to make significant changes to our estimates.

Account activity related to our resale value guarantee program consisted of the following for the period presented (in thousands):

	Three months ended March 31, 2014	
Operating lease vehicles under the resale value guarantee program beginning of period	\$	376,979
Increase in operating lease vehicles under the resale value guarantee program		84,515
Depreciation expense recorded in cost of automotive sales		(12,402)
Additional depreciation expense recorded in cost of automotive sales as a result of early cancellation of resale value guarantee		(2,060)
Operating lease vehicles under the resale value guarantee program end of period	\$	447,032
Deferred revenue beginning of period	\$	230,856
Increase in deferred revenue related to Model S deliveries with resale value guarantee		63,070
		(21,779)

Amortization of deferred revenue recorded in automotive sales		
Additional revenue recorded in automotive sales as a result of early cancellation of resale value guarantee		(1,441)
Deferred revenue end of period	\$	270,706
Resale value guarantee liability beginning of period	\$	236,298
Increase in resale value guarantee		55,602
Additional revenue recorded in automotive sales as a result of early cancellation of resale value guarantee		(1,283)
Resale value guarantee liability end of period	\$	290,617

Marketable Securities

Marketable securities are comprised of commercial paper and are designated as available-for-sale and reported at estimated fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss) which is included within stockholders' equity. Realized gains and losses on the sale of available-for-sale marketable securities are recorded in other income, net. The cost of available-for-sale marketable securities sold is based on the specific identification method. Interest, dividends, amortization and accretion of purchase premiums and discounts on our marketable securities

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are included in other income, net. Available-for-sale marketable securities with maturities greater than three months at the date of purchase and remaining maturities of one year or less are classified as short-term marketable securities. Where temporary declines in fair value exist, we have the ability and the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

We regularly review all of our marketable securities for other-than-temporary declines in fair value. The review includes but is not limited to (i) the consideration of the cause of the impairment, (ii) the creditworthiness of the security issuers, (iii) the length of time a security is in an unrealized loss position, and (iv) our ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Warranties

We provide a warranty on all vehicle, production powertrain components and systems sales, and we accrue warranty reserves at the time a vehicle or production powertrain component or system is delivered to the customer. Warranty reserves include management's best estimate of the projected costs to repair or to replace any items under warranty, based on actual warranty experience as it becomes available and other known factors that may impact our evaluation of historical data. For new vehicles, warranty reserves are based on management's best estimate of projected warranty experience until adequate historical data is accumulated. Our warranty reserves do not include projected warranty costs associated with our resale value guarantee vehicles as such actual warranty costs are expensed as incurred. For the three months ended March 31, 2014, warranty costs incurred for our resale value guarantee vehicles was \$1.2 million. We may have material changes as we accumulate more actual data and experience. We review our reserves at least quarterly to ensure that our accruals are adequate in meeting expected future warranty obligations, and we will adjust our estimates as needed. Warranty expense is recorded as a component of cost of revenues in the condensed consolidated statements of operations. The portion of the warranty provision which is expected to be incurred within 12 months from the balance sheet date is classified as current, while the remaining amount is classified as long-term.