

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

Commission File Number: 001-34756

Tesla, Inc.

(Exact name of registrant as specified in its charter)

Delaware 91-2197729
(State or other jurisdiction of (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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

TESLA, INC.

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

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Forward-Looking Statements

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Tesla, Inc.

Consolidated Balance Sheets

(in thousands, except for par values)

(unaudited)

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

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

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

Tesla, Inc.

Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

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

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

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

Tesla, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(unaudited)

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

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

Tesla, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

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

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

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

Tesla, Inc.

Notes to Consolidated Financial Statements

(unaudited)

Note 1 – Overview

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

Note 2 – Summary of Significant Accounting Policies

Unaudited Interim Financial Statements

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

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

Reclassifications

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

Revenue Recognition

Adoption of new accounting standards

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

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

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

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

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

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

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

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