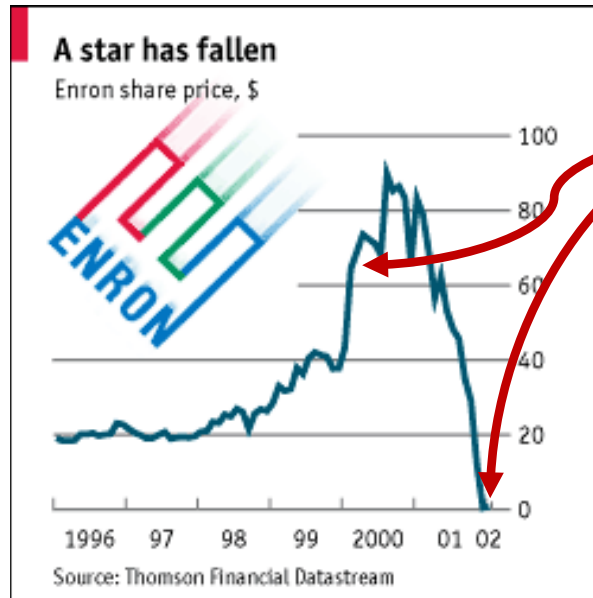


Tesla, Inc (TSLA)

Detecting “Potential” Fraud in Real-Time

Q3-2018



Timing is everything in fraud detection. The longer frauds continue, the more victims they create.

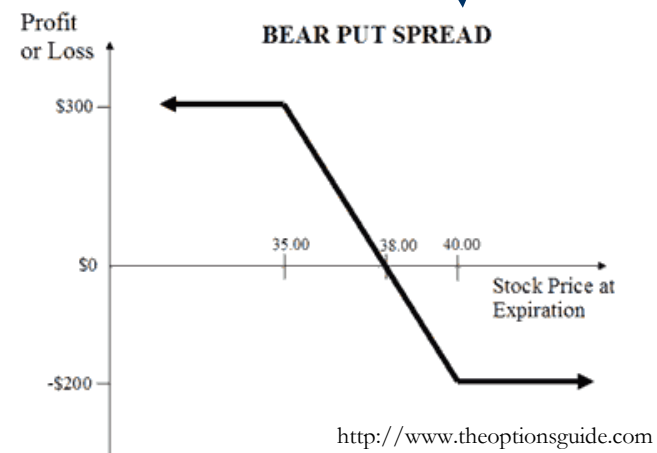
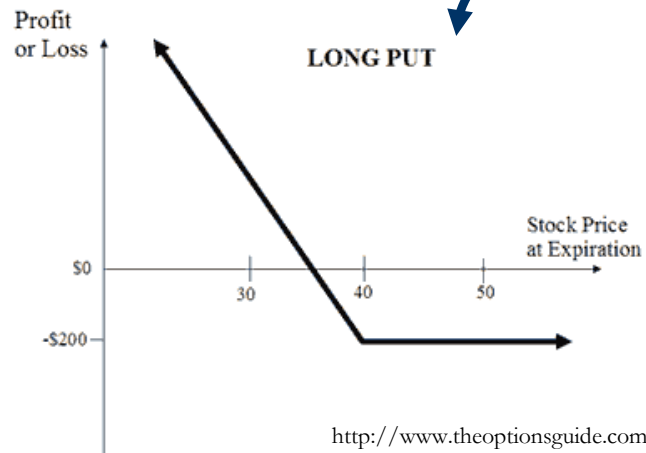
Today's Goal

- 1) Identify a business (*spoiler alert – Tesla*) exhibiting contextual risk factors suggesting an elevated risk of fraud.
- 2) Analyze a recent financial statement of that business for red flags suggesting aggressive (or fraudulent) accounting practices.

What Isn't Our Goal Today (& a Disclosure)?



Disclosure: My fund is “short” Tesla via **long put options** and **bear put spreads**. It is reasonable to consider me biased against Tesla (though I do my best to manage this bias)...



... However, our goal today is not to thoroughly cover the entire short thesis.

Focus will be on the fraud / earnings management case, not valuation.



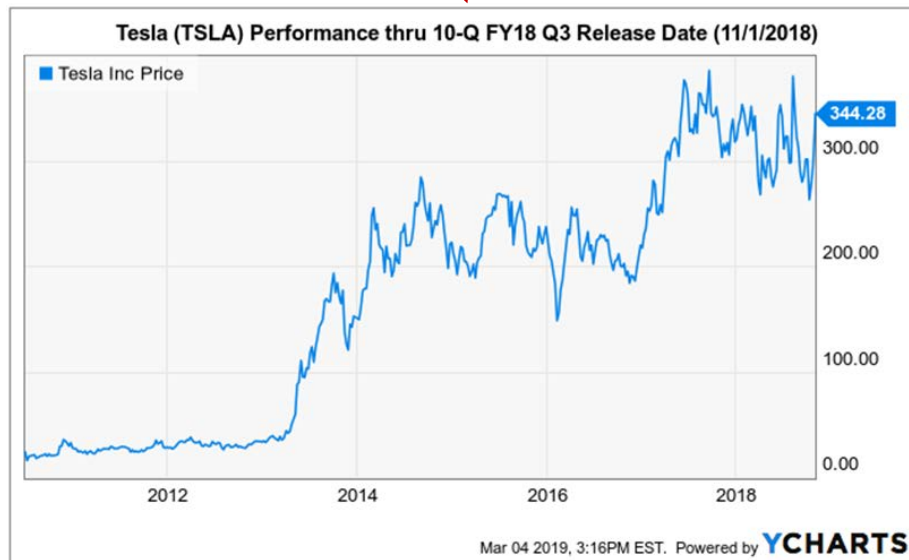
The “Potential” Fraudster – Tesla Inc (TSLA)

Electric car manufacturer founded in 2003. Elon Musk early investor + becomes CEO in 2008. Opened Fremont, CA factory in 2010 (auto assembly) + Gigafactory 1 in Nevada in 2016 (battery and sub-assembly). Three current vehicles (not including discontinued Roadster)...

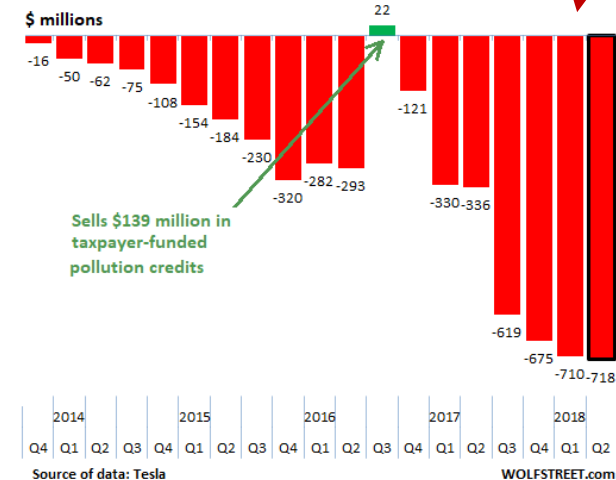
- Model S (luxury sedan) – Launched 2012, \$80K - \$110K.
- Model X (luxury crossover) – Launched in 2015, \$90K - \$115K.
- Model 3 (affordable sedan) – Launched 2017, \$35K - \$70K.

Tesla’s model is vertically integrated from vehicle production to direct to consumer sales and service (rather than using dealer network). Additionally, Tesla vehicles boast “autopilot” which they market as a precursor to full autonomy (using cameras, radar and ultrasonic sensors but not LIDAR as their competitors do).

Through 2018 Q2, Tesla’s **share price grew with increased revenues** (and **losses**).



The More it Sells, the More it Loses Tesla Reports its Worst Loss Ever





Why look at Tesla in the first place?

... Only so much time in the day, better to look for fertile hunting grounds than a scattershot approach. This means searching for “contextual risk factors” that suggest we should take a deeper look.

Some “contextual risk factors” that make Tesla worth digging into...

- High growth (dependent on outside capital)
- Complex structure & opaque reporting
- Management turnover
- CEO/Board red flags

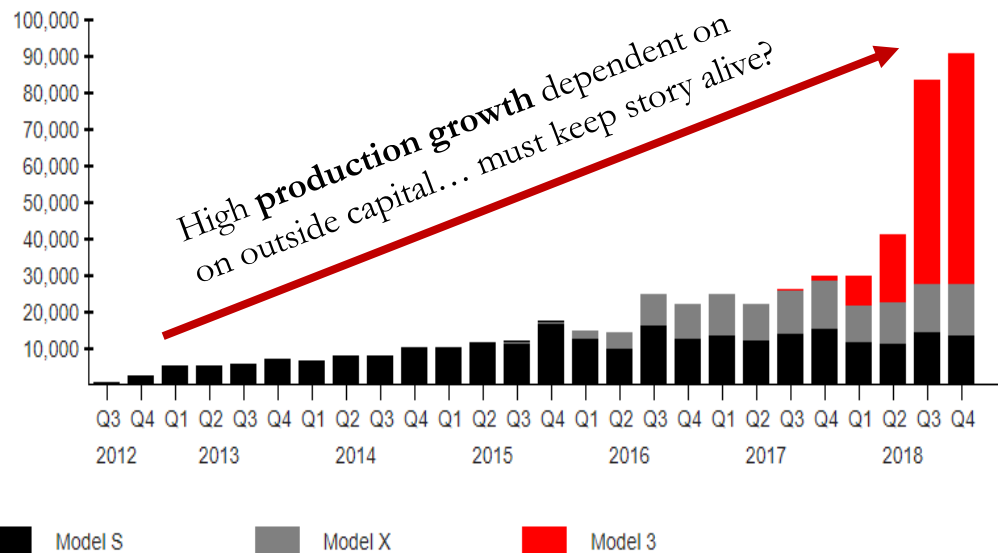


High Growth (Dependent on Outside Capital)

Rapidly growing, capex intensive businesses require capital to scale, **in particular when they are suffering substantial and growing losses**. Their ability to favorably issue equity **hinges on the “growth story”**... and if that story busts, look out below.

With survival often dependent on short-term, quarter-to-quarter results, these high growth companies will have **greater incentive to manipulate results** (all else equal).

The SGI (“sales growth index”) has a positive coefficient that is more than 5 standard deviations from zero, which is consistent with growth companies that are facing growth deceleration having incentives to manipulate earnings.” Beneish (1999), “Detection of Earnings Manipulation” Financial Analysts Journal



@FairDinkumCap, Twitter post, 2/23/2019

https://en.wikipedia.org/wiki/History_of_Tesla,_Inc.

HIGH
GROWTH

COMPLEX/
OPAQUE

MGMT
TURNOVER

CEO/BOARD
RED FLAGS



Complex Structure & Opaque Reporting

Tesla has an **enormously complex structure of subsidiaries, VIE's and financing arrangements** (leasing, resale value guarantees, etc). Financial reporting can feel **purposely opaque**, providing neither enough detail to confirm nor disconfirm our suspicions.

Allegheny Solar 1, LLC	Dom Solar General Partner I, LLC	Mound Solar Master Tenant VII, LI	Solar Integrated Fund V, LLC	TES 2017-2, LLC	Tesla Motors Denmark ApS
Allegheny Solar Manager 1, LLC	Dom Solar Limited Partner I, LLC	Mound Solar Master Tenant VIII, LI	Solar Integrated Fund VI, LLC	TES 2018-K2, LLC	Tesla Motors Exports LLC
Ancon Holdings II, LLC	Eiger Lease Co, LLC	Mound Solar MT Manager IX, LLC	Solar Integrated Manager I, LiLC	TES Holdings 2017-1, LLC	Tesla Motors FL, Inc.
Ancon Holdings III, LLC	Energy Freedom Coalition of Ame	Mound Solar MT Manager VII, LI	Solar Integrated Manager II, LLC	TES Holdings 2018-K2, LLC	Tesla Motors HK Limited
Ancon Holdings, LLC	Falconer Solar Manager I, LLC	Mound Solar MT Manager VIII, LI	Solar Integrated Manager III, LLC	Tesla (Beijing) New Energy R&D Co., I	Tesla Motors Ireland Limited
Ancon Solar Corporation	Firehorn Solar Manager I, LLC	Mound Solar Owner IX, LLC	Solar Integrated Manager IV-A, LLC	Tesla 2014 Warehouse SPV LLC	Tesla Motors Japan GK
Ancon Solar I, LLC	FocalPoint Solar Borrower, LLC	Mound Solar Owner Manager IX, I	Solar Integrated Manager V, LLC	Tesla Auto Lease Trust 2018-A	Tesla Motors Limited
Ancon Solar II Lessee Manager, I	FocalPoint Solar I, LLC	Mound Solar Owner Manager VII, I	Solar Integrated Manager VI, LLC	Tesla Auto Lease Trust 2018-B	Tesla Motors Luxembourg S.à.r.l.
Ancon Solar II Lessee, LLC	FocalPoint Solar Manager I, LLC	Mound Solar Owner Manager VIII, I	Solar Services Company, LLC	Tesla Motors (Beijing) Co., Ltd.	Tesla Motors MA, Inc.
Ancon Solar II Lessor, LLC	Fontane Solar I, LLC	Mound Solar Owner V, LLC	Solar Ulysses Manager I, LLC	Tesla Automobile Sales and Service (Be	Tesla Motors Netherlands B.V.
Ancon Solar III Lessee Manager, I	Fotovoltaica GI 4, S. de R.L. de C.	Mound Solar Owner VI, LLC	Solar Ulysses Manager II, LLC	Tesla Automobile Sales and Service (Ch	Tesla Motors New York LLC
Ancon Solar III Lessee, LLC	Fotovoltaica GI 5, S. de R.L. de C.	Mound Solar Owner VII, LLC	Solar Voyager, LLC	Tesla Automobile Sales and Service (Ch	Tesla Motors NL LLC
Ancon Solar III Lessor, LLC	FTE Solar I, LLC	Mound Solar Owner VIII, LLC	Solar Warehouse Manager I, LLC	Tesla Automobile Sales and Service (Ch	Tesla Motors Norway AS
Ancon Solar Managing Member I	Grohmann Engineering Trading (S	Mound Solar Partnership X, LLC	Solar Warehouse Manager II, LLC	Tesla Automobile Sales and Service (Gu	Tesla Motors NV, Inc.
Arpad Solar Borrower, LLC	Grohmann USA, Inc.	Mound Solar Partnership XI, LLC	Solar Warehouse Manager III, LLC	Tesla Automobile Sales and Service (Ha	Tesla Motors PA, Inc.
Arpad Solar I, LLC	Hammerhead Solar, LLC	Mound Solar Partnership XII, LLC	Solar Warehouse Manager IV, LLC	Tesla Automobile Sales and Service (Na	Tesla Motors Sales and Service LLC
Arpad Solar Manager I, LLC	Hangzhou Silevo Electric Power C	MS SolarCity 2008, LLC	SolarCity Alpine Holdings, LLC	Tesla Automobile Sales and Service (Nu	Tesla Motors Singapore Holdings Pte. Ltd.
AU Solar 1, LLC	Harpoon Solar I, LLC	MS SolarCity Commercial 2008, LI	SolarCity Amphitheatre Holdings, LL	Tesla Automobile Sales and Service (Qi	Tesla Motors Singapore Private Limited
AU Solar 2, LLC	Harpoon Solar Manager I, LLC	MS SolarCity Residential 2008, LI	SolarCity Arbor Holdings, LLC	Tesla Automobile Sales and Service (Sh	Tesla Motors Stichting
Banyan SolarCity Manager 2010,	Haymarket Holdings, LLC	MT Solar Corporation	SolarCity Arches Holdings, LLC	Tesla Automobile Sales and Service (Sh	Tesla Motors Switzerland GmbH
Banyan SolarCity Owner 2010, I	Haymarket Manager I, LLC	NBA SolarCity AFB, LLC	SolarCity AU Holdings, LLC	Tesla Automobile Sales and Service (Sh	Tesla Motors Taiwan Limited
Basking Solar I, LLC	Ikehu Manager I, LLC	NBA SolarCity Commercial I, LLC	SolarCity Cruify Holdings, LLC	Tesla Automobile Sales and Service (Su	Tesla Motors TN, Inc.
Basking Solar II, LLC	Il Buono Solar I, LLC	NBA SolarCity Solar Phoenix, LLC	SolarCity Electrical New York Corpor	Tesla Automobile Sales and Service (Th	Tesla Motors TX, Inc.
Basking Solar Manager II, LLC	Ithosson, S.A. de C.V.	Northern Nevada Research Co., LL	SolarCity Electrical, LLC	Tesla Automobile Sales and Service (Th	Tesla Motors UT, Inc.
Beatrix Solar I, LLC	Knight Solar Managing Member I	Oranje Solar I, LLC	SolarCity Engineering, Inc.	Tesla Automobile Sales and Service (Wi	Tesla New Zealand ULC
Bernese Solar Manager I, LLC	Knight Solar Managing Member II	Oranje Solar Manager I, LLC	SolarCity Finance Company, LLC	Tesla Automobile Sales and Service (Xi	Tesla Portugal, Sociedade Unipessoal LDA
Blue Skies Solar I, LLC	Knight Solar Managing Member II	Paramount Energy Fund I Lessee, I	SolarCity Finance Holdings, LLC	Tesla Automobile Sales and Service (Xi	Tesla Poland sp. z o.o.
Blue Skies Solar II, LLC	Landlord 2008-A, LLC	Paramount Energy Fund I Lessor, I	SolarCity Foxborough Holdings, LLC	Tesla Automobile Sales and Service (Zh	Tesla Puerto Rico LLC
Building Solutions Acquisition C	LML Partnership, LLC	PEF IMM, LLC	SolarCity FTE Series 1, LLC	Tesla Automobiles Sales and Service M	Tesla Sales, Inc.
Caballero Solar Managing Memb	LML 2018 Warehouse SPV, LLC	Perbix Machine Company, Inc.	SolarCity FTE Series 2, LLC	Tesla Belgium BVBA	Tesla Services Sdn. Bhd.
Caballero Solar Managing Memb	LML Warehouse SPV, LLC	Poppy Acquisition LLC	SolarCity Fund Holdings, LLC	Tesla Canada GP Inc.	Tesla Shanghai Co., Ltd
Caballero Solar Managing Memb	LML Solar II, LLC	Presidio Solar I, LLC	SolarCity Grand Canyon Holdings, LI	Tesla Canada LP	Tesla Spain, S.L. Unipersonal
Cardinal Blue Solar, LLC	Louis Solar II, LLC	Presidio Solar II, LLC	SolarCity Holdings 2008, LLC	Tesla Czech Republic s.r.o.	Tesla, Inc.
Castello Solar I, LLC	Louis Solar III, LLC	Presidio Solar III, LLC	SolarCity International, Inc.	Tesla Energia Macau Limitada	The Big Green Solar Holdings, LLC
Castello Solar II, LLC	Louis Solar Manager II, LLC	Pukana La Solar I, LLC	SolarCity Leviathan Holdings, LLC	Tesla Energy Electrical LLC	The Big Green Solar I, LLC
Castello Solar III, LLC	Louis Solar Manager III, LLC	Roadster Automobile Sales and Ser	SolarCity LMC Series I, LLC	Tesla Energy Operations, Inc.	The Big Green Solar Manager I, LLC
Chaparral SREC Borrower, LLC	Louis Solar Master Tenant I, LLC	Roadster Finland Oy	SolarCity LMC Series II, LLC	Tesla Energy Sales LLC	Three Rivers Solar 1, LLC
Chaparral SREC Holdings, LLC	Louis Solar MT Manager I, LLC	Sequoia Pacific Holdings, LLC	SolarCity LMC Series III, LLC	Tesla Finance LLC	Three Rivers Solar 2, LLC
Chompie Solar I, LLC	Louis Solar Owner I, LLC	Sequoia Pacific Manager I, LLC	SolarCity LMC Series IV, LLC	Tesla Financial Leasing (China) Co., Lt	Three Rivers Solar 3, LLC
Chompie Solar II, LLC	Louis Solar Owner Manager I, LI	Sequoia Pacific Solar I, LLC	SolarCity LMC Series V, LLC	Tesla Financial Services GmbH	Three Rivers Solar Manager 1, LLC
Chompie Solar Manager I, LLC	Mako GB SPV Holdings, LLC	Sequoia SolarCity Owner I, LLC	SolarCity Mid-Atlantic Holdings, LI	Tesla Financial Services Holdings B.V.	Three Rivers Solar Manager 2, LLC
Chompie Solar Manager II, LLC	Mako GB SPV, LLC	Servicios de Tecnologia Y Admini	SolarCity Nitro Holdings, LLC	Tesla Financial Services Limited	Three Rivers Solar Manager 3, LLC
City UB Solar, LLC	Mako Solar Holdings, LLC	Sierra Solar Power (Hong Kong) Li	SolarCity Orange Holdings, LLC	Tesla France S.à.r.l.	TM International C.V.
Clydesdale SC Solar I, LLC	Mako Solar, LLC	Silevo, LLC	SolarCity Series Holdings I, LLC	Tesla Germany GmbH	TM Sweden AB
Common Assets Capital, LLC	Master Tenant 2008-A, LLC	Solar Aquarium Holdings, LLC	SolarCity Series Holdings II, LLC	Tesla Greece Single Member P.C.	USB SolarCity Manager 2009, LLC
Common Assets Financial, LLC	Matterhorn Solar I, LLC	Solar Energy of America I, LLC	SolarCity Series Holdings IV, LLC	Tesla Grohmann Automation GmbH	USB SolarCity Manager 2009-2010, LLC
Common Assets Securities, LLC	Megalodon Solar, LLC	Solar Energy of America Manager I	SolarCity Steep Holdings, LLC	Tesla Insurance Services, Inc.	USB SolarCity Manager III, LLC
Common Assets Technologies, LI	Monte Rosa Solar I, LLC	Solar Explorer, LLC	SolarCity Utep Holdings, LLC	Tesla International B.V.	USB SolarCity Manager IV, LLC
Common Assets, LLC	Mound Solar Manager V, LLC	Solar House I, LLC	SolarCity Village Holdings, LLC	Tesla Italy S.r.l.	USB SolarCity Master Tenant 2009, LLC
Dahlia Holdings I, LLC	Mound Solar Manager VI, LLC	Solar House II, LLC	SolarRock, LLC	Tesla Jordan Car Trading LLC	USB SolarCity Master Tenant 2009-2010
Dahlia Holdings II, LLC	Mound Solar Manager X, LLC	Solar House III, LLC	SolarStrong, LLC	Tesla Korea Limited	USB SolarCity Master Tenant IV, LLC
	Mound Solar Manager XI, LLC	Solar House IV, LLC	Sparrowhawk Solar I, LLC	Tesla Lease Trust	USB SolarCity Owner 2009, LLC
	Mound Solar Manager XII, LLC	Solar Integrated Fund I, LLC	SREC Holdings, LLC	Tesla Motors Australia, Pty Ltd	USB SolarCity Owner 2009-2010, LLC
	Mound Solar Master Tenant IX, LI	Solar Integrated Fund II, LLC	TALT Holdings, LLC	Tesla Motors Austria GmbH	USB SolarCity Owner IV, LLC
	Mound Solar Master Tenant V, LI	Solar Integrated Fund III, LLC	TBM Partnership II, LLC	Tesla Motors Canada ULC	Visigoth Solar I, LLC
	Mound Solar Master Tenant VI, LI	Solar Integrated Fund IV-A, LLC	TES 2017-1, LLC	Tesla Motors Cooperatief U.A.	Visigoth Solar Holdings, LLC

HIGH GROWTH

COMPLEX/ OPAQUE

MGMT TURNOVER

CEO/BOARD RED FLAGS

Visigoth Solar Managing Member 1, LLC

Weisshorn Solar I, LLC

Weisshorn Solar Manager I, LLC

Zep Solar Hong Kong Limited

Zep Solar LLC

Zep Solar Trading Ltd



Complex Structure & Opaque Reporting (cont)

While PwC audits Tesla's consolidated financials, subsidiaries may use **local auditors**, e.g. Tesla's Singapore entity it moved \$610 million through on 11-Feb-2019 (likely in relation to the Gigafactory 3 construction in Shanghai).

bizfile+
Return of Allotment of Shares

Entity Information

UEN
201329151G
Entity Name
TESLA MOTORS SINGAPORE HOLDINGS PTE. LTD.

Entity Typ
PRIVATE

Shareholder Details

Identification No./Name	Currency/Class	Details	Allotment
T10UF1313G TESLA, INC.	UNITED STATES OF AMERICA, DOLLARS(USD) Ordinary	Number of Shares	1
		Amount of Paid Up Share Capital	810472266
		Shares held in trust	<input type="checkbox"/>
	UNITED STATES OF AMERICA, DOLLARS(USD) Preference	Name of the trust	No data to display.
		No data to display	
	UNITED STATES OF AMERICA, DOLLARS(USD) Others	No data to display	
Date of Allotment : 11/02/2019			

TESLA MOTORS SINGAPORE HOLDINGS PTE. LTD.
(Incorporated in the Republic of Singapore)
(Company Registration Number: 201329151G)
(the "Company")

**MINUTES BY REPRESENTATIVE OF HOLDING COMPANY
RELATING TO PROCEEDINGS OF SUBSIDIARY COMPANY
UNDER SECTION 179(6) OF THE COMPANIES ACT, CAP. 50**

I, TODD ANDREW MARON, the duly appointed representative of TESLA, INC., the holding company beneficially entitled to the whole of the issued shares of TESLA MOTORS SINGAPORE HOLDINGS PTE. LTD. in pursuance to Section 179(6) of the Singapore Companies Act, Cap 50 do hereby confirm that the Fourth Annual General Meeting of TESLA MOTORS SINGAPORE HOLDINGS PTE. LTD. was deemed to have been held on 30 JUN 2018 and that the following ordinary resolutions were duly passed:-

**ORDINARY BUSINESS :
AUDITED FINANCIAL STATEMENTS**

RESOLVED that the Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Statement by Directors, be received and adopted.

RE-APPOINTMENT OF AUDITORS

RESOLVED that Messrs UHY Lee Seng Chan & Co, Public Accountants and Chartered Accountants, be hereby re-appointed auditors of the Company until the conclusion of the next annual general meeting at a remuneration to be agreed between the director and auditors.

Oct 16, 2018

"Supervisor"
Former Employee - Anonymous Employee

Doesn't Recommend

I worked at UHY Lee Seng Chan & Co full-time

Pros

Most of the colleagues are friendly.

Cons

Emphasis recoverability than audit quality.

HIGH GROWTH

COMPLEX/ OPAQUE

MGMT TURNOVER

CEO/BOARD RED FLAGS

https://valueinvestorsclub.com/idea/TESLA_INC/7963661582

<https://www.glassdoor.com/Reviews/UHY-Lee-Seng-Chan-and-Co-Reviews-E1266016.htm>



Management Turnover

When that “growth story” begins to bust, management may begin to leave for multiple “non-nefarious” reasons, including concern for future job security and/or option heavy pay packages that are less likely to finish “in-the-money”. **Certainly a bearish sign on the company’s future, but not necessarily fraud.**

However, the sheer number of executives fleeing Tesla in recent years is astonishing (these barely legible lists cover only ~ the last five months)...

Departure Date	Start Date	Term (in years)	Name	Position
Mar-19	Apr-17	1.9	Adam Laponis	VP, Finance (Global Financial Planning & Analysis Business Ops)
Mar-19	Oct-15	3.4	Dr. Michael Schwekutsch	VP, Engineering (Drive Systems, NVH, Pack Manufacturing)
Mar-19	Dec-13	5.2	Tim Newell	Director, Financial Products
Feb-19	Dec-18	0.2	Dane Butswinkas	General Counsel
Feb-19	May-15	3.8	Cindy Nicola	VP, Global Recruiting
Jan-19	Aug-08	9.1*	Deepak Ahuja	Chief Financial Officer
Jan-19	Jan-11	8.0	Sanjay Ranchod	Director & Counsel, Business Development and Policy
Jan-19	Feb-17	1.9	Luis Solana	Senior Transaction Lead, Global Capital Markets
Jan-19	Oct-12	6.3	Charles Mwangi	Senior Director, Engineering
Dec-19	Aug-17	2.3	Parag Vaish	Head, Digital Product, Design and Content
Dec-18	Apr-10	8.7	Eric Weingarten	Associate General Counsel
Dec-18	Apr-13	5.7	Aaron Chew	Senior Director, Investor Relations
Dec-18	Feb-10	8.8	Fiona Taylor	SVP / Senior Director, Customer Support & Business Operations
Dec-18	Jan-18	0.9	Dan Kim	Head, Global Sales, Marketing, & Delivery
Dec-18	Aug-17	1.3	Parag Vaish	Head, Digital Product, Design, & Content
Dec-18	Oct-13	5.2	Todd Maron	General Counsel
Dec-18	Jun-17	1.5	Heidi Brandow	Head, Global Learning & Talent Development
Dec-18	Oct-15	3.2	Françoise Lavertus Stevens	Country Director & GM, Latin America and Southeast U.S.
Dec-18	Jan-13	5.9	Marco Batra	Senior Manager, Global Sales & Delivery Operations
Dec-18	Apr-16	2.7	Chris Guenther	Senior Manager, Production Engineering
Dec-18	Jan-18	0.9	Alexandra Valasek	Consumer & Retail Communications
Nov-18	Dec-16	1.9	Matt Casebolt	Senior Director, Engineering, Body, Exteriors, Lighting, & Closures
Nov-18	Dec-16	1.9	Andrew Kim	Senior Manager, Design

Departure Date	Start Date	Term (in years)	Name	Position
Nov-18	Jan-18	0.8	Jeff Jones	Senior Director, Global Security
Nov-18	May-11	7.5	Phil Rothenberg	VP, Legal
Oct-18	May-17	1.4	JJ Kim	Country Director, South Korea
Oct-18	Aug-17	1.2	Laerte Zatta	Director, Global Body Repair Program
Oct-18	Oct-14	4.0	Alex Buhr	Senior Manager, Finance & Operations EMEA
Oct-18	Feb-12	6.7	Tobias Duschl	Senior Director, Global Business Operations
Oct-18	Jun-18	0.3	Mariel Kelley	Senior Director, HR, Energy
Oct-18	Dec-13	4.8	Josh Tech	Senior Manager, New Product Introduction, Vehicle Manufacturing
Sep-18	Jul-15	3.2	Jens Peter Clausen	VP, Gigafactory
Sep-18	Jan-10	8.7	Gilbert Passin	VP, Manufacturing
Sep-18	May-18	0.3	Mark Mastandrea	Director, Outbound Logistics & Global Delivery Operations
Sep-18	Apr-16	2.4	Lynn Yeager	Director, Sales for California & Hawaii
Sep-18	May-14	4.3	Marc Kolb	Director, Policy & Business Development
Sep-18	Aug-17	1.1	Stephan Graminger	Director, Body Manufacturing
Sep-18	May-10	8.3	Albert Luu	Principal, Global Capital Markets
Sep-18	Nov-06	11.8	Jimmy Bergeron	Senior Manager, Residential Field Services
Sep-18	Mar-16	2.5	Keith Witek	Director Engineering Operations, Business Development, & Associate General Counsel
Sep-18	Jul-16	2.2	Michael Rossiter	Director, Global Planning & Business Operations
Sep-18	Sep-14	4.0	Chris Lillywhite	Senior Manager, Manufacturing Engineering
Sep-18	Oct-11	6.9	John Conley	Director, Commercial Project Development, Americas
Sep-18	Apr-08	10.4	Jeremy Snyder	Head of Global Business Development & Special Projects
Sep-18	Oct-09	8.9	Dustin Krause	Head of Global Sales Improvement & Sales Operations
Sep-18	Aug-16	2.1	Matthew Parker	Senior Director, World Wide Field Service Operations

HIGH
GROWTH

COMPLEX/
OPAQUE

MGMT
TURNOVER

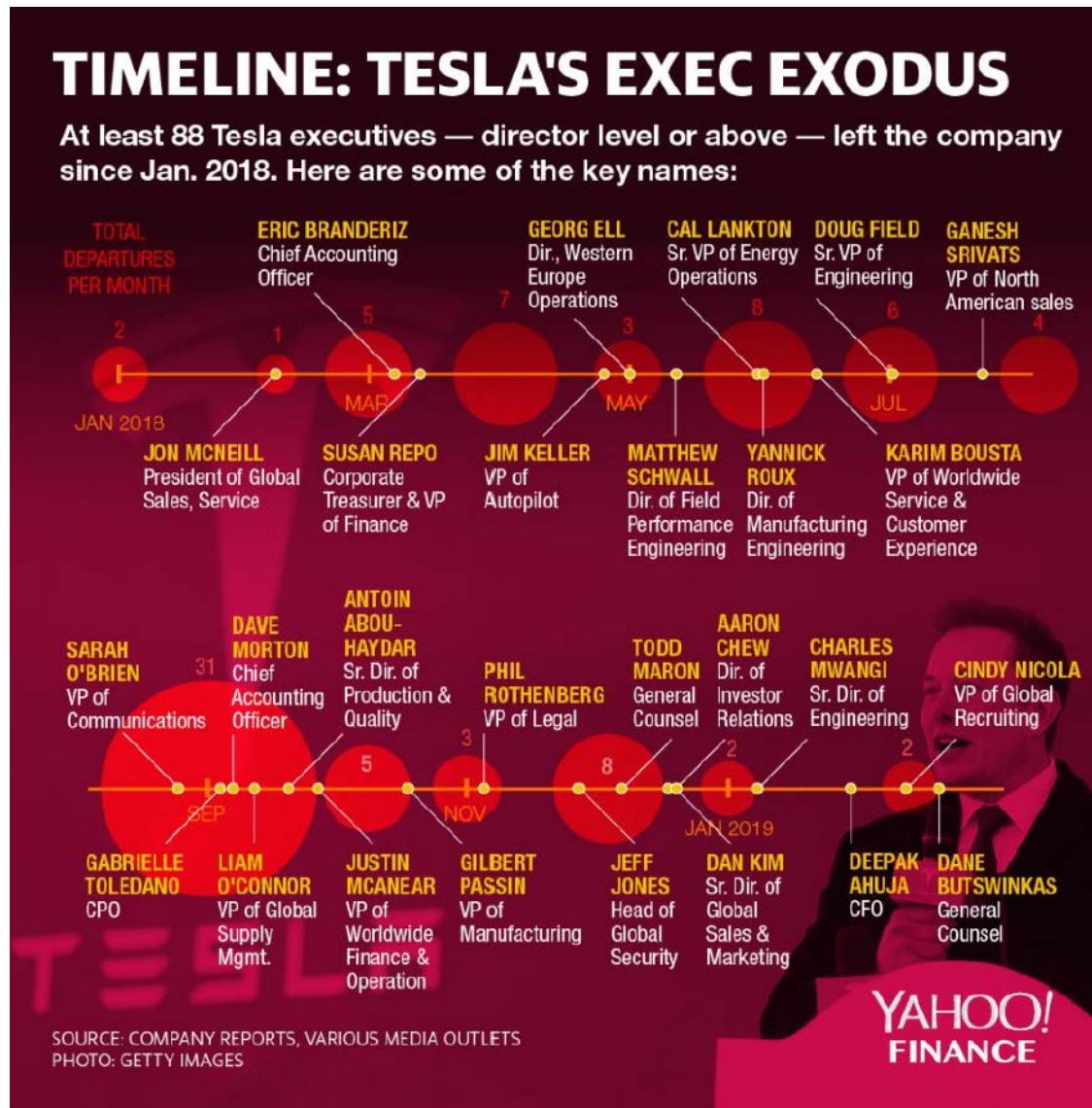
CEO/BOARD
RED FLAGS

<https://www.dropbox.com/s/doc1755m6gyztn/Tesla%20Executive%20Departures%20List.pdf?dl=0>



Management Turnover (cont)

Another visualization of the massive management turnover at Tesla...



HIGH
GROWTH

COMPLEX/
OPAQUE

MGMT
TURNOVER

CEO/BOARD
RED FLAGS



Management Turnover (cont)

The revolving door at these positions in particular raise red flags...

- **Chief Financial Officer**
 - CFO Jason Wheeler leaves in early 2017 after less than 18 months.
 - CFO Deepak Ahuja returns, leaves again two years later (unexpectedly announcing at the tail end of the 2018 Q4 conference call).
 - New CFO is Zach Kirkhorn, who **at the youthful age of 34 is not expected to give CEO Elon Musk much pushback.**
- **Chief Accounting Officer**
 - CAO Eric Branderiz resigned in March 2018 after 18 months on the job.
 - Replacement CAO, David Morton, didn't make it one month. **Rather than sign off on '18 Q3 financials, he resigned leaving \$10 million in unvested stock grants on the table.**
 - New CAO is Vaibhav Taneja, internally promoted from Corporate Controller, also in his 30's.
- **General Counsel**
 - Dane Butswinkas replaces Todd Maron in December 2018. Leaves by February 2019, sources calling it "a poor cultural fit". Butswinkas came from reputable Williams & Connolly (one of the top firms in the country specializing in white collar criminal defense) and **potentially saw something he didn't like and decided to escape with his reputation in tact.**
 - New GC is Jonathan Chang, internally promoted from VP Legal, 40 years old.

HIGH
GROWTH

COMPLEX/
OPAQUE

MGMT
TURNOVER

CEO/BOARD
RED FLAGS



CEO/Board Red Flags

Tesla CEO Elon Musk is inextricably linked to Tesla... and he's **objectively a fascinating guy...**



Synchronized landings of two “reusable” Falcon Heavy boosters.



Tesla’s can look pretty great (& brand has helped push along EV revolution).

- HIGH GROWTH
- COMPLEX/ OPAQUE
- MGMT TURNOVER
- CEO/BOARD RED FLAGS**



CEO/Board Red Flags (cont)

Elon Musk has displayed a **willingness to openly lie**, especially when his business is under threat (a **necessity he alluded to years ago**).

His most brazen 18-Q3 lie... a **fake go-private announcement** he had run by no board members or potential funders. Tesla slowly walked this back over the following weeks and Musk was forced to settle with the SEC in late September, subsequently **taunting them** and refusing to follow the settlement terms (hence the SEC asking he be held in contempt in March 2019).

Elon Musk

@elonmusk · Aug 7

Am considering taking Tesla private at \$420. Funding secured.

6.3K

16K

88K

Show this thread

Elon Musk

@elonmusk · Aug 7

Shareholders could either to sell at 420 or hold shares & go private

1.4K

2.2K

19K

Show this thread

Elon Musk Retweeted

Elon Musk

@elonmusk · Aug 7

Replying to @MindFieldMusic

Def no forced sales. Hope all shareholders remain. Will be way smoother & less disruptive as a private company. Ends negative propaganda from shorts.

590

743

7.9K

Elon Musk

@elonmusk · Aug 7

Investor support is confirmed. Only reason why this is not certain is that it's contingent on a shareholder vote.



September 29 2011
Elon Musk on Solyndra

I mean, the most you could say is that Solyndra executives were... um... too optimistic... uh... you know they presented a better face to the situation than should have been presented in the final few months

but then if they didn't do that it would have become a self fulfilling prophecy of ... of ... of ...

you know as soon as the CEO says "I'm sure whether we'll survive", you're dead.

You know, I think people are making too much of this Solyndra thing.

Elon Musk

@elonmusk

Following

Just want to that the Shortseller Enrichment Commission is doing incredible work. And the name change is so on point!

1:16 PM - 4 Oct 2018

HIGH GROWTH

COMPLEX/ OPAQUE

MGMT TURNOVER

CEO/BOARD RED FLAGS

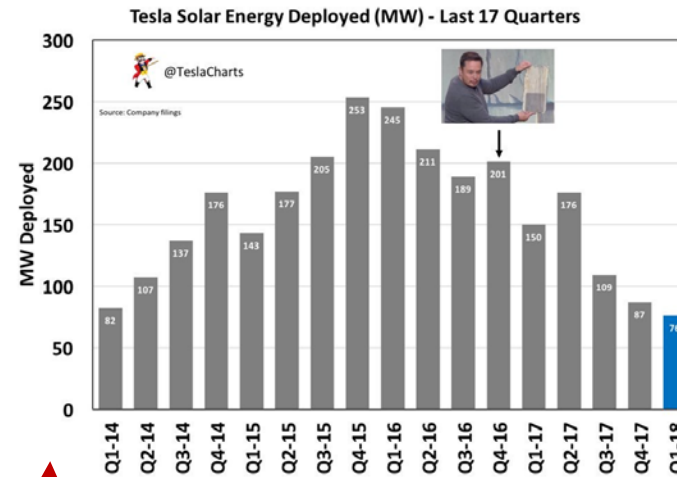


CEO/Board Red Flags (cont)

More lies...

SolarCity (SCTY)

- In November 2016, Musk orchestrates bailout of SolarCity (via merger with Tesla), a failing entity founded by his cousins which he owned 20% of (and served as Chairman).
- Musk had **personally borrowed against his SolarCity holdings** and used SpaceX funds to purchase SolarCity bonds.
- Board signs off on \$2.6 billion acquisition ~ one week after the SEC begins inquiring about SolarCity's accounting/liquidity.
- As the market sours on deal prior to its completion, Musk infamously holds solar shingle press conference, a **faked product** still not commercially available... The **solar business has continued its decline**.



Elon Musk @elonmusk · Jul 3, 2017
Replying to @elonmusk
Handover party for first 30 customer Model 3's on the 28th!
Production grows exponentially, so Aug should be 100 cars and Sept above 1500.

Elon Musk @elonmusk
Looks like we can reach 20,000 Model 3 cars per month in Dec

25.7K 2:12 AM - Jul 3, 2017

HIGH GROWTH

COMPLEX/ OPAQUE

MGMT TURNOVER

CEO/BOARD RED FLAGS

< 3,000 produced ALL of 2017



CEO/Board Red Flags (cont)

Elon Musk routinely displays **reckless and undisciplined** behavior for someone overseeing 40,000+ employees.

- Constant sparring with “shorts” and media (generally a red flag)...



Elon Musk ✓
@elonmusk

Oh and uh short burn of the century comin soon. Flamethrowers should arrive just in time.

6:02 AM - 4 May 2018

Following



Joshua Topolsky ✓ @joshuatopolsky · May 26, 2018

Replying to @elonmusk and 4 others

You're very smart so I want you to think about this for a second. Do you think it's in the interest of powerful people to A: support a free press that exposes their lies, or B: tear it down so their lies are easier to tell? Now ask yourself why the polls would look bad.



Elon Musk ✓
@elonmusk

Who do you think *owns* the press? Hello.

♥ 15.5K 10:11 PM - May 26, 2018



Elon Musk ✓ @elonmusk · May 23

The holier-than-thou hypocrisy of big media companies who lay claim to the truth, but publish only enough to sugarcoat the lie, is why the public no longer respects them

HIGH GROWTH

COMPLEX/ OPAQUE

MGMT TURNOVER

CEO/BOARD RED FLAGS

- In July 2018, after a failed PR stunt surrounding the rescue operation of a trapped Thai soccer team, Musk launched a Twitter tirade calling one of the diver rescuers (Vernon Unsworth) a “pedo”. After deleting the tweets, he doubled down again in August tweeting... “You don’t think it’s strange he hasn’t sued me?” Unsworth promptly sued.
- Personal liquidity issues? In late 2018 / early 2019, Musk took out \$61 million in mortgages against his five California homes, did a \$50 million sale/leaseback of his corporate jet and (allegedly) attempted to borrow against his SpaceX shares. He has historically **borrowed aggressively against his Tesla shares (last disclosure 40% of his shares) leaving him at risk of a margin call should Tesla’s share price decline.**

“Put me down as saying I've always been afraid of the guy whose IQ is 190 and he thinks it's 250. I like to think there's a little of that risk with Elon.” - Charlie Munger (2014)



CEO/Board Red Flags (cont)

For perspective, no Ford, GM or Amazon board members are compensated > \$1M.

What about the board “overseeing” Elon?

Non-Executive Directors	Share Ownership (as of Feb 2019)	Equity Value (3/14/19)	Avg Comp (2014 - 2017)	Avg Comp to Equity Ratio	Shareholder Alignment
Robyn Denholm	-	\$ -	\$ 4,281,915	--	No alignment... Serves as chairwoman!
Brad Buss	13,348	\$ 3,870,386	\$ 2,092,634	54.1%	Insufficient alignment.
Ira Ehrenpreis	15,272	\$ 4,428,269	\$ 1,838,046	41.5%	Insufficient alignment.
Lawrence Ellison	3,000,000	\$ 869,880,000	--	--	
Antonio Gracias	Unknown	--	\$ 2,475,751	--	Ownership via fund structures, personal stake unclear.
James Murdoch	-	\$ -	\$ 1,926,972	--	No alignment.
Kimbal Musk	148,333	\$ 43,010,637	\$ 1,261,515	2.9%	
Linda Johnson Rice	-	\$ -	\$ 1,933,914	--	No alignment.
Kathleen Wilson-Thompson	-	\$ -	--	--	No alignment (yet... recently added to board).
Stephen Jurvetson	104,243	\$ 30,226,300	\$ 1,544,621	5.1%	

HIGH GROWTH

COMPLEX/ OPAQUE

MGMT TURNOVER

CEO/BOARD RED FLAGS

Invested in Theranos, pushed out of his VC firm after MeToo controversy.

Elon’s brother, entire stake pledged against personal indebtedness.

Also, invested in Theranos, describes Elon as “very close friend”.



The Economist @TheEconomist · Apr 13, 2018
Tesla will need to raise \$2.5bn to \$3bn this year, according to Jefferies, a bank econ.st/2GKub8z



Tesla is heading for a cash crunch

The road ahead for Elon Musk's car company is looking more perilous
economist.com

Elon Musk @elonmusk

The Economist used to be boring, but smart with a wicked dry wit. Now it's just boring (sigh). Tesla will be profitable & cash flow+ in Q3 & Q4, so obv no need to raise money.

18.7K 4:11 AM - Apr 13, 2018

2,584 people are talking about this

On October 24, 2018, Tesla announced their 2018 Q3 earnings, subsequently filing their supporting 10-Q (i.e. full financials and footnotes) on November 1st... **and delivered on Elon's promises throughout 2018 they would be profitable and cash flow positive.**



Tesla Third Quarter 2018 Update

- GAAP net income of \$312M, non-GAAP net income of \$516M
- Operating income of \$417M and operating margin of 6.1%
- Free cash flow of \$881M supported by operating cash flow of \$1.4B
- \$3.0B of cash and cash equivalents at Q3-end, increased by \$731M in Q3
- Model 3 GAAP and non-GAAP gross margin > 20% in Q3
- Reaffirm expectation of continued GAAP net income and free cash flow in Q4

Tesla Earnings 8-K 10/24/2018



Too Good To Be True?

According to Tesla's reported results, in just one quarter they reduced total SG&A and R&D expense by 11% despite 71% revenue growth, transitioning overnight into one of the premier operators in the auto manufacturing space...

Company	2018 Q2	
	Revenue (USD, mn)	EBIT Margin
Volvo AB	11,943	12%
Bayerische Motoren Werke AG	29,798	11%
Toyota Motor Corp	67,450	9%
Honda Motor Co Ltd	36,865	7%
Daimler AG	48,534	7%
Subaru Corp	6,497	6%
Fiat Chrysler Automobiles N.V.	34,526	4%
Nissan Motor Co., Ltd.	24,887	4%
Hyundai Motor Company	22,894	4%
General Motors Co	36,760	4%
Mazda Motor Corp.	7,998	4%
Volkswagen AG	72,819	3%
KIA Motors Corporation	13,026	2%
Ford Motor Co	38,920	1%
Tesla, Inc.	4,002	-16%

Company	2018 Q3	
	Revenue (USD, mn)	EBIT Margin
Volvo AB	10,314	11%
Toyota Motor Corp	65,619	8%
Bayerische Motoren Werke AG	28,769	7%
Tesla, Inc.	6,824	6%
Honda Motor Co Ltd	34,480	6%
Daimler AG	46,753	5%
Fiat Chrysler Automobiles N.V.	32,084	3%
Volkswagen AG	64,181	3%
General Motors Co	35,791	3%
Nissan Motor Co., Ltd.	25,275	2%
Ford Motor Co	37,666	2%
Hyundai Motor Company	21,806	1%
KIA Motors Corporation	12,560	1%
Subaru Corp	6,979	0%
Mazda Motor Corp.	7,683	-1%

Source: Senticio

Company	Plant	Employees	Production capacity	Capacity per employee
Hyundai	Montgomery	3,000	399,500	133
Kia	West Point	2,700	340,000	126
Honda	Marysville	4,200	440,000	105
GM	Arlington	4,125	350,000	85
Nissan	Smyrna	8,000	640,000	80
Mercedes	Tuscaloose	3,800	300,000	79
Toyota	Georgetown	8,000	550,000	69
Ford	Kansas City	7,320	490,000	67
Subaru	Lafayette	5,700	340,000	60
BMW	Spartanburg	11,000	480,000	44
Tesla	Fremont	15,000	500,000	33

@ElonBachman, Twitter post, 3/1/2019


... despite an **inefficient** US auto plant running at **64% production capacity** on the outskirts of labor-expensive Silicon Valley.

By itself, we may write this off as “operating leverage” or “short-term noise”. But combined with the aforementioned “contextual risk factors”, it’s worth diving in a bit more...



Where Are the Bodies Buried?

balance sheet

/ˈbæləns ˌSHēɪt/ 

noun

a statement of the **assets**, **liabilities**, and **capital** of a business or other organization **at a particular point in time**, detailing the balance of income and expenditure over the preceding period.

Over a given period, **equity** goes up for what investors put in (share issuance) and down for what they take out (dividends & share repurchases) ... The remaining balance (net comprehensive income) is a glorified plug number.

Source: Google

So if Tesla has inflated its financial position as of 30-Sep-2018, the bodies will be buried in net overstated assets and/or understated liabilities*... with the opposing net credit dropped into the income statement.

** Including noncontrolling interests in subsidiaries and off-balance sheet commitments/contingencies.*

USD 000's	30-Sep-2018	30-Jun-2018	Increase (Decrease)
Assets			
Cash and cash equivalents	2,967,504	2,236,424	731,080
Restricted cash	158,627	146,822	11,805
Accounts receivable, net	1,155,001	569,874	585,127
Inventory	3,314,127	3,324,643	(10,516)
Prepaid expenses and other current assets	325,232	422,034	(96,802)
Total current assets	7,920,491	6,699,797	1,220,694
Operating lease vehicles, net	2,186,137	2,282,047	(95,910)
Solar energy systems, leased and to be leased, net	6,301,537	6,340,031	(38,494)
Property, plant and equipment, net	11,246,295	10,969,348	276,947
Goodwill and intangible assets, net	356,702	364,690	(7,988)
MyPower customer notes receivable, net of current portion	422,897	434,841	(11,944)
Restricted cash, net of current portion	396,835	399,992	(3,157)
Other assets	431,819	419,254	12,565
Total assets	29,262,713	27,910,000	1,352,713
Liabilities			
Accounts payable, accrued liabilities and other	5,587,079	4,845,472	741,607
Deferred revenue	570,920	576,321	(5,401)
Resale value guarantees	604,949	674,255	(69,306)
Customer deposits	905,838	942,129	(36,291)
Current portion of long-term debt and capital leases	2,106,538	2,103,185	3,353
Total current liabilities	9,775,324	9,141,362	633,962
Long-term debt and capital leases, net of current portion	9,672,613	9,513,390	159,223
Deferred revenue, net of current portion	950,126	795,820	154,306
Resale value guarantees, net of current portion	455,762	584,857	(129,095)
Other long-term liabilities	2,555,319	2,607,458	(52,139)
Total liabilities	23,409,144	22,642,887	766,257
Redeemable noncontrolling interests in subsidiaries	551,264	539,536	11,728
Noncontrolling interests in subsidiaries	793,467	821,156	(27,689)
Stockholders' equity	4,508,838	3,906,421	602,417
Total liabilities and equity	29,262,713	27,910,000	1,352,713



Accounts Receivable

Frauds love **hiding questionable transactions in accounts receivable**. For a car company like Tesla (90% of revenues automotive, no direct financing arm), would they let so many cars drive “off the lot” without receiving cash?

Most importantly, who is this?!

Tesla doesn't bother to disclose any detail.

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Credit Risk

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

Source: Tesla FY18 Q2 10-Q

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Source: Tesla FY18 Q3 10-Q



also there's a lot of room for improvement there. We think we can probably cut that down to a few hundred million dollars or so, Deepak, something like that, maybe \$200 million or \$300 million of COGS at the factory. So effectively, what we're going to do is reverse the working capital requirement for the company quite dramatically to the point where the faster we grow, the more capital we have. This is incredibly important for the capital efficiency of the company. It's night and day. Deepak, is there anything you'd like to...

Deepak Ahuja, Tesla, Inc. - CFO [63]

No, I think you are totally -- we are reducing the raw material inventory on one hand by keeping production stable, finding efficiencies in warehouse management and supply chain and at the same time, reducing the time to deliver the car and convert that car into cash. And that significantly improves working capital needs.

Elon R. Musk, Tesla, Inc. - Co-Founder, Chairman, CEO & Product Architect [64]

Yes. It's really quite dramatic. So -- yes, I think it sort of profoundly changes the financial effectiveness of Tesla.

Deepak Ahuja, Tesla, Inc. - CFO [65]

Yes. We reduced our inventory in Q3, which helped. And although we had higher payables because -- sorry, higher receivables because the quarter ended on a weekend, we won't have that in Q4. So all of this should continue to help us in Q4 and beyond, the working capital gain.

Elon R. Musk, Tesla, Inc. - Co-Founder, Chairman, CEO & Product Architect [66]

Yes. I mean, it occurred to me that even if the only thing -- like even if this was the only thing that Tesla did different, was to shorten the time from factory to the end customer, any given company that did that would outcompete all other companies over time. It will not be a contest.

Source: Senticio

Closest thing we get to an “answer” on the **receivable increase** comes when Deepak answers a question nobody asked on the Q3 conference call...

... Unfortunately the last time a quarter ended on a Sunday was 2017 Q4 which had seen a **15% sequential decline in receivables**.



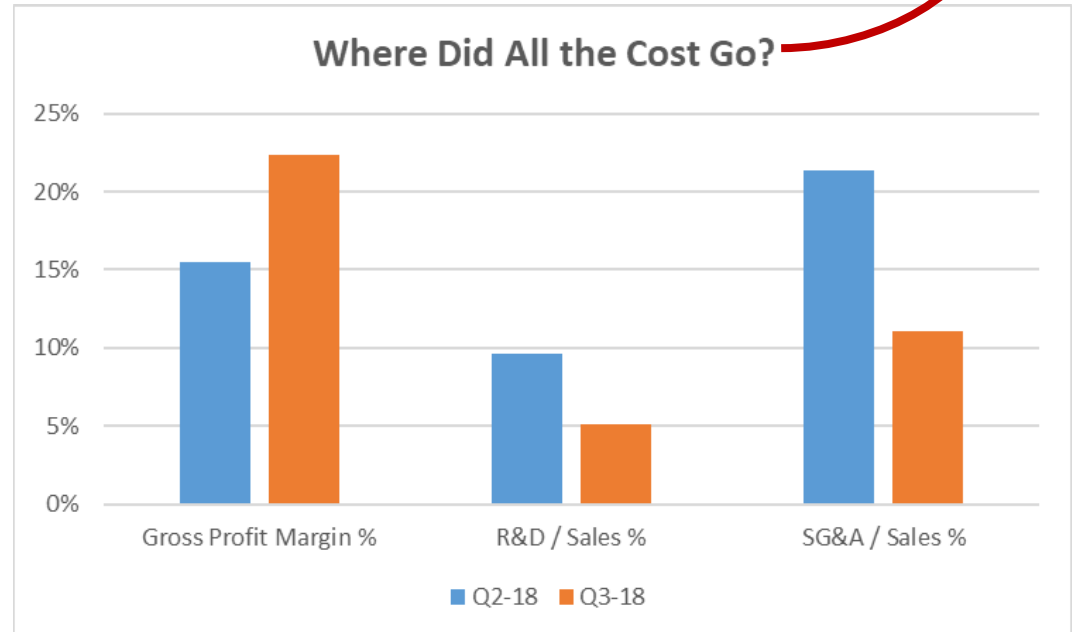
Property, Plant and Equipment

Another place a fraud can manufacture profit...
capitalizing expenses.

Companies are given wide latitude in determining what to expense in the current period (lowering income) or capitalize on the balance sheet (increasing income by deferring expense realization over an asset's depreciable life).

Tesla had **no major capital projects peaking during 2018 Q3**. Model 3 production had already ramped up and Gigafactory 3 spending (the proposed factory in China) wasn't due to begin until 2019.

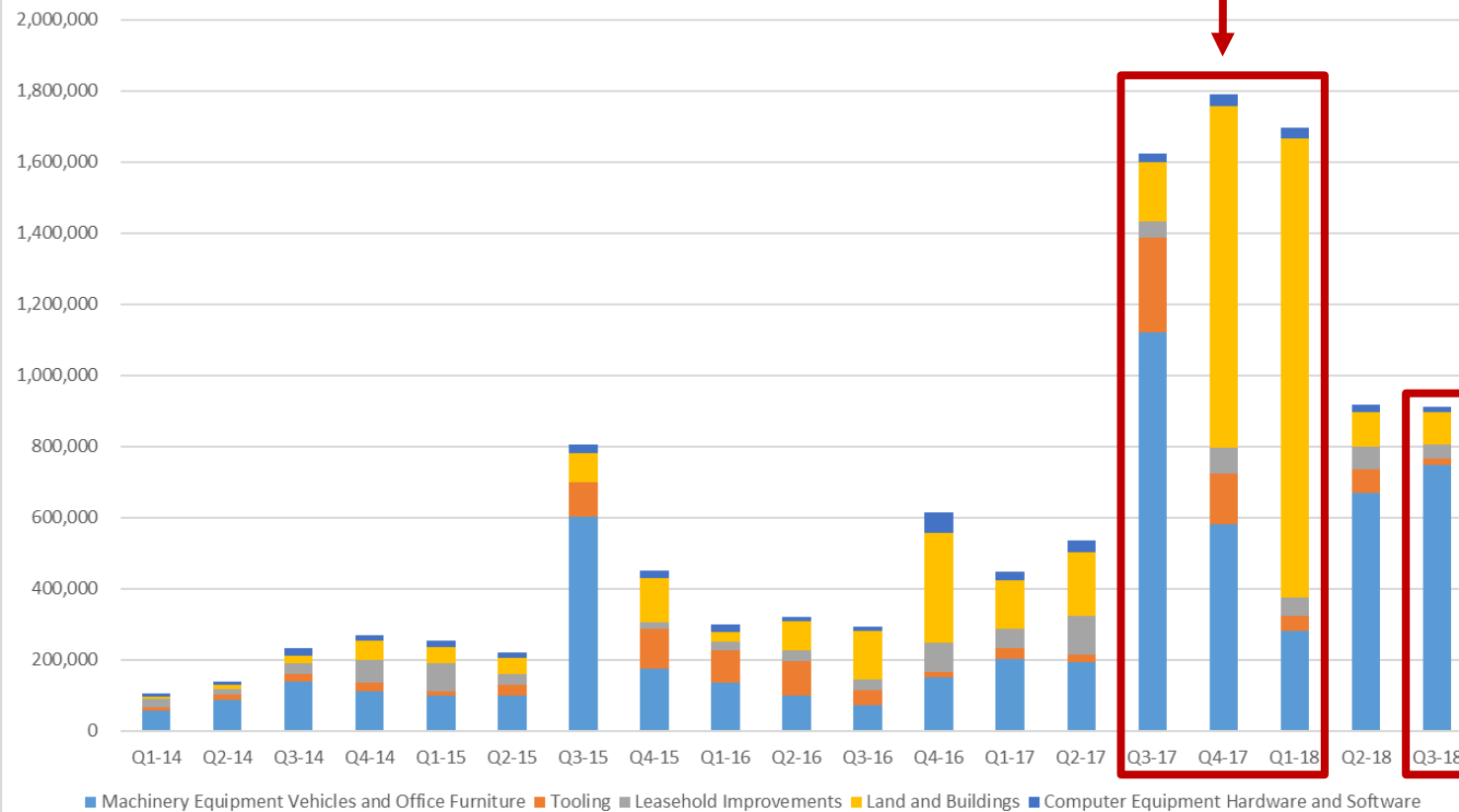
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Property, Plant and Equipment (cont)

Gross Increase in Placed in Service PP&E - Tesla



Model 3 **ramp up** done and production maxes out around 5,000 model 3's per week by June 2018...

... Why is Tesla still capitalizing almost \$1 billion in expenses in Q3 despite no major active capital project? Most expense dumped in general equipment category. 10-Q is light on details (only ~ \$200 million relates to Gigafactory 1).

Cash Flows from Investing Activities

► Net cash used in investing activities during the ~~six~~ **nine** months ended ~~June~~ **September** 30, 2018 decreased by ~~\$628.2 million~~ **1.31 billion** as compared to the ~~six~~ **nine** months ended ~~June~~ **September** 30, 2017 due to the ~~\$278.5~~ **\$852.4 million decrease in purchases of property and equipment due to higher spend in 2017 for building Model 3 capacity in Fremont, Gigafactory 1, and the expansion of our customer support infrastructure. Additionally, there was a \$357.2 million decrease in purchases of solar energy systems, leased and to be leased and the \$246.2 million decrease in purchases of property and equipment due to higher spend in 2017 for Model 3 capacity in Fremont, in Gigafactory 1, and in the expansion of our customer support infrastructure. Additionally, there was a decrease of \$103.5** **102.3** million in cash spent on acquisitions of businesses. ◀

In 2014, we began construction of Gigafactory 1. ► We used **\$592.5 million and \$1.22 billion of cash of \$402.4 million and \$758.2 million** towards Gigafactory 1 construction during the ~~six~~ **nine** months ended ~~June~~ **September** 30, 2018 and 2017, respectively. ◀

Source: Tesla FY18 Q3 10-Q (Redlined vs. Q2)



Property, Plant and Equipment (cont)

One example of a game that can be played with PP&E...

Note 5 – Inventory

Our inventory consisted of the following (in thousands):

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

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



This would be ~ 1,300 cars based on average sale price or ~ **1 in every 60 produced during Q3**. Given the known production/quality issues, were some of these “lemons” which should have been written down? If the cars were built with the intention of becoming service loaners in the first place, why didn’t they go straight to PP&E?



Increase
(Decrease)

Cash and Cash Equivalents

Between a \$585 million increase in A/R and a \$277 million increase in PP&E, Tesla has plenty of room to manufacture \$255 million in net income.

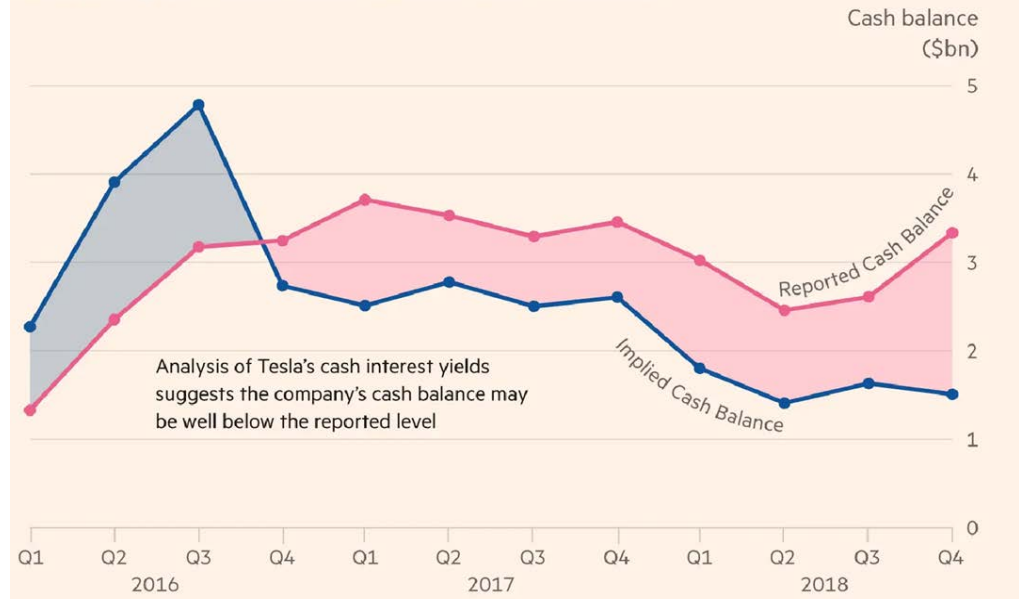
But what about cash? Tesla announced \$881 million in free cash flow, increasing overall cash by \$740 million. Doesn't this support their reported net income?

Not necessarily... **Implied average cash** (inferred based on interest income and prevailing rates) continues to fall below quarter-end reported cash.

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Total assets	29,262,713	27,910,000	1,352,713

@Infarct_Invest, Twitter post, 2/12/2019		Q3/2018	Q2/2018	Q1/2018
AMZN US Equity	Reported Cash, Equiv. & STI	29,765.0	27,050.0	24,963.0
	Reported Interest Income	117.0	94.0	80.0
	Inferred Interest Rate	1.57%	1.39%	1.28%
GM US Equity	Reported Cash, Equiv. & STI	24,351.0	22,011.0	21,366.0
	Reported Interest Income	82.0	72.0	64.0
	Inferred Interest Rate	1.35%	1.31%	1.20%
F US Equity	Reported Cash, Equiv. & STI	36,342.0	36,476.0	40,071.0
	Reported Interest Income	174.0	167.0	146.0
	Inferred Interest Rate	1.92%	1.83%	1.46%
TSLA US Equity	Reported Cash, Equiv. & STI	2,967.5	2,236.4	2,665.7
	Reported Interest Income	6.9	5.1	5.2
	Inferred Interest Rate	0.93%	0.91%	0.78%

Mind the gap: Tesla's cash balance fails to add up



Sources: FT Research; S&P Capital IQ; SEC Filings ;FRED; Crane Data
© FT <https://ftalphaville.ft.com/2019/03/05/1551787633000/How-much-does-Tesla-have-in-the-bank-/>



Cash and Cash Equivalents (cont)

A simple explanation is Tesla was simply **delaying payments**. The entire cash balance increase (\$740 million) approximates the increase in A/P and other accrued liabilities (\$742 million).

Note the surge in mechanic's liens filed related to Tesla's Fremont manufacturing plant through August 2018.

Concerns among Tesla's suppliers were well-publicized during Q3 (e.g. Wall St Journal excerpt below).

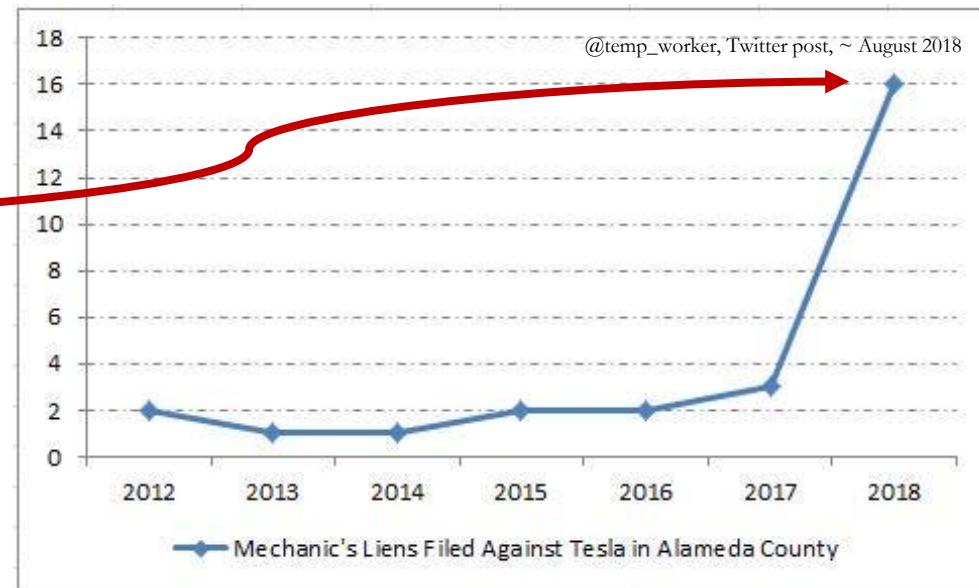
By Tim Higgins, Marc Vartabedian and Christina Rogers

Updated Aug. 20, 2018 4:48 p.m. ET

Tesla Inc.'s tumultuous year has fueled concern among some of its suppliers about the auto maker's financial strength after production of the Model 3 car drained some of its cash, according to industry executives and documents.

A recent survey sent privately by a well-regarded automotive supplier association to top executives found that 18 of 22 respondents believe that Tesla is now a financial risk to their companies, according to the document reviewed by The Wall Street Journal.

USD 000's	30-Sep-2018	30-Jun-2018	Increase (Decrease)
Liabilities			
Accounts payable, accrued liabilities and other	5,587,079	4,845,472	741,607
Deferred revenue	570,920	576,321	(5,401)
Resale value guarantees	604,949	674,255	(69,306)
Customer deposits	905,838	942,129	(36,291)
Current portion of long-term debt and capital leases	2,106,538	2,103,185	3,353
Total current liabilities	9,775,324	9,141,362	633,962





Cash and Cash Equivalents (cont)

Another potential explanation... Tesla has been systemically **delaying customer refunds**. Given it appeared (and is now confirmed) that Tesla's backlog had begun to diminish during Q3, one would have expected customer deposits to decline more substantially than ~ 4%.

There is plenty of anecdotal evidence customers are struggling with refunds...

USD 000's	30-Sep-2018	30-Jun-2018	Increase (Decrease)
Liabilities			
Accounts payable, accrued liabilities and other	5,587,079	4,845,472	741,607
Deferred revenue	570,920	576,321	(5,401)
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PlainSite
@PlainSite

Following

Another **\$TSLA** deposit theft lawsuit, clear as day. And yet there has been little to no mainstream media coverage of this issue. **This will be deposit theft lawsuit number twelve.** Docket soon.

Would-be Tesla buyers say deposit refunds take months

Alexandra Semenova, Bloomberg News

Published 12:03 a.m. ET Feb. 25, 2019 | Updated 9:07 a.m. ET Feb. 25, 2019

Seventeen people interviewed for this story described months of effort to get Tesla Inc. to refund their deposits. The timing of their experiences overlapped with a chaotic

Would-be customers described a process involving unanswered calls and emails to Tesla customer-service representatives. Rich Zeoli, a talk-radio show host in Philadelphia, said he called, emailed and tweeted at the company for information about the status of a refund for six months before finally disputing the charge with PayPal.

"Tesla just stopped communicating with me altogether," Zeoli said.

PlainSite
@PlainSite

Following

Another **\$TSLA** deposit theft lawsuit, clear as day. And yet there has been little to no mainstream media coverage of this issue. **This will be deposit theft lawsuit number twelve.** Docket soon.

2

The defendant (the person, business, or public entity being sued) is:
NAME: TESLA, INC. WHICH WILL DO BUSINESS IN CALIFORNIA AS TESLA MOTORS, INC. OR TESLA, INC. OR TESLA MOTORS, INC.
HOME ADDRESS: 3500 DEER CREEK ROAD
PALO ALTO, CA 94304
PHONE: (415)881-5000

If the defendant is a corporation, limited liability company, or public entity, list the person or agent authorized for service of process here:
Name: DANE BUTSWINKAS Job title, if known: GENERAL COUNSEL
Address: 3500 DEER CREEK ROAD PALO ALTO CA 94304
Street City State Zip
☐ Check here if your case is against more than one defendant, and attach form SC-100A.
☐ Check here if any defendant is on active military duty, and write his or her name here:

3

The plaintiff claims the defendant owes \$ 3500.00 . (Explain below):
a. Why does the defendant owe the plaintiff money?
THE DEFENDANT HAS FAILED TO REFUND MY DEPOSIT, AND FAILED TO PROVIDE ANY MITIGATION
When did this happen? (Date): 08/22/2018
b. If no specific date, give the time period: Date started: Through:
c. How did you calculate the money owed to you? (Do not include court costs or fees for service.)
I PLACED A DEPOSIT ON A VEHICLE AND DID NOT PURCHASE THE VEHICLE
☐ Check here if you need more space. Attach one sheet of paper or form MC-031 and write "SC-100, Item 3" at the top.

Revised January 1, 2017

Plaintiff's Claim and ORDER to Go to Small Claims Court (Small Claims)

SC-100, Page 2 of 5

8:13 AM - 15 Feb 2019

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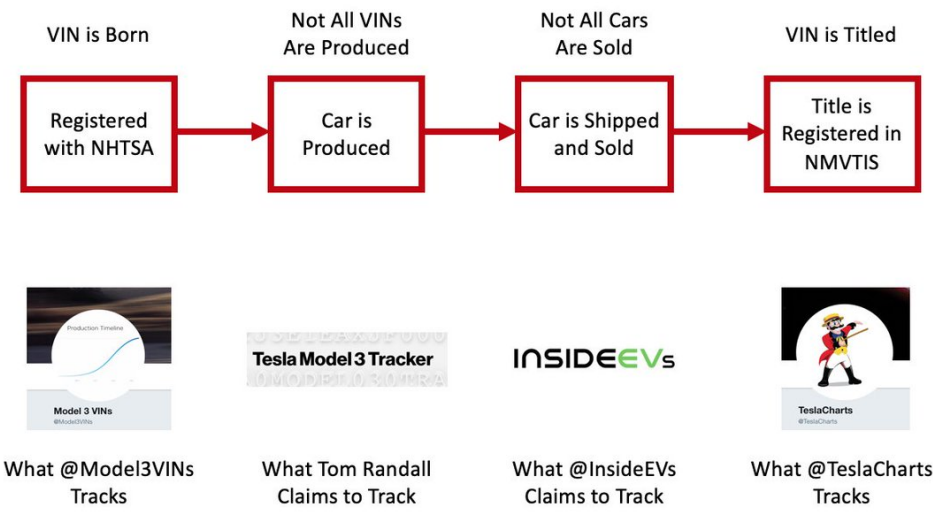
Cash and Cash Equivalents (cont)

A more conspiratorial explanation... Tesla has engaged in **fraud related to its ABL** (i.e. its senior asset-based revolving credit agreement). As of 18-Q3, Tesla was able to borrow up to \$1.8 billion from a syndicate of banks led by Deutsche Bank. Under the ABL, Tesla can borrow against inventory (i.e. unsold vehicles).

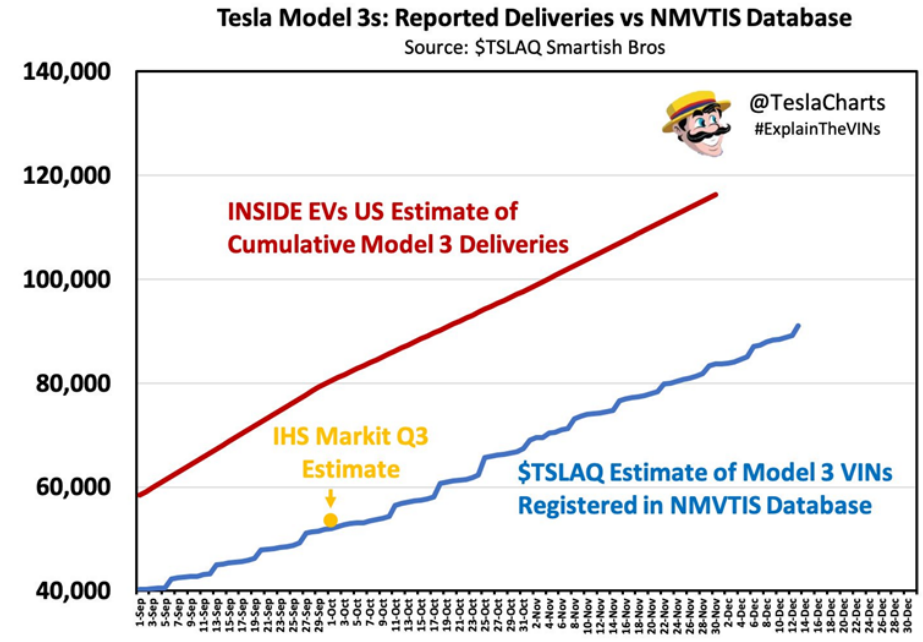
The fraud would work like this...

- Tesla receives cash and delivers car to customer with temporary tags... however delays registering the vehicle.
- Until the car has been registered/titled, the ABL lenders have no way of confirming a specific VIN has been sold and Tesla can delay paying down the ABL. (By the same method, they can also delay remitting sales tax.)

The evidence of this is a “VIN Gap” dutifully monitored by Twitter-user @TeslaCharts...



@TeslaCharts, Twitter post, 1/20/2019



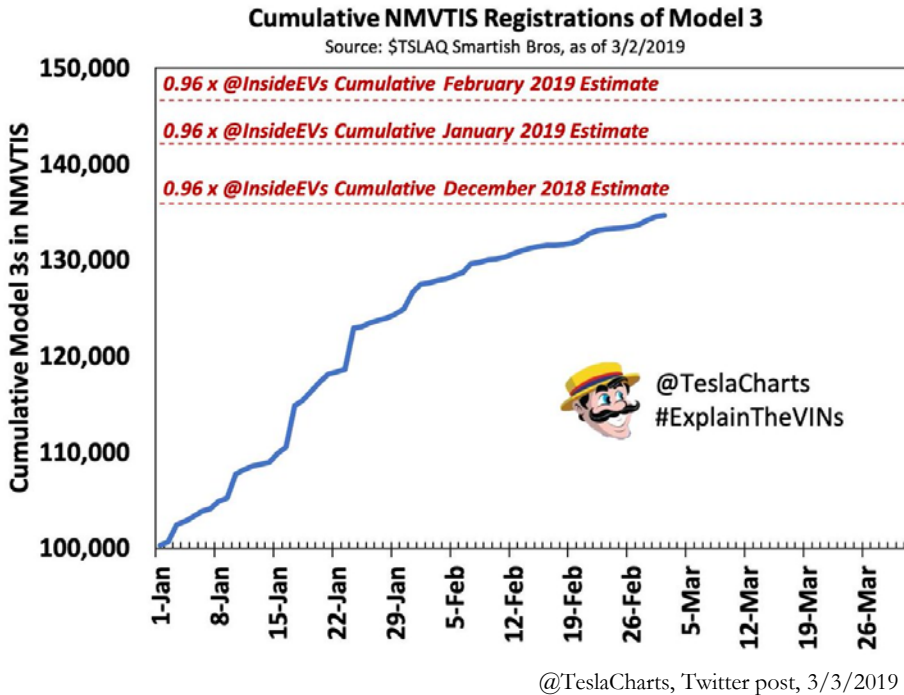
@TeslaCharts, Twitter post, 12/14/2018

Continued...

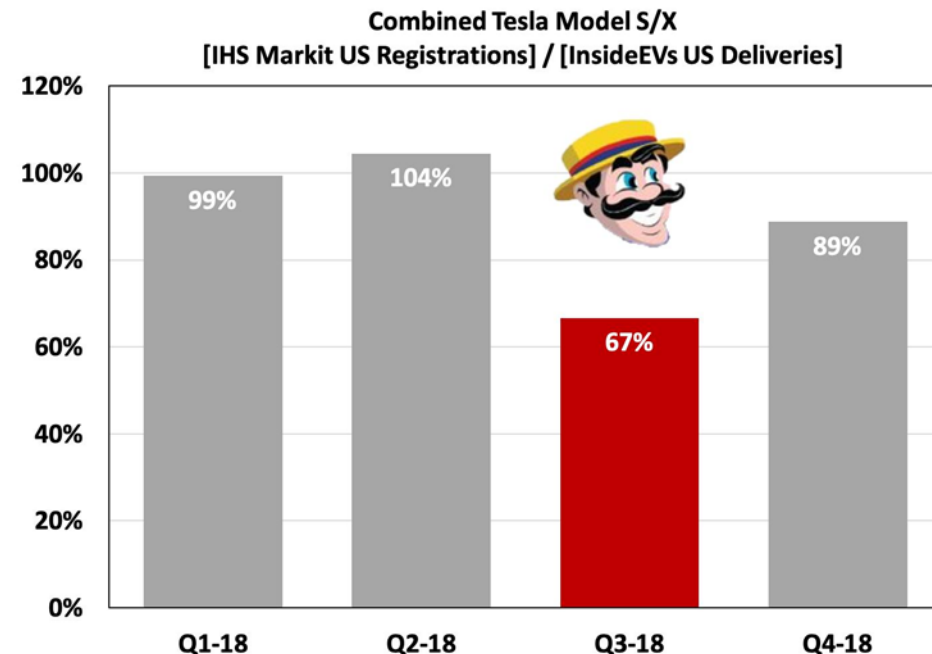


Cash and Cash Equivalents (cont)

The “VIN Gap” question remains unanswered to this day....



... Why did Tesla forget how to register vehicles in a timely manner beginning in Q3 2018?



@TeslaCharts, Twitter post, 2/19/2019



Some Other Issues in the Q3-18 Books

- Substantial **decrease in warranty reserves** (provision per car delivered) in Q3 despite **increasing costs to insure** and Model 3 **quality concerns**.
(Consumer Report's ratings known to track very closely as a predictor of warranty spend.)

Tesla's 'Affordable' Model 3 Costs a Bundle to Insure, Study Claims

By Matt Posky on August 27, 2018

The contributing factors to the brand's above-average insurance rate are twofold. For whatever reason, Tesla models are subject to an abnormally high number of incidents that result in insurance claims, but they're also more expensive to fix. "Teslas get into a lot of crashes and are costly to repair afterward," explained Russ Rader, spokesman for the Insurance Institute for Highway Safety, which operates as the HLDI's parent organization. "Consumers will pay for that when they go to insure one."

For the Model 3, the result is tragically high premiums. A recent study conducted by Gabi Personal Insurance Agency Inc. and posted by *Automotive News* shows the EV's average insurance cost across 150 ZIP codes is \$2,814 per year. That's \$35 less than the cost of insuring a Porsche 911, using the same metrics.

Tesla Model 3 Loses CR Recommendation Over Reliability Issues

By Patrick Olsen
February 21, 2019

Owners report problems with paint, trim, and electronics in Consumer Reports' survey

- Effective 2018, Tesla adopted a new accounting standard (ASC 606) impacting sales to customers with a resale value guarantee. Net this change **increased Q3 net income** and decreased the year-to-date loss.

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Reported	Balances Without Adoption of New Revenue Standard	Effect of Change Higher / (Lower)	As Reported	Balances Without Adoption of New Revenue Standard	Effect of Change Higher / (Lower)
Revenues						
Automotive sales	\$ 5,878,305	\$ 5,399,316	\$ 478,989	\$ 11,558,051	\$ 10,414,408	\$ 1,143,643
Automotive leasing	220,461	469,837	(249,376)	633,713	1,237,239	(603,526)
Energy generation and storage	399,317	408,205	(8,888)	1,183,747	1,163,935	19,812
Cost of revenues						
Automotive sales	4,405,919	4,076,044	329,875	9,027,055	8,231,328	795,727
Automotive leasing	119,283	307,957	(188,674)	360,694	811,671	(450,977)
Provision (benefit) for income taxes	16,647	16,984	(337)	35,959	37,329	(1,370)
Net income (loss)	254,673	174,812	79,861	(1,272,660)	(1,489,209)	216,549
Net loss attributable to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	(56,843)	(62,138)	5,295	(157,086)	(166,752)	9,666
Net income (loss) attributable to common stockholders	311,516	236,950	74,566	(1,115,574)	(1,322,457)	206,883
Foreign currency translation adjustment	(10,274)	(4,968)	(5,306)	(25,077)	(4,252)	(20,825)
Comprehensive income (loss)	301,242	231,982	69,260	(1,140,651)	(1,280,279)	139,628



Where Are Things in Mid-March 2019

After blowing through much of the remaining US Model 3 backlog in Q4, demand has collapsed (with ~ 1 month's production of backlog in Europe and virtually no demand yet in China).

Tesla's response has been price cuts (~ 20% on average the past three months), layoffs and store closures, briefly stating they would switch to 100% online sales despite the 10-K stating store visibility was core to their marketing strategy ~ 10 days earlier. *(Making matters worse legally, these items were all disclosed on a Reg FD violating private conference call.)*

"After all, you only find out who is swimming naked when the tide goes out."

- Warren Buffett



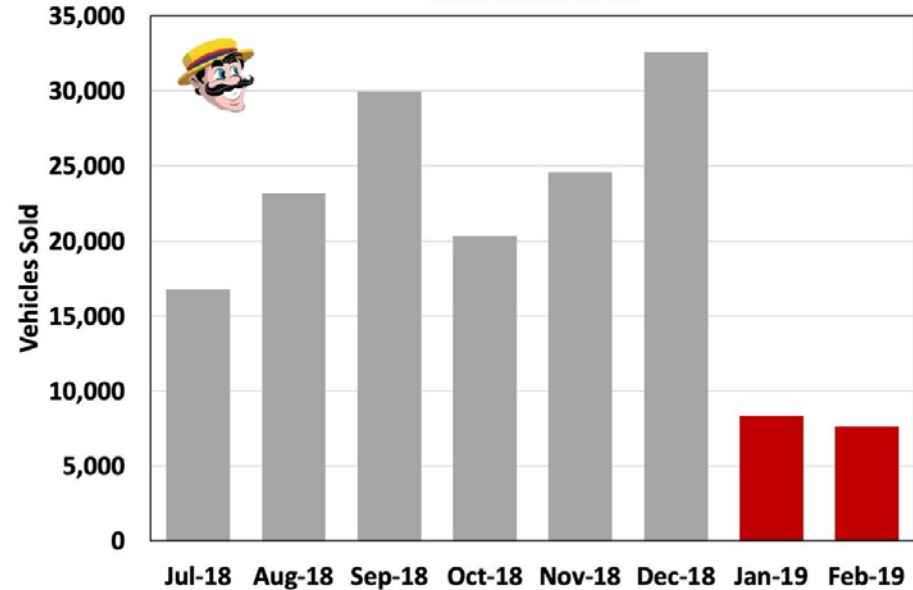
Los Angeles Times

U.S. sales of the Tesla Model 3 plunge 74% in January, according to outside estimate

By RUSS MITCHELL FEB 01, 2019 | 4:00 PM

Tesla Total Unit Sales (S+X+3) in the US - Past Eight Months

Source: InsideEVs Scorecard



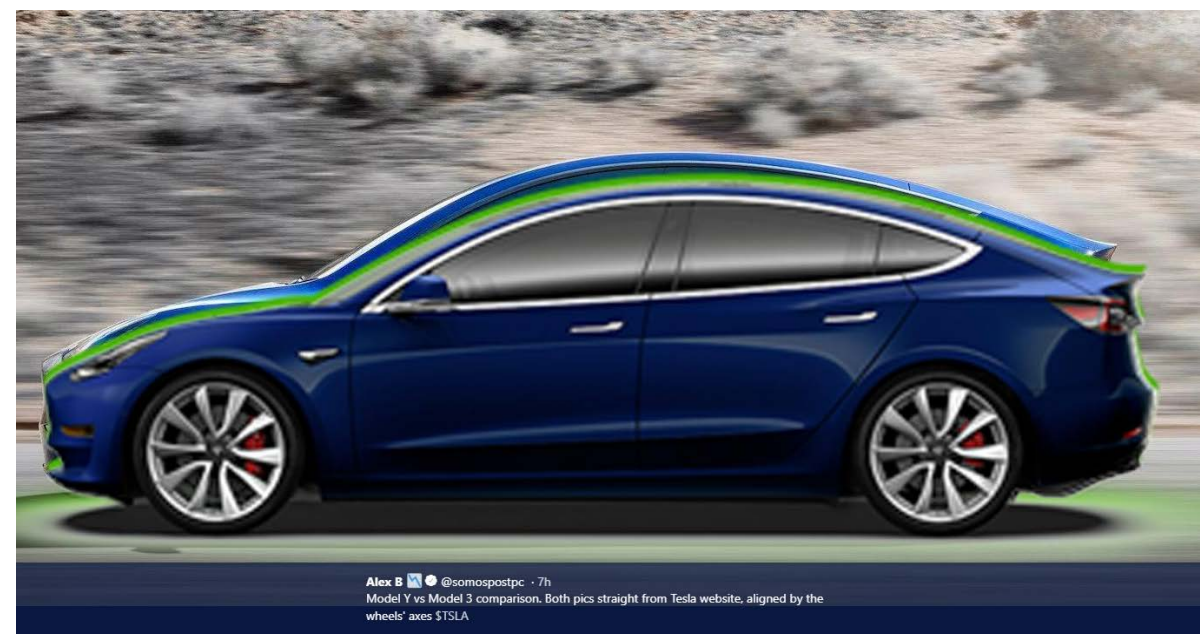
The demand for — the demand for Model 3 is insanely high. The inhibitor is affordability. It's just like people literally don't have the money to buy the car. It's got nothing to do with desire. They just don't have enough money in their bank account. If the car can be made more affordable, the demand is extraordinary.

- Elon Musk, 2018 Q4 Conference Call



Where Are Things in Mid-March 2019 (cont)

And for the **fraud watchlist**... following deposits way below expectations for the Model 3SR/3SR+, the Model Y was unveiled March 14th, 2019. Essentially the Model 3.00001, available in ~ two years but send in “deposits” today! *Note: Tesla doesn't segregate customer deposits (i.e. unsecured loans).*



Alex B @samospostpc · 7h
Model Y vs Model 3 comparison. Both pics straight from Tesla website, aligned by the wheels' axes \$TSLA



EEvent Horizon
 @evdefender

Follow

There are so few discernible differences between the 3 and the "Y" that they can never be depicted together without someone qualifying: "The one on the right is the Y"

\$tsla



2:57 AM - 15 Mar 2019

How does Tesla plan to account for **“Pre-Order Payment”** on non-existent car if **“not a deposit”**?

Pre-Order Process; Cancellation; Changes. After you submit your completed pre-order and the options you selected become available in production, which we expect to begin in the fourth quarter of 2020, we will begin the process of matching your pre-order to a vehicle and coordinating your Vehicle delivery. **Your Pre-Order Payment covers the cost of these activities and other processing costs and is not a deposit for the Vehicle.** **Until your Vehicle is delivered to you, you may cancel your pre-order at any time, in which case you will receive a full refund of your Pre-Order Payment.** **Until your pre-order is matched to a vehicle, you may make changes to your Vehicle Configuration.** If you make changes to your Vehicle Configuration, you may be subject to potential price increases for any pricing adjustments made since your original Pre-Order Date. Any changes made by you to your Vehicle Configuration, including changes to the delivery location or estimated delivery date, will be reflected in a subsequent Vehicle Configuration that will form part of this Agreement. When you take delivery of the Vehicle, we will provide a credit to the final pre-order price of your Vehicle equivalent to the amount of the Pre-Order Payment you paid. This Pre-Order Payment and this Agreement are not made or entered into in anticipation of or pending any conditional sale contract.



- Tesla's **contextual risk factors** make a deeper dive into its financials worthwhile...
 - High growth (dependent on outside capital)
 - Complex structure & opaque reporting
 - Management turnover
 - CEO/Board red flags
- Tesla's 2018 Q3 results present **multiple red flags**, but they do not provide enough information (intentionally or unintentionally) to draw strong conclusions...
 - Material increase in A/R, including $> 10\%$ from a single party whose identity is undisclosed.
 - Potential over-capitalization of expenses to decrease current period cost.
 - Possibility cash has been temporarily inflated through variety of methods near quarter-end to make balance sheet and cash flow appear healthier than reality.
- Tesla reported a slightly reduced profit in 2018 Q4 (essentially breakeven), but worked through their remaining Model 3 backlog and are showing a massive sales decrease in 2019 Q1 so far. If games were played in Q3/Q4, that should become apparent soon.