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Accounting for Bitcoin at Tesla

On February 8, 2021, Tesla revealed, through its 10-K filing to the Securities and Exchange Commission (SEC), that it had purchased $1.5 billion of Bitcoin, totaling 7.5% of the company's cash and that it planned to accept the cryptocurrency as a form of payment for the company's products. This announcement followed a string of cryptocurrency related Twitter posts ("tweets") by Elon Musk, Tesla's co-founder and CEO (**Exhibit 1**). On January 29, 2021, for example, after Musk added "#bitcoin" to his Twitter bio, Bitcoin's value surged by 14%.[1]

Although Tesla's announcement was cheered by cryptocurrency enthusiasts, it was met with mixed reactions by stock investors and market participants. Market observers raised various questions about Tesla's decision to convert its cash into Bitcoin. Did this move make sense from a business perspective? What is the proper way to account for these transactions, and what are the implications for evaluating Tesla's financial performance and Musk's performance as CEO? Did Musk's tweets constitute market manipulation?

Bitcoin: The First Cryptocurrency

Cryptocurrency is a digital asset that could serve as a medium of exchange, for other currencies or for goods and services, whereby the ownership records of the asset by individuals are stored in a digital "ledger" or a computer database. Bitcoin was the first cryptocurrency, invented in 2008 by the pseudonymous Satoshi Nakamoto and began trading that year. Bitcoin was a decentralized currency: users on its peer-to-peer network can send Bitcoins to each other without the need for intermediaries such as a bank or an administrator. Bitcoin was facilitated by "block chain" technology that allowed the computer database to securely track transaction records and to verify the transfer of coin ownership. Unlike traditional currencies, Bitcoin was not backed by any government and its creation or supply did not depend on a central bank. Instead, they were created as a reward for a computing-intensive process called "mining," in which highly complex computational math problems are solved by (typically very sophisticated) computers. By design, the supply of Bitcoin was fixed: only 21 million Bitcoins can be ever mined, and by the end of February 2021, 18.648 million Bitcoins were already in circulation.[2]

Since Bitcoin's creation, cryptocurrencies and Bitcoin in particular had garnered significant attention and interest from investors. Some hailed cryptocurrencies as the beginning of a new monetary

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age. Indeed, the excitement over them had resulted in the creation of more than 2,000 different cryptocurrencies by the end of 2018 and more than 4,000 by the end of 2020.[3,4] Despite the new entrants, Bitcoin remained the most significant (in terms of total capitalization) cryptocurrency, which saw a 100 fold increase in the dollar value of a single coin from 2009 to 2021 (see **Exhibit 2**).[5] However, some economists had characterized digital currencies' meteoric rise in value as a speculative bubble, and questioned whether they can be considered "money" due to their price volatility. For example, in the last two months of 2017, the capitalization of cryptocurrencies multiplied by a factor of four; however, from December 2017 to February 2018, the cryptocurrencies' values plummeted, with Bitcoin losing 60% of its value and resulting in an all-time low market share of just under 35%.[6,7] Scott Wolla, Ph.D. of the St. Louis Fed explained in 2018:

> Money serves three functions in an economy: medium of exchange, store of value, and unit of account. […] Bitcoin has characteristics that allow it to function as money and make it a useful payment method. That is, it is relatively easy to transfer Bitcoin to other people or businesses, even for international transactions. However, other aspects of Bitcoin make it less desirable for everyday transactions, including security problems and volatile price fluctuations […] as demand for Bitcoin has fluctuated, so has its price. This price volatility has undermined Bitcoin's ability to serve as a store of value. In contrast, governments often delegate the value of their official currencies to their central banks. For example, the Federal Reserve was founded to provide an "elastic currency" to ensure that it could adjust the money supply to provide price stability in the face of changing demand […] Bitcoin's characteristics as a financial asset have drawn the interest of many and created the potential for financial loss. While the line between money and financial asset is not clear, people's actions often reveal the role the asset is playing in the economy. Lately, the excitement surrounding Bitcoin has been around buying it as a financial investment, not using it as money to buy goods and services. Weighing in on the issue, former Federal Reserve Chair Janet Yellen said that Bitcoin is 'not a stable source of store of value, and it doesn't constitute legal tender'; in her judgement, Bitcoin 'is a highly speculative asset.'[8]

Some regulatory agencies, such as the SEC, have issued alerts to investors about the heightened volatility and risks of fraud associated with Bitcoin related investments.[9]

Mixed Reactions

On February 8th 2021, Tesla filed its 10-K for the fiscal year ended December 31, 2020. For the sixth straight quarter, the company reported positive net income, and for the first time it was profitable over the full fiscal year. Additionally, Tesla disclosed in the filing its Bitcoin purchases and the intention to accept Bitcoin payments for the first time.

> In January 2021, we updated our investment policy to provide us with more flexibility to further diversify and maximize returns on our cash that is not required to maintain adequate operating liquidity. As part of the policy, we may invest a portion of such cash in certain specified alternative reserve assets. Thereafter, we invested an aggregate $1.50 billion in Bitcoin under this policy. Moreover, we expect to begin accepting Bitcoin as a form of payment for our products in the near future, subject to applicable laws and initially on a limited basis, which we may or may not liquidate upon receipt. We believe our Bitcoin holdings are highly liquid. However, digital assets may be subject to volatile market prices, which may be unfavorable at the time when we want or need to liquidate them.[10]

Musk justified the move into Bitcoin as "simply a less dumb form of liquidity than cash" and is "adventurous enough for an S&P 500 company."[11] He added, "when fiat currency has negative real interest, only a fool wouldn't look elsewhere."

Tesla's decision was met with mixed reactions. Some hailed the move as pioneering and a brilliant financial move. Gene Munster, Managing Partner of venture capital firm Loup Ventures, said, "Tesla has money to lose with $19 billion in assets […] Bitcoin can move the needle for Tesla. If it goes up 10x, that's $15 billion to Tesla. That's real money."[12] Mike Novogratz, founder of the digital asset financial services firm Galaxy Digital, believed that the move could lead to broader adoption of cryptocurrency by corporations. He said, "Every company should be looking at how to accept digital currencies, digital payments as part of their business scheme."[13]

A few other public firms had also begun to make bets on the rise of cryptocurrency. In July 2020, MicroStrategy, a business intelligence and analytics solutions firm, announced a new capital allocation strategy in which it sought to invest excess cash in "alternative investments or assets" including digital assets such as Bitcoin.[14] By February 2021, the company held more than 90,000 Bitcoins, making it the largest public company holder of digital currencies, and it had done so in part by issuing more than $1.5 billion of debt explicitly for the purpose of acquiring Bitcoins.[15,16] In October 2020, Square Inc., the digital payments company, announced that it had purchased $50 million of Bitcoin. Since 2018, Square's customers had the ability to buy and sell Bitcoin through the company's "Cash App." Square explained the decision in a whitepaper accompanying the announcement: "Given the rapid evolution of cryptocurrency and unprecedented uncertainty from a macroeconomic and currency regime perspective, we believe now is the right time for us to expand our largely USD-denominated balance sheet and make a meaningful investment in bitcoin."[17] In October 2020, Paypal announced that its customers could buy, sell, and hold cryptocurrency through their accounts.[18] Novogratz added, "It's not that difficult. It's what customers want, it's where the world is moving. And so that I think [Musk is] getting ahead of the curve, and I think you're going to see every company look to figure out how they could, from McDonald's to Bojangles, you name it."[19]

Others expressed skepticism about the move and its implication for Tesla's stock price and performance. Mohamed El-Erian, chief economic advisor at Allianz, commented that the move was a positive sign for cryptocurrency but not necessarily for Tesla's investors: "What did Tesla tell you? Two things. One is that this will be a form of payment. And two is that this is an investment vehicle. So those are two powerful endorsements for the notion, I want to stress the notion, that Bitcoins are a currency, a money, because after all money is a store of value." He further added that "[some] will see it as visionary, others will say 'wait a minute, if I want to invest in Bitcoin, I'll do it directly, I don't need Tesla to do it for me.'"[20] (**Exhibit 3** displays the section from Tesla's S-1 filing describing the company's intended use of the initial public offering proceeds.) King Lip, chief strategist at Baker Avenue Wealth Management, whose firm had owned Tesla shares since 2015, agreed. "This is better for Bitcoin than it is for Tesla," he said. "It will add volatility to the stock due to exposure to Bitcoin." In addition, because Tesla was part of major stock indexes, including the S&P 500 since December 2020, investors of many index-tracking ETFs were also exposed to Bitcoin as well.[21]

Musk's public statements, including those over Twitter, prior to Tesla's February 8th 2021 10-K filing were also scrutinized by market participants. Nouriel Roubini, Professor of Economics and International Business at New York University, said that to "take an individual position in Bitcoin, pump up the stock price, and say that Tesla has invested, […] it's irresponsible and it's market manipulation. The SEC could be looking into people that have market impact that manipulate the price of assets. That's also criminal behavior."[22]

This was not the first time Musk was criticized for manipulating market prices through his tweets. On August 7, 2018, Musk tweeted to his 22 million followers: "Am considering taking Tesla private at $420. Funding secured." After the tweet, the company's stock price jumped by more than 6% on the same day, although no deal ultimately consummated. In September 2018, the SEC charged Musk for securities fraud due for his "misleading tweets about a potential transaction to take Tesla private."[23] The SEC's complaint alleged that Musk had not in fact discussed any specific deal terms with potential financing partners. "Corporate officers hold positions of trust in our markets and have important responsibilities to shareholders," said Steven Peikin, Co-Director of the SEC's Enforcement Division. "An officer's celebrity status or reputation as a technological innovator does not give license to take those responsibilities lightly."[24] Stephanie Avakian, Co-Director of the SEC's Enforcement Division, added, "Taking care to provide truthful and accurate information is among CEO's most critical obligations […] That standard applies with equal force when the communications are made via social media or another non-traditional form." In the end, Tesla and Musk settled with the SEC, agreeing to pay a $20 million fine each to the regulator. In addition, Musk agreed to step down as the company's chairman for three years but would remain as its CEO. Moreover, the deal called for Tesla's lawyers to pre-approve Musk's written communications, including tweets with material information about the company.[25]

Despite the criticisms, there was uncertainty as to which agency had the regulatory oversight over potential manipulation of cryptocurrency. This was in part due to an uncertainty around how cryptocurrencies are classified as assets. For example, whereas the Commodity Futures Trading Commission considered Bitcoin as a commodity, the IRS treated it as property, whereas the SEC treated certain cryptocurrencies, such as tokens issued by businesses as a medium of exchange for its current or future products, as securities. By the end of March, no charges were brought against Musk for his cryptocurrency related tweets.

Accounting for Bitcoin

Among the topics heavily discussed about Tesla's move was the accounting treatment for Bitcoin. One reason was that there was no official guidance under the Generally Accepted Accounting Principles (GAAP) for how companies should account for digital assets. The Financial Accounting Standards Board (FASB) had rejected three requests to craft rules on the basis that "too few companies had material holdings in digital assets."[26] Following Tesla's announcement regarding its Bitcoin purchase, FASB re-iterated its decision not to add a project to its agenda to develop formal accounting rules for digital assets.[27]

Absent formal guidance, companies like Tesla had to rely on industry guidance. Deloitte, one of the "Big Four" auditors that also audited MicroStrategy, published its opinion on the classification of cryptocurrency holdings in July of 2018. Under U.S. GAAP, there were four possible asset categories that cryptocurrency holdings can fall under: cash or cash equivalent, inventory, financial instruments, or intangible assets.[28]

In principle, an asset is considered "cash" or "cash equivalent" if it is short-term, highly liquid, readily convertible to known amounts of cash, and subject to an insignificant risk of change in value.[29] Currency on hand, demand deposits, treasury bills, and money market funds would typically all fall under this category. Deloitte determined that cryptocurrencies such as Bitcoin could not be classified as cash, because "they are not backed by a sovereign government and do not represent legal tender that must be accepted as a form of payment." However, it also determined that digital currencies could not be considered as cash equivalents, because they "are not readily convertible to known amounts of

cash and have more than an insignificant risk of change in value." In addition, Deloitte determined that cryptocurrencies are not financial assets because "they are not cash, an ownership interest in an entity, or a contract establishing a right or obligation or receive cash or another financial instrument."[30] An asset is considered "inventory" when "[t]he aggregate of those items of tangible personal property that [are held for sale] in the ordinary course of business." Deloitte determined that, while for some businesses accounting for Bitcoin (e.g., a broker) as inventory or as financial instrument (e.g., for an investment company) may be appropriate, for most businesses, cryptocurrencies should be accounted for as intangible assets, defined as non-financial assets that lack physical substance.

In its 10-K for the fiscal year ended December 31st, 2020, filed on February 8th of 2021, Tesla disclosed that it would account for Bitcoin assets as intangible assets, the same treatment applied by MicroStrategy and Square.

> We will account for digital assets as indefinite-lived intangible assets in accordance with ASC 350, *Intangibles–Goodwill and Other*. The digital assets are initially recorded at cost and are subsequently remeasured on the consolidated balance sheet at cost, net of any impairment losses incurred since acquisition. We will perform an analysis each quarter to identify impairment. If the carrying value of the digital asset exceeds the fair value based on the lowest price quoted in the active exchanges during the period, we will recognize an impairment loss equal to the difference in the consolidated statement of operations.
>
> The cost basis of the digital assets will not be adjusted upward for any subsequent increases in their quoted prices on the active exchanges. Gains (if any) will not be recorded until realized upon sale.[31]

Had Tesla chosen to account for the Bitcoin as cash or a financial asset, changes in Bitcoin's value in each financial reporting period would impact the company's financial statements in different ways. (See **Exhibit 4** for Tesla's accounting policies for inventory and financial instruments.)

Looking Ahead

Analysts wondered how much impact Bitcoin's performance will have on both Tesla's bottom line and stock price (see **Exhibit 5**, **6**, and **7** for Tesla's financial performance and **Exhibit 8** for its stock returns in January and February of 2021), Elon Musk's motives for buying Bitcoin, as well as the impact on his financial incentives (see **Exhibit 9** for an example of the revenue and adjusted EBIDTA targets from Tesla's 2018 CEO Performance Award plan). Francine McKenna, a financial journalist, estimated: "If I assume that Tesla's average cost basis for its $1.5 billion in Bitcoin is $32,886.60, Tesla is currently sitting on an unrealized gain on its investment of $20,224.67 for each Bitcoin based on a closing price on Feb. 22 of $53,111.27. That means Tesla is currently looking at, as of Feb. 22, a total unrealized gain of nearly $1 billion."[32] These gains would only be reflected in the financials, however, when Tesla decided to sell Bitcoin at a profit. There were also questions about how the firm and its investors may react in the event of a crash in Bitcoin prices similar to the end of 2017. In such an event, Tesla would be forced to write down the value of its Bitcoin assets and recognize a loss in its income statement. "Elon Musk has exposed Tesla to immense mark-to-market risk," Peter Garnry, head of equity strategy at Saxo Bank, wrote in a research note.[33] In such events, McKenna expected Tesla to adjust its non-GAAP earnings numbers, the financial performance metrics that managers define and use to communicate their views of firm performance: "I suspect Tesla will adjust the non-cash hits to net income from any impairments as non-GAAP adjustments the way everyone does when other intangibles like goodwill or IP are impaired." A first glimpse into Bitcoin's impact on Tesla's financial

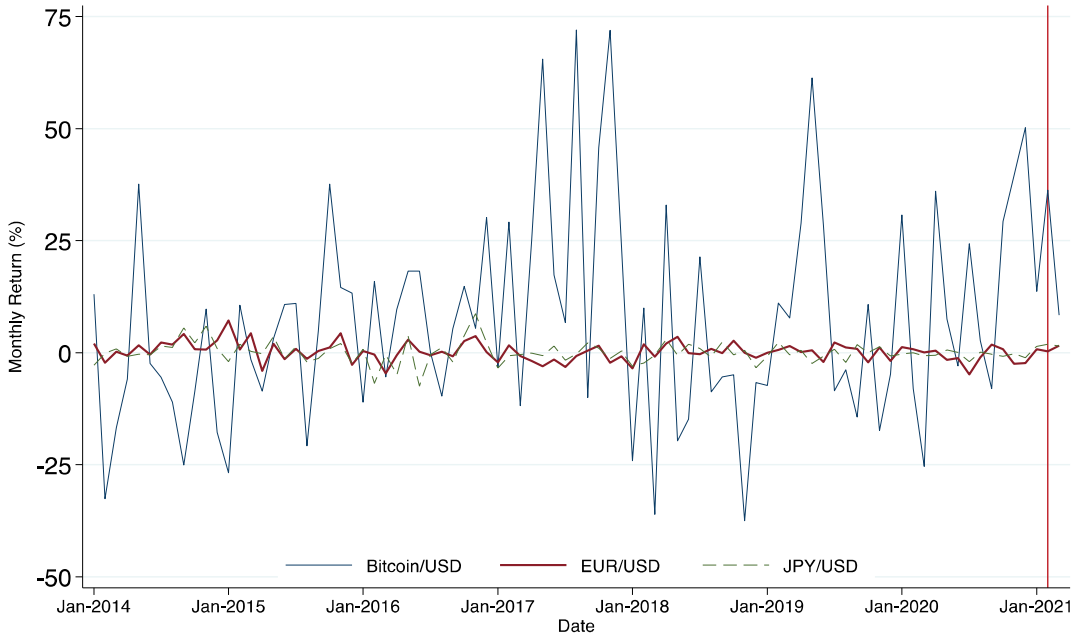
performance will be revealed in May 2021, when Tesla is expected to file its 2021 first quarter financial report (10-Q) with the SEC.

Exhibit 1 Selected Elon Musk Public Comments about Bitcoin and Cryptocurrency

- Dec. 20, 2020: In a Twitter exchange with Michael Saylor, chief executive officer of MicroStrategy Inc, who is also an advocate of digital currency, Musk asks about the possibility of converting "large transactions" of Tesla Inc balance sheet into Bitcoin.
- Jan. 29, 2021: Musk adds "#Bitcoin" to his Twitter bio, leading to a 14% surge in the price of the largest cryptocurrency. Musk has since removed the tag from his bio.
- Jan. 31, 2021: In a chat on social media app Clubhouse, Musk stated, "I am a supporter of Bitcoin." He said Bitcoin was "on the verge of getting broad acceptance" by conventional finance people. Musk added that he was "a little slow on the uptake" and should have bought it years ago.
- Feb. 4, 2021: Musk tweets "Doge", in reference to a cryptocurrency based on a popular internet meme. He later tweeted, "Dogecoin is the people's crypto." and "I am become meme, Destroyer of shorts." After the initial tweet, Dogecoin surged more than 60% during the day.

Source: Summarized by casewriters from https://www.reuters.com/article/us-tesla-musk-crypto-currency/elon-musk-says-bitcoin-on-the-verge-of-being-more-widely-accepted-idUSKBN2A11Q4, https://www.cryptoglobe.com/latest/2021/02/destroyer-of-shorts-dogecoin-price-pumps-60-on-elon-musks-tweets/, and Elon Musk's Twitter page (link included where available)

Exhibit 2 Monthly Returns on Bitcoin /USD versus Other Currencies



Source: Casewriters using data from CapitalIQ, accessed March 2, 2021.

Exhibit 3 Excerpt from Tesla's Form S-1 Registration Statement

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the shares of common stock that we are offering will be approximately $ million, assuming an initial public offering price of $ per share, which is the mid-point of the range reflected on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we must pay. Each $1.00 increase or decrease in the assumed initial public offering price of $ per share, which is the midpoint of the range reflected on the cover page of this prospectus, would increase or decrease, as applicable, our cash and cash equivalents, working capital, total assets and total stockholders' equity (deficit) by approximately $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters' option to purchase additional shares in this offering is exercised in full, we estimate that our net proceeds will be approximately $.

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders, including any shares of common stock sold by the selling stockholders in connection with the underwriters exercise of their option to purchase additional shares of common stock, although we will bear the costs, other than underwriting discounts and commissions, associated with the sale of these shares. The selling stockholders may include certain of our executive officers and members of our board of directors or entities affiliated with or controlled by them.

We may use a portion of the net proceeds from this offering to fund planned capital expenditures, working capital and other general corporate purposes. We currently anticipate making aggregate capital expenditures of between $100 million and $125 million during the year ended December 31, 2010. Such amounts include the $33 million of our anticipated powertrain and Model S manufacturing facility projects that will not be funded by advances under our loan facility with the United States Department of Energy, or DOE Loan Facility. We expect to use a portion of this offering to fund such amount. We may also use a portion of the net proceeds to potentially expand our current business through acquisitions of complementary businesses, products or technologies. However, we do not have agreements or commitments for any specific acquisitions at this time. We may find it necessary or advisable to use the net proceeds for other purposes, and subject to our obligations under our DOE Loan Facility, we will have broad discretion in the application of the net proceeds.

We have agreed to set aside 50% of the net proceeds from this offering, up to a maximum of $100 million, to fund a separate, dedicated account under our DOE Loan Facility. We will use amounts deposited into this account to pre-fund certain costs of our powertrain and Model S manufacturing facility projects, which would have otherwise been funded through advances made under the DOE Loan Facility, as well as to fund any cost overruns for these projects. These amounts are in addition to our obligation to fund $33 million of our anticipated powertrain and Model S manufacturing facility projects that will not be funded by advances under our DOE Loan Facility. Once the funds deposited into this dedicated account have been used in full, the pre-funded costs will be reimbursed to us through true-up advances under our DOE Loan Facility.

Pending use of the proceeds as described above, we intend to invest the proceeds in highly liquid cash equivalents that are permitted under our DOE Loan Facility or United States government securities.

Some of the other principal purposes of this offering are to create a public market for our common stock and increase our visibility in the marketplace. A public market for our common stock will facilitate future access to public equity markets and enhance our ability to use our common stock as a means of attracting and retaining key employees and as consideration for acquisitions. Depending on the future demand for our products and the pace at which we expand our manufacturing capacity, we may seek to raise additional capital to fund our manufacturing expansion.

Source: Tesla 2010 S-1 filing, https://www.sec.gov/Archives/edgar/data/1318605/000119312510017054/ds1.htm#toc51863_7, accessed August 14, 2021.

Exhibit 4 Tesla's Accounting for Inventory and Financial Instruments

Inventory Valuation

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

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

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

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements*, states that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The three-tiered fair value hierarchy, which prioritizes which inputs should be used in measuring fair value, is comprised of: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than quoted prices in active markets that are observable either directly or indirectly and (Level III) unobservable inputs for which there is little or no market data. The fair value hierarchy requires the use of observable market data when available in determining fair value. Our assets and liabilities that were measured at fair value on a recurring basis were as follows (in millions):

	December 31, 2020				December 31, 2019			
	Fair Value	Level I	Level II	Level III	Fair Value	Level I	Level II	Level III
Money market funds (cash and cash equivalents)	$ 13,847	$ 13,847	$ —	$ —	$ 1,632	$ 1,632	$ —	$ —
Interest rate swap assets	—	—	—	—	1	—	1	—
Interest rate swap liabilities	58	—	58	—	(27)	—	(27)	—
Total	$ 13,905	$ 13,847	$ 58	$ —	$ 1,606	$ 1,632	$ (26)	$ —

All of our money market funds were classified within Level I of the fair value hierarchy because they were valued using quoted prices in active markets. Our interest rate swaps were classified within Level II of the fair value hierarchy because they were valued using alternative pricing sources or models that utilized market observable inputs, including current and forward interest rates.

Interest Rate Swaps

We enter into fixed-for-floating interest rate swap agreements to swap variable interest payments on certain debt for fixed interest payments, as required by certain of our lenders. We do not designate our interest rate swaps as hedging instruments. Accordingly, our interest rate swaps are recorded at fair value on the consolidated balance sheets within other non-current assets or other long-term liabilities, with any changes in their fair values recognized as other (expense) income, net, in the consolidated statements of operations and with any cash flows recognized as operating activities in the consolidated statements of cash flows. Our interest rate swaps outstanding were as follows (in millions):

	December 31, 2020			December 31, 2019		
	Aggregate Notional Amount	Gross Asset at Fair Value	Gross Liability at Fair Value	Aggregate Notional Amount	Gross Asset at Fair Value	Gross Liability at Fair Value
Interest rate swaps	$ 554	$ —	$ 58	$ 821	$ 1	$ 27

Our interest rate swaps activity was as follows (in millions):

	Year Ended December 31,		
	2020	2019	2018
Gross losses	$ 42	$ 51	$ 12
Gross gains	$ 6	$ 11	$ 22

Disclosure of Fair Values

Our financial instruments that are not re-measured at fair value include accounts receivable, MyPower customer notes receivable, accounts payable, accrued liabilities, customer deposits and debt. The carrying values of these financial instruments other than our 2021 Notes, 2022 Notes, 2024 Notes, our subsidiary's Zero-Coupon Convertible Senior Notes due in 2020 and our subsidiary's 5.50% Convertible Senior Notes due in 2022 (collectively referred to as "Convertible Senior Notes" below), 5.30% Senior Notes due in 2025 ("2025 Notes"), solar asset-backed notes and solar loan-backed notes approximate their fair values.

We estimate the fair value of the Convertible Senior Notes and the 2025 Notes using commonly accepted valuation methodologies and market-based risk measurements that are indirectly observable, such as credit risk (Level II). In addition, we estimate the fair values of our solar asset-backed notes and solar loan-backed notes based on rates currently offered for instruments with similar maturities and terms (Level III). The following table presents the estimated fair values and the carrying values (in millions):

	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Convertible Senior Notes	$ 1,971	$ 24,596	$ 3,729	$ 6,110
2025 Notes	$ 1,785	$ 1,877	$ 1,782	$ 1,748
Solar asset-backed notes	$ 1,115	$ 1,137	$ 1,155	$ 1,211
Solar loan-backed notes	$ 146	$ 152	$ 175	$ 189

Source: Tesla 2020 10-K filing, https://www.sec.gov/ix?doc=/Archives/edgar/data/1318605/000156459021004599/tsla-10k_20201231.htm, accessed March 2, 2021.

Exhibit 5 Tesla Financial Statements

Balance Sheet (in Millions USD)

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 19,384	$ 6,268
Accounts receivable, net	1,886	1,324
Inventory	4,101	3,552
Prepaid expenses and other current assets	1,346	959
Total current assets	26,717	12,103
Operating lease vehicles, net	3,091	2,447
Solar energy systems, net	5,979	6,138
Property, plant and equipment, net	12,747	10,396
Operating lease right-of-use assets	1,558	1,218
Intangible assets, net	313	339
Goodwill	207	198
Other non-current assets	1,536	1,470
Total assets	$ 52,148	$ 34,309
Liabilities		
Current liabilities		
Accounts payable	$ 6,051	$ 3,771
Accrued liabilities and other	3,855	3,222
Deferred revenue	1,458	1,163
Customer deposits	752	726
Current portion of debt and finance leases	2,132	1,785
Total current liabilities	14,248	10,667
Debt and finance leases, net of current portion	9,556	11,634
Deferred revenue, net of current portion	1,284	1,207
Other long-term liabilities	3,330	2,691
Total liabilities	28,418	26,199
Commitments and contingencies (Note 16)		
Redeemable noncontrolling interests in subsidiaries	604	643
Convertible senior notes (Note 12)	51	—
Equity		
Stockholders' equity		
Preferred stock; $0.001 par value; 100 shares authorized; no shares issued and outstanding	—	—
Common stock; $0.001 par value; 2,000 shares authorized; 960 and 905 shares issued and outstanding as of December 31, 2020 and December 31, 2019, respectively (1)	1	1
Additional paid-in capital (1)	27,260	12,736
Accumulated other comprehensive income (loss)	363	(36)
Accumulated deficit	(5,399)	(6,083)
Total stockholders' equity	22,225	6,618
Noncontrolling interests in subsidiaries	850	849
Total liabilities and equity	$ 52,148	$ 34,309

Income Statement (in Millions USD)

	Year Ended December 31,		
	2020	**2019**	**2018**
Revenues			
Automotive sales	$ 26,184	$ 19,952	$ 17,632
Automotive leasing	1,052	869	883
Total automotive revenues	27,236	20,821	18,515
Energy generation and storage	1,994	1,531	1,555
Services and other	2,306	2,226	1,391
Total revenues	31,536	24,578	21,461
Cost of revenues			
Automotive sales	19,696	15,939	13,686
Automotive leasing	563	459	488
Total automotive cost of revenues	20,259	16,398	14,174
Energy generation and storage	1,976	1,341	1,365
Services and other	2,671	2,770	1,880
Total cost of revenues	24,906	20,509	17,419
Gross profit	6,630	4,069	4,042
Operating expenses			
Research and development	1,491	1,343	1,460
Selling, general and administrative	3,145	2,646	2,835
Restructuring and other	—	149	135
Total operating expenses	4,636	4,138	4,430
Income (loss) from operations	1,994	(69)	(388)
Interest income	30	44	24
Interest expense	(748)	(685)	(663)
Other (expense) income, net	(122)	45	22
Income (loss) before income taxes	1,154	(665)	(1,005)
Provision for income taxes	292	110	58
Net income (loss)	862	(775)	(1,063)
Net income (loss) attributable to noncontrolling interests and redeemable noncontrolling interests in subsidiaries	141	87	(87)
Net income (loss) attributable to common stockholders	$ 721	$ (862)	$ (976)
Less: Buy-out of noncontrolling interest	31	8	—
Net income (loss) used in computing net income (loss) per share of common stock	$ 690	$ (870)	$ (976)
Net income (loss) per share of common stock attributable to common stockholders			
Basic	$ 0.74	$ (0.98)	$ (1.14)
Diluted	$ 0.64	$ (0.98)	$ (1.14)
Weighted average shares used in computing net income (loss) per share of common stock			
Basic	933	887	853
Diluted	1,083	887	853

Cash Flow Statement (in Millions USD)

	Year Ended December 31,		
	2020	2019	2018
Cash Flows from Operating Activities			
Net income (loss)	$ 862	$ (775)	$ (1,063)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and impairment	2,322	2,154	1,901
Stock-based compensation	1,734	898	749
Amortization of debt discounts and issuance costs	180	188	159
Inventory and purchase commitments write-downs	202	193	85
Loss on disposals of fixed assets	117	146	162
Foreign currency transaction net loss (gain)	114	(48)	(2)
Non-cash interest and other operating activities	228	186	49
Operating cash flow related to repayment of discounted convertible senior notes	—	(188)	—
Changes in operating assets and liabilities, net of effect of business combinations:			
Accounts receivable	(652)	(367)	(497)
Inventory	(422)	(429)	(1,023)
Operating lease vehicles	(1,072)	(764)	(215)
Prepaid expenses and other current assets	(251)	(288)	(82)
Other non-current assets	(344)	115	(207)
Accounts payable and accrued liabilities	2,102	646	1,797
Deferred revenue	321	801	406
Customer deposits	7	(58)	(96)
Other long-term liabilities	495	(5)	(25)
Net cash provided by operating activities	5,943	2,405	2,098
Cash Flows from Investing Activities			
Purchases of property and equipment excluding finance leases, net of sales	(3,157)	(1,327)	(2,101)
Purchases of solar energy systems, net of sales	(75)	(105)	(218)
Receipt of government grants	123	46	—
Purchase of intangible assets	(10)	(5)	—
Business combinations, net of cash acquired	(13)	(45)	(18)
Net cash used in investing activities	(3,132)	(1,436)	(2,337)
Cash Flows from Financing Activities			
Proceeds from issuances of common stock in public offerings, net of issuance costs	12,269	848	—
Proceeds from issuances of convertible and other debt	9,713	10,669	6,176
Repayments of convertible and other debt	(11,623)	(9,161)	(5,247)
Repayments of borrowings issued to related parties	—	—	(100)
Collateralized lease repayments	(240)	(389)	(559)
Proceeds from exercises of stock options and other stock issuances	417	263	296
Principal payments on finance leases	(338)	(321)	(181)
Debt issuance costs	(6)	(37)	(15)
Purchase of convertible note hedges	—	(476)	—
Proceeds from issuance of warrants	—	174	—
Proceeds from investments by noncontrolling interests in subsidiaries	24	279	437
Distributions paid to noncontrolling interests in subsidiaries	(208)	(311)	(227)
Payments for buy-outs of noncontrolling interests in subsidiaries	(35)	(9)	(6)
Net cash provided by financing activities	9,973	1,529	574
Effect of exchange rate changes on cash and cash equivalents and restricted cash	334	8	(23)
Net increase in cash and cash equivalents and restricted cash	13,118	2,506	312
Cash and cash equivalents and restricted cash, beginning of period	6,783	4,277	3,965
Cash and cash equivalents and restricted cash, end of period	$ 19,901	$ 6,783	$ 4,277

Source: Tesla 2020 10-K filing, https://www.sec.gov/ix?doc=/Archives/edgar/data/1318605/000156459021004599/tsla-10k_20201231.htm, accessed March 2, 2021.

Exhibit 6 Tesla Revenue Sources

	Year Ended December 31,		
	2020	**2019**	**2018**
Automotive sales without resale value guarantee	$ 24,053	$ 19,212	$ 15,810
Automotive sales with resale value guarantee (1)	551	146	1,403
Automotive regulatory credits	1,580	594	419
Energy generation and storage sales	1,477	1,000	1,056
Services and other	2,306	2,226	1,391
Total revenues from sales and services	29,967	23,178	20,079
Automotive leasing	1,052	869	883
Energy generation and storage leasing	517	531	499
Total revenues	$ 31,536	$ 24,578	$ 21,461

Source: Tesla 2020 10-K filing, https://www.sec.gov/ix?doc=/Archives/edgar/data/1318605/000156459021004599/tsla-10k_20201231.htm, accessed March 2, 2021.

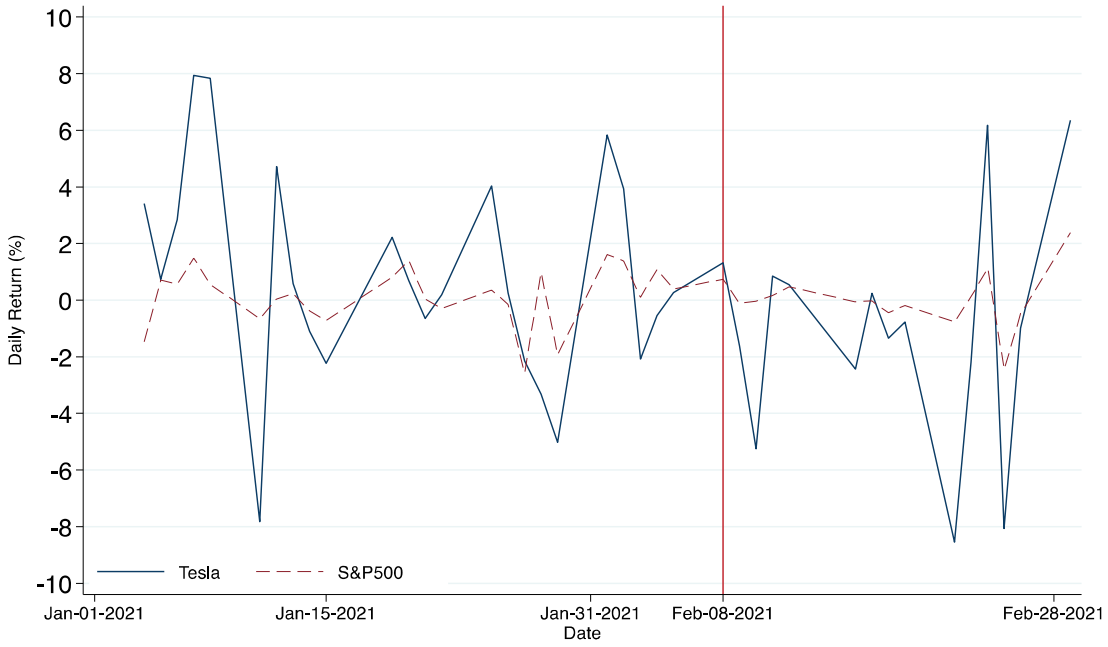
Note: Tesla explained their trading of regulatory credits in its 10-K as follows: "We earn tradable credits in the operation of our business under various regulations related to zero-emission vehicles ('ZEVs'), greenhouse gas, fuel economy, renewable energy and clean fuel. We sell these credits to other regulated entities who can use the credits to comply with emission standards, renewable energy procurement standards and other regulatory requirements."

Exhibit 7 Tesla Cars Sold by Quarter

Quarter-Year	Thousands of Cars
Q4 2015	17.4
Q1 2016	14.8
Q2 2016	14.4
Q3 2016	24.5
Q4 2016	22.2
Q1 2017	25
Q2 2017	22
Q3 2017	26.2
Q4 2017	29.9
Q1 2018	30
Q2 2018	40.7
Q3 2018	83.5
Q4 2018	90.7
Q1 2019	63
Q2 2019	95.2
Q3 2019	97
Q4 2019	112
Q1 2020	88.4
Q2 2020	90.7
Q3 2020	139.3
Q4 2020	180.6

Source: https://www.statista.com/statistics/502208/tesla-quarterly-vehicle-deliveries/, accessed March 3, 2021.

Exhibit 8 Tesla Daily Stock Return, January and February of 2021



Source: Casewriters using data obtained from Capital IQ, accessed March 2, 2021.

Exhibit 9 2018 CEO Performance Award

In March 2018, our stockholders approved the Board of Directors' grant of 101.3 million stock option awards to our CEO (the "2018 CEO Performance Award"), as adjusted to give effect to the Stock Split. The 2018 CEO Performance Award consists of 12 vesting tranches with a vesting schedule based entirely on the attainment of both operational milestones (performance conditions) and market conditions, assuming continued employment either as the CEO or as both Executive Chairman and Chief Product Officer and service through each vesting date. Each of the 12 vesting tranches of the 2018 CEO Performance Award will vest upon certification by the Board of Directors that both (i) the market capitalization milestone for such tranche, which begins at $100.0 billion for the first tranche and increases by increments of $50.0 billion thereafter (based on both a six calendar month trailing average and a 30 calendar day trailing average, counting only trading days), has been achieved, and (ii) any one of the following eight operational milestones focused on total revenue or any one of the eight operational milestones focused on Adjusted EBITDA have been achieved for the previous four consecutive fiscal quarters on an annualized basis. Adjusted EBITDA is defined as net income (loss) attributable to common stockholders before interest expense, provision (benefit) for income taxes, depreciation and amortization and stock-based compensation. Upon vesting and exercise, including the payment of the exercise price of $70.01 per share as adjusted to give effect to the Stock Split, our CEO must hold shares that he acquires for five years post-exercise, other than a cashless exercise where shares are simultaneously sold to pay for the exercise price and any required tax withholding.

The achievement status of the operational milestones as of December 31, 2020 was as follows:

Total Annualized Revenue		Annualized Adjusted EBITDA	
Milestone (in billions)	Achievement Status	Milestone (in billions)	Achievement Status
$ 20.0	Achieved and certified	$ 1.5	Achieved and certified
$ 35.0	Probable	$ 3.0	Achieved and certified
$ 55.0	-	$ 4.5	Achieved and certified
$ 75.0	-	$ 6.0	Probable
$ 100.0	-	$ 8.0	Probable
$ 125.0	-	$ 10.0	-
$ 150.0	-	$ 12.0	-
$ 175.0	-	$ 14.0	-

Source: Tesla 2020 10-K filing, https://www.sec.gov/ix?doc=/Archives/edgar/data/1318605/000156459021004599/tsla-10k_20201231.htm, accessed March 2, 2021.

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