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**TESLA’S NON-GAAP ACCOUNTING MEASUREMENTS: REVENUE RECOGNITION AND STOCK-BASED COMPENSATION[[1]](#footnote-1)**

*Professors Martin E. Persson and Mitch Stein wrote this case with the assistance of Spencer Higgs solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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American automaker Tesla Motors Inc. (Tesla) issued its 2014 third quarter report and letter to shareholders in November 2014. Christine Andersen, an analyst at a boutique investment firm, was asked to perform due diligence on a potential investment in Tesla. Specifically, she was tasked with evaluating the quality of the company’s most recent quarterly earnings. Andersen had become wary of the earnings detailed in the report after reading an investment advice article that stated, “Though we love the car and the passion of the firm and its [chief executive officer] CEO, we continue to be concerned about the economics of Tesla’s business and the quality of its earnings.”[[2]](#footnote-2)

As Andersen examined the article further, she noticed that the author’s concerns related to differences between the financial performance reported under U.S. generally accepted accounting principles (GAAP) and the financial performance reported under Tesla’s own non-GAAP measurements. The first concern involved the company’s non-GAAP treatment of revenue from the sales of cars under its resale value guarantee program.[[3]](#footnote-3) The second concern, related to the first, involved the revenue recognition of sales of regulatory credits under state environmental programs. Anderson noted that the third concern outlined by the authors was the controversy surrounding the non-GAAP reporting of the company’s stock-based compensation for its employees. She questioned the reasonableness of these adjustments, and wondered whether the resulting figures could mislead investors.

Andersen acknowledged that there might be a perfectly plausible explanation for Tesla’s use of non-GAAP measurements. Companies were required to issue financial statements in accordance with U.S. GAAP standards to list their company on stock exchanges in the United States. However, it was common for those companies to also provide their own measurements of performance to investors, especially in areas where the companies felt that conventional reporting standards failed to capture the underlying economic activities of their business. The caveat, however, was that these measurements should not be given greater emphasis than those provided under U.S. GAAP standards. One of the big four accounting firms[[4]](#footnote-4) noted that companies were required to “give equal or greater prominence to the most comparable GAAP measures, ensure that appropriate disclosures are provided, accurately label the non-GAAP measures, and identify an adjustment as non-recurring only if that is the case.”[[5]](#footnote-5)

Andersen was not sure that Tesla met these criteria. She noted that the company’s third quarter shareholder letter from 2014 provided the following rationale for its non-GAAP measures:

Non-GAAP financial measures also exclude the impact of lease accounting on related revenues and cost of revenues associated with Model S deliveries with the resale value guarantee and similar buy-back terms, as this perspective is useful in understanding the underlying cash flow activity and timing of vehicle deliveries.[[6]](#footnote-6)

She considered Tesla’s explanation as she began her research.

**TESLA MOTORS INC.**

To understand more about Tesla’s business and the appropriateness of its non-GAAP measurements, Andersen began to research the company’s history. A group of engineers had founded the company in Silicon Valley, California, in 2003. Its current CEO, Elon Musk, had joined the company in 2004 as its main financial backer and chairman. Musk had brought along a wealth of experience from his time as one of the entrepreneurs behind several successful start-up businesses including PayPal Holdings, Inc. and Space Exploration Technologies Corporation.

Tesla released its first fully electric vehicle, the Roadster, in 2008.[[7]](#footnote-7) The Roadster could drive about 395 kilometres on a single charge and retailed for US$109,000.[[8]](#footnote-8) Unlike traditional cars that were sold through local dealerships, the Roadster could only be purchased directly from Tesla. This allowed the company to avoid paying the traditional dealership margin on the selling price and to pass on those savings to the final consumer. But even with these potential savings and the rather steep retail price, the Roadster was foremost a proof of concept, and the company continued to make a loss on each one sold.

Tesla issued its initial public offering in 2010 priced at $17 per share. The stock increased over 40 per cent in the first day of trading, implying that a market capitalization of over $2 billion was likely.[[9]](#footnote-9) Andersen noted that there had also been a tremendous increase in the company’s share price since the initial public offering. At the time of the company’s 2014 earnings announcement, the stock had risen to over $242 per share, with a market capitalization of over $30 billion.[[10]](#footnote-10)

A major operational shift occurred in 2012, when production of the Roadster was ceased to make way for the new Model S.[[11]](#footnote-11) The Model S offered increased speed and extended travel range—it was able to travel over 500 kilometres on a single charge. Tesla’s new model could go from 0 to 100 kilometres per hour in less than three seconds. As such, the Model S was considered a technological breakthrough in the car industry and a potential major revenue driver. However, when Andersen looked at the company’s financial performance, she noted that it had continued to struggle in turning a profit under conventional financial reporting practices. The most recent financial statements showed a loss of almost $75 million using U.S. GAAP standards, compared to a profit of over $5 million in non-GAAP standards (see Exhibit 1). She knew that the company’s share price was being driven by expectations of future growth, but she was concerned that the non-GAAP results might also be distorting investors’ views of the company’s prospects.

**GAAP and Non-GAAP Reporting**

Andersen looked at the $80 million difference between Tesla’s GAAP and non-GAAP earnings and wondered how the different measurement rules could create such a large discrepancy. She concluded that the company saw a major shortcoming in the way that GAAP treated its revenue and expenses. To gain further insight into the company’s accounting practices, she decided to examine more carefully how Tesla calculated its loss under GAAP and profit under non-GAAP. Starting with the company’s income statement prepared under GAAP (see Exhibits 1 and 2), she began to make the adjustments necessary to reconcile the GAAP loss of $74.7 million with the non-GAAP income of $4.6 million.

**REVENUE RECOGNITION**

**Resale Value Guarantee Program**

The first adjustment related to Tesla’s resale value guarantee program—referred to as a buyback commitment—which Tesla explained as follows: “Model S customers have the option of selling their vehicle back to [Tesla] during the period of 36 to 39 months after delivery for a pre-determined resale value.”[[12]](#footnote-12) Andersen then found more details in an Ernst & Young report: “Under [GAAP], given the lack of a transfer of risks and rewards under the buy-back commitment, such transactions generally do not qualify for immediate revenue recognition as a vehicle sale, but are accounted for as leases.”[[13]](#footnote-13)

This meant that, under GAAP, Tesla would report sales for which there was a buyback guarantee as a lease, recognizing only a portion of the revenue each year, and deferring the remainder of the revenue on its balance sheet as a liability. Andersen noted, however, that in calculating its non-GAAP income, the company reported the amount of deferred revenue under GAAP as revenue on the income statement. This caused the amount of revenue and corresponding net income reported under non-GAAP to be higher than the amount reported under GAAP.

To determine the difference between Tesla’s GAAP and non-GAAP revenues, and the cost of revenues, Andersen consulted a note to the financial statements. The note explained the changes in the company’s various accounts relating to the resale value guarantee (see Exhibit 3). Under GAAP, there was an increase in amounts to be reported as liabilities on the balance sheet of approximately $28.3 million (as deferred revenue) and $52.5 million (as resale value guarantee liability). However, for its non-GAAP statements, the company reported these amounts as revenue, resulting in an increase in revenue of $80.8 million. This increase in revenue was reduced by a corresponding increase in the cost of sales of $62.9 million, which had been reported as an increase to assets (as the resale value guarantee program) under GAAP (see Exhibit 3). Andersen wondered to what extent these modified numbers reflected the company’s actual performance.

In addition to highlighting these differences, Andersen’s investigation led her to wonder how the company recognized revenue with respect to the regulatory credits that the company earned by manufacturing zero-emission vehicles (ZEV).

**Tesla and Regulatory Credits**

As a manufacturer of ZEVs, Tesla earned tradable regulatory credits in states such as California, which required a certain percentage of vehicles delivered to be ZEVs or partial-emission vehicles (see Exhibit 4).[[14]](#footnote-14) The company could then sell these credits based on the cap and trade policies of local government agencies—the most significant being the Air Resource Board of California’s Environmental Protection Agency. Automakers such as Honda Motor Co., Ltd., General Motors Company, and Volkswagen did not meet these standards, so they had to purchase additional credits. However, companies such as Tesla did not need these credits at all, so they sold them as they were earned (see Exhibits 5 and 6).[[15]](#footnote-15)

Andersen found that the sale of regulatory credits had a substantial impact on Tesla’s revenue.[[16]](#footnote-16) A note in the quarterly financial statements for the quarter ending September 30, 2014, stated that Tesla “recognized $76.1 million in ZEV credit sales as a result of one-time contracts with various OEMs [original equipment manufacturers].”[[17]](#footnote-17) The company also sold $16.7 million in other regulatory credits.

Given the significance of regulatory credit sales on Tesla’s revenue and profitability, Andersen sought to better understand the regulatory climate surrounding these credits and how the company reported them on its financial statements. She found guidance from one of the big four accounting firms that supported the reporting of the cost of the credits to the company as nil.[[18]](#footnote-18) Based on this guidance, Tesla recorded the sale of credits from the sale of cars as revenue, with no corresponding cost, because the credits were granted free of charge by local government agencies.

Andersen wondered how the reporting of revenue from the sales of these credits as automotive sales affected Tesla’s margins and ratios (see Exhibit 7). She was especially curious because the sale of regulatory credits was a non-essential aspect of the company’s core business, and there was no guarantee that the current regulatory scheme would continue indefinitely. In fact, there was already some evidence that these policies might undergo some changes. On April 3, 2014, California changed the rules for ZEV credits, causing Tesla to qualify for only four credits per Model S sold, down from seven credits.[[19]](#footnote-19) Because these credits sold for approximately $5,000 each, she calculated that the change could cost the company as much as $15,000 per Model S sold.[[20]](#footnote-20)

Tesla’s reporting of these credits was permissible under GAAP. However, given the non-essential nature to the company’s core business and the uncertainty surrounding these credits, she wondered if they should be reported as a separate “other income” line, instead of being reported as part of automotive sales on the income statement.

How Tesla recognized different types of revenue was not the only area of contention surrounding the company’s accounting policies. Another area was the non-GAAP treatment of stock-based compensation. Andersen picked up the company’s quarterly report and opened it to the page discussing stock-based compensation.

**STOCK-BASED COMPENSATION**

Andersen understood that stock-based compensation was designed to align employees’ interests with those of the firm by motivating employees to engage in activities that maximized the firm’s financial performance. Unlike compensation such as salary and bonuses, stock options did not require an immediate cash outlay by the company.[[21]](#footnote-21) However, it seemed to her that the issuance of stock options still represented a cost to the company and its shareholders. Andersen noted that Tesla adjusted its GAAP statements by adding back an amount of $39.2 million in stock-based compensation for the quarter ending September 30, 2014, to calculate its non-GAAP net income (see Exhibit 8).

Andersen also found the allocation of stock options inconsistent with the company’s focus on innovation and technology. The company allocated a larger part of its stock-based compensation to selling, general, and administrative expenses ($17.1 million) than to research and development ($16.6 million), with the remainder allocated to cost of sales ($5.4 million). Engineers in research and development were the company’s value drivers, she thought, so why did they have a smaller share of stock-based allocation?

**DECISION**

After reviewing all of the information, Andersen knew that she would likely be working over the weekend to answer various related questions: Was it reasonable to state that Tesla had been profitable in the third quarter of 2014? Were Tesla’s non-GAAP adjustments appropriate?[[22]](#footnote-22) How could the adjustments between Tesla’s GAAP and non-GAAP numbers be explained? What would Tesla’s performance look like if she adjusted the financial statements for the resale value guarantee, regulatory credits, and stock-based compensation?

**Exhibit 1: Tesla Motors Inc. Income Statement (in US$ thousand)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  | | --- | --- | --- | |  | **Quarter Ended** | | |  | **September 30, 2014** | | |  | GAAP | Non-GAAP | | **Revenues** |  |  | | Automotive sales | $849,009 | $929,853 | | Development services | 2,795 | 2,795 | | Total revenues | 851,804 | 932,648 | |  |  |  | | **Cost of revenues** |  |  | | Automotive sales | 598,472 | 655,978 | | Development services | 1,481 | 1,481 | | Total cost of revenues | 599,953 | 657,459 | |  |  |  | | **Gross profit** | 251,851 | 275,189 | |  |  |  | | **Operating expenses** |  |  | | Research and development | 135,873 | 119,234 | | Selling, general, and administrative expenses | 155,107 | 137,971 | | Total operating expenses | 290,980 | 257,205 | |  |  |  | | Income/(loss) from operations | (39,129) | 17,984 | | Other income and interest expense | (31,852) | (9,692) | | Loss before income taxes | (70,981) | 8,292 | | Provision for income taxes | 3,727 | 3,727 | | **Net income/(loss)** | ($74,708) | $4,565 | |

Note: Tesla adds back $22,160 in non-cash interest expense related to some of their convertible notes. The “Other income and interest expense” line in this exhibit reflects this adjustment as the difference in amounts between GAAP and Non-GAAP; some figures were modified by the case authors for teaching purposes.

Source: Non-GAAP figures are from the case authors’ analysis; Tesla Motors Inc., *Third Quarter 2014 Shareholder Letter*, November 5, 2014, accessed December 5, 2015, http://files.shareholder.com/downloads/ABEA-4CW8X0/0x0x791902/D7B8CC04-9C3E-4216-9CE3-7FB4D7E0C00B/Q314\_SHL\_Final.pdf, 6, 9; Tesla Motors Inc., *Form 10-Q for the Quarterly Period Ended September 30, 2014*, United States Securities and Exchange Commission, accessed November 9, 2015, http://ir.tesla.com/secfiling.cfm?filingID=1193125-14-403635, 5.

**Exhibit 2: Tesla Motors Inc. Balance Sheet (in US$ Thousand)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  | | --- | --- | |  | **Quarter Ended**  **September 30, 2014** | |  | | **Assets** |  | | Current assets |  | | Cash and cash equivalents | $2,370,735 | | Restricted cash and marketable securities | 17,331 | | Accounts receivable | 156,889 | | Inventory | 752,492 | | Prepaid expenses and other current assets | 65,467 | | Total current assets | 3,362,914 | |  |  | | Operating lease vehicles, net | 617,743 | | Property, plant, and equipment, net | 1,404,326 | | Other assets | 52,550 | | **Total assets** | $5,437,533 | | **Liabilities and Stockholders’ Equity** |  | | Current liabilities |  | | Accounts payable | $649,362 | | Accrued liabilities | 194,571 | | Deferred revenue | 161,570 | | Capital lease obligations, current portion | 9,592 | | Customer deposits | 227,056 | | Convertible senior notes | 597,626 | | Total current liabilities | 1,839,777 | | Capital lease obligations, less current portion | 12,806 | | Deferred revenue, less current portion | 254,321 | | Convertible senior notes, less current portion | 1,786,635 | | Resale value guarantee | 397,742 | | Other long-term liabilities | 125,997 | | Total liabilities | 4,417,278 | | Convertible senior notes | 62,161 | |  |  | | Stockholders’ equity |  | | Common stock | 125 | | Additional paid-in capital | 2,284,010 | | Accumulated deficit | (1,326,041) | | Total stockholders’ equity | 958,094 | | **Total liabilities and stockholders’ equity** | $5,437,533 | |

Source: Tesla Motors Inc., *Form 10-Q for the Quarterly Period Ended September 30, 2014*, United States Securities and Exchange Commission, accessed November 9, 2015, http://ir.tesla.com/secfiling.cfm?filingID=1193125-14-403635, 4.

**Exhibit 3: Tesla Motors Inc. Resale Value Guarantee (in US$ Thousand)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  | | --- | --- | |  | **Quarter Ended** | |  | **September 30, 2014** | | Beginning operating lease vehicles under the resale value guarantee program | $515,780 | | Net increase in operating lease vehicles under the resale value guarantee program | 62,889 | | Ending operating lease vehicles under the resale value guarantee program | 578,669 | |  |  | | Beginning deferred revenue related to Model S deliveries | 305,277 | | Net increase in deferred revenue related to Model S deliveries | 28,294 | | Ending deferred revenue related to Model S deliveries | 333,571 | |  |  | | Beginning resale value guarantee liability | 345,192 | | Net increase in resale value guarantee | 52,550 | | Ending resale value guarantee liability | 397,742 | |  | | |

Note: “Net increase in operating lease vehicles” is not recognized in automotive cost of sales; “Net increase in deferred revenue” is not recognized in automotive sales; “Net increase in resale value guarantee” is not recognized in automotive sales.

Source: Tesla Motors Inc., *Form 10-Q for the Quarterly Period Ended September 30, 2014*, United States Securities and Exchange Commission, accessed November 9, 2015, http://ir.tesla.com/secfiling.cfm?filingID=1193125-14-403635, 9.

**Exhibit 4: California Zero-Emission Vehicle Credit Balances   
(as of September 30, 2014)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  | | --- | --- | --- | | **Manufacturer** | | **Zero-emission vehicles** | | Nissan Motor Company Ltd. | 1,383 | | | Honda Motor Company | 1,077 | | | Toyota Motor Corporation | 856 | | | General Motors Company | 613 | | | Chrysler Group LLC | 528 | | | Tesla Motors Inc. | 222 | | | Ford Motor Company | 198 | | | Mercedes Benz | 140 | | | Subaru Corporation | 108 | | | Jaguar Land Rover Automotive PLC | 75 | | | Volkswagen | 42 | | | BMW | 24 | | | Hyundai Group | 31 | | | KIA Motor Corporation | 9 | | | Mitsubishi Corporation | 2 | | | **Total** | **5,308** | | |

Notes: California’s Air Resources Board expresses credits in units of grams per mile Non-Methane Organic Gases (g/mi NMOG); neighbourhood electric vehicle credits are excluded from the quantities listed in this exhibit.

Source: “2013 Zero Emission Vehicle Credits,” October 17, 2014, California Environmental Protection Agency, Air Resource Board, accessed November 9, 2015, www.arb.ca.gov/msprog/zevprog/zevcredits/2013zevcredits.htm.

**Exhibit 5: California Zero-Emission Vehicle Credit Transfers in  
(October 1, 2013 to September 30, 2014)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  | | --- | --- | --- | | **Transferee** | **Type of Vehicle** | **Number of Credits** | | Mercedes Benz | PZEV | 664 | | Honda Motor Company | ZEV | 543 | | Chrysler Group LLC | ZEV | 238 | | Fuji/Subaru Corporation | ZEV | 108 | | Jaguar Land Rover Automotive PLC | PZEV | 39 | | General Motors Company | ZEV | 4 | | Volkswagen | ZEV | 2 | |  | **Total** | **1,598** | |

Note: California’s Air Resources Board expresses credits in units of grams per mile Non-Methane Organic Gases (g/mi NMOG); PZEV = partial zero-emissions vehicle

Source: “2013 Zero Emission Vehicle Credits,” October 17, 2014, California Environmental Protection Agency, Air Resource Board, accessed November 9, 2015, www.arb.ca.gov/msprog/zevprog/zevcredits/2013zevcredits.htm.

**Exhibit 6: California Zero-Emission Vehicle Credit Transfers out  
(October 1, 2013 to September 30, 2014)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  | | --- | --- | --- | | **Transferor** | **Type of Vehicle** | **Number of Credits** | | Nissan Motor Company Ltd. | PZEV | 664 | | Tesla Motors Inc. | ZEV | 650 | | Fiat Chrysler Automobiles NV | ZEV | 235 | | Ford Motor Company | PZEV | 39 | | CODA Automotive Inc. | ZEV | 6 | | Polaris Industries | ZEV | 3 | | Mitsubishi Corporation | ZEV | 1 | |  | **Total** | **1,598** | |

Note: California’s Air Resources Board expresses credits in units of grams per mile Non-Methane Organic Gases (g/mi NMOG).

Source: “2013 Zero Emission Vehicle Credits, 2014,” California Environmental Protection Agency, accessed November 9, 2015, www.arb.ca.gov/msprog/zevprog/zevcredits/2013zevcredits.htm.

**Exhibit 7: Financial Ratios Using General Accepted Accounting Practices**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  | | --- | --- | |  | **Quarter Ended** | |  | **September 30, 2014** | | Gross margin | 29.6% | | Operating margin | (4.6%) | | Net margin | (8.8%) | | Current ratio | 1.8x | | Quick ratio | 1.4x | |

Source: Created by case authors using data from Tesla Motors Inc., *Form 10-Q for the Quarterly Period Ended September 30, 2014*, United States Securities and Exchange Commission, accessed November 9, 2015, http://ir.tesla.com/secfiling.cfm?filingID=1193125-14-403635, 20.

**Exhibit 8: Stock-Based Compensation Allocation (in US$ Thousand)**

|  |  |
| --- | --- |
|  | **Quarter Ended** |
|  | **September 30, 2014** |
| Cost of sales | $5,383 |
| Research and development | 16,639 |
| Selling, general, and administrative expenses | 17,136 |
| Total | $39,158 |

Source: Tesla Motors Inc., *Form 10-Q for the Quarterly Period Ended September 30, 2014*, United States Securities and Exchange Commission, accessed November 9, 2015, http://ir.tesla.com/secfiling.cfm?filingID=1193125-14-403635, 20.

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Tesla Motors Inc. or any of its employees. [↑](#footnote-ref-1)
2. David Milstead, “Tesla’s Financials: A Peek under the Hood,” *Globe and Mail*, October 2, 2013, accessed July 4, 2017, www.theglobeandmail.com/globe-investor/investment-ideas/tesla-financials-a-peak-under-the-hood/article14668932/. [↑](#footnote-ref-2)
3. Tesla’s resale value guarantee program was a financing program that guaranteed customers the option of selling their vehicles back to the company. [↑](#footnote-ref-3)
4. The big four accounting firms were Deloitte Touche Tohmatsu Limited, PricewaterhouseCoopers, Ernst & Young, and Klynveld Peat Markwick Goerdeler (KPMG). [↑](#footnote-ref-4)
5. Patrick Higgins and Kevin Garry, “SEC Updates Interpretative Guidance on Non-GAAP Financial Measures,” PricewaterhouseCoopers, 2016, accessed July 25, 2017, www.pwc.com/us/en/cfodirect/publications/in-brief/sec-non-gaap-financial-measures.html. [↑](#footnote-ref-5)
6. Tesla Motors Inc., *Third Quarter 2014 Shareholder Letter*, November 5, 2014, accessed November 9, 2015, http://files.shareholder.com/downloads/ABEA-4CW8X0/0x0x791902/D7B8CC04-9C3E-4216-9CE3-7FB4D7E0C00B/Q314\_SHL\_Final.pdf, 5. [↑](#footnote-ref-6)
7. Erik Gregersen and Barbara A. Schreiber, “Tesla Motors,” *Encyclopaedia Britannica*, accessed November 9, 2015, www.britannica.com/topic/Tesla-Motors. [↑](#footnote-ref-7)
8. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-8)
9. Jonathan Spicer and Poornima Gupta, “Carmaker Tesla’s Stock Zooms 40 Percent on First Day,” Reuters, June 29, 2010, accessed November 9, 2015, www.reuters.com/article/us-tesla-ipo-idUSTRE65R2B620100629. [↑](#footnote-ref-9)
10. “Historic Stock Lookup: Adjusted Historic Prices for the Week of November 3, 2014,” Tesla Motors Inc., accessed November 9, 2015, http://ir.tesla.com/stocklookup.cfm?historic\_Month=11&historic\_Day=7&historic\_Year=2014. [↑](#footnote-ref-10)
11. Gregersen and Schreiber, op. cit. [↑](#footnote-ref-11)
12. Tesla Motors Inc.: *Form 10-Q for the Quarter Ended September 30, 2014*, United States Securities and Exchange Commission, accessed November 9, 2015, http://ir.tesla.com/secfiling.cfm?filingID=1193125-14-403635, 9. [↑](#footnote-ref-12)
13. Ernst & Young, *Drive for the Global GAAP: An Automotive Industry Comparison of US GAAP and IFRS* 2008, accessed November 9, 2015, www.ey.com/Publication/vwLUAssets/Automotive\_sector\_comparison\_of\_US\_GAAP\_and\_IFRS/$FI

    LE/Industry\_Automotive\_Drive\_for\_the\_Global\_GAAP.pdf, 8. [↑](#footnote-ref-13)
14. ZEVs included battery electric and fuel-cell vehicles. [↑](#footnote-ref-14)
15. Tesla Motors Inc., *FORM 10-K* (Annual Report) Filed 02/26/14 for the Period Ending 12/31/13, accessed November 9, 2015, http://files.shareholder.com/downloads/ABEA-4CW8X0/2330621879x0xS1193125-14-69681/1318605/filing.pdf, 17. [↑](#footnote-ref-15)
16. For example, in 2013, Tesla recognized $129.8 million in ZEV credits with over 90 per cent realized in the first half of the year; Tesla Motors Inc., *Form 10-Q for the Quarterly Period Ended September 30, 2014*, op. cit., 25. [↑](#footnote-ref-16)
17. Tesla Motors Inc., *Form 10-Q for the Quarterly Period Ended September 30, 2014*, op. cit. [↑](#footnote-ref-17)
18. There were two suggested models for reporting emission credits: the intangible asset model and the inventory model. Under either model, credits furnished by the government, as in the case of Tesla, were recorded at zero cost; “Accounting Guidance for Emissions Programs,” Ernst & Young, accessed November 9, 2015, www.ey.com/US/en/Industries/Oil---Gas/Carbon-market-readiness---4---Accounting-guidance-for-emissions-programs. [↑](#footnote-ref-18)
19. Alan Ohnsman, “Tesla to Get Fewer Eco Credits as California Tweaks Rules,” Bloomberg, 2014, accessed November 9, 2015, www.bloomberg.com/news/articles/2014-04-04/tesla-to-get-fewer-eco-credits-as-california-tweaks-rules. [↑](#footnote-ref-19)
20. Christopher Knittel, “California's Auto-Emissions Policy Hits a Tesla Pothole,” *Wall Street Journal*, 2014, accessed November 9, 2015, www.wsj.com/articles/SB10001424052702303650204579376801103200852. [↑](#footnote-ref-20)
21. Stock-based compensation also helped preserve cash because no cash was used when a stock option was issued or exercised. An exception to this rule occurred when employees exercised stock options in a company that was holding no treasury shares, forcing the company to purchase its own shares from the open market. [↑](#footnote-ref-21)
22. See the Note to Exhibit 1 for details about an additional add-back, which explains the discrepancy in interest figures on the GAAP and non-GAAP statements. [↑](#footnote-ref-22)