

■ **Key Facts**

Business address: **Palo Alto, California, United States**  
 Industry: **Automobile Manufacturing** (NAICS 336111)  
 SEC filer status: **Large Accelerated Filer** as of Jun 2019  
 Index member: **Russell 1000**  
 Market Cap: **\$42.2b** as of Jul 29, 2019  
 Annual revenue: **\$21.5b** as of Dec 31, 2018

■ **Corporate Governance**

CEO: **Elon Musk** since 2008  
 CFO: **Zachary Kirkhorn** since 2019 1st level

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Board Chairman: **Robyn M. Denholm** since 2018  
 Audit Committee Chair: **Robyn M. Denholm** 2nd level

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Auditor: **PricewaterhouseCoopers LLP** since 2004  
 Outside Counsel (most recent): **Paul Weiss Rifkind Wharton & Garrison LLP**  
**Fenwick & West LLP** 3rd level

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SEC Reviewer: **(unknown)** 4th level

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How to analyze this company's Watchdog Report? [Skip to the last page](#)

Information in this report is effective Oct 4, 2019 and is taken from the company's public financial and regulatory filings. Latest filing 10-Q filed 07/29/2019. Over 75 accounting and data analysts scrutinize and review crucial information, footnotes, disclosures, etc., from these filings. Material facts are captured and processed using our proprietary methods which identify key risk factors our readers need to know. Each Watchdog Report represents 30 or more hours of analysis and processing.

Accounting and financial disclosure data from [Audit Analytics](#).  
 Executive compensation data from [Shore Group and Intrinio](#).  
 Data from [Sharadar](#).  
[Data from Barchart via Quandl](#).  
[Data from Exchange Data International via Quandl](#).

Oct 4, 2019 Jan 1, 2018 Jan 1, 2014

RECENT PERIOD HISTORICAL PERIOD

10-Q filed on Jul 29, 2019 for period ending Jun 2019

**Reporting Irregularities**

RECENT		HISTORICAL
✓	Financial Restatements	✓
✓	Revisions	✓
✓	Out of Period Adjustments	✓
✓	Late Filings	✓
!	Impairments	✓
✓	Changes in Accounting Estimates	✓
✓	Disclosure Controls	!
✓	Internal Controls	✓
—	Critical / Key Audit Matters	—

**Anomalies in the Numbers**

RECENT		HISTORICAL
✓	Benford's Law	✓
—	Beneish M-Score	—
!	Accounting Disclosure Complexity	!

**Securities & Exchange Commission Concerns**

RECENT		HISTORICAL
!	SEC Letters to Management	!
✓	Revenue Recognition	!
✓	Non-GAAP Measures	✓

**Lawsuits**

RECENT		HISTORICAL
!	Significant Litigation	!
!	Class Actions	!
!	Securities Law	!

**External Pressures**

RECENT		HISTORICAL
✓	Shareholder Activism	✓
✓	Cybersecurity	!

**Management Review**

RECENT		HISTORICAL
✓	CEO Changes	✓
!	CFO Changes	!
✓	Insider Sales	!

**Auditor Assessment**

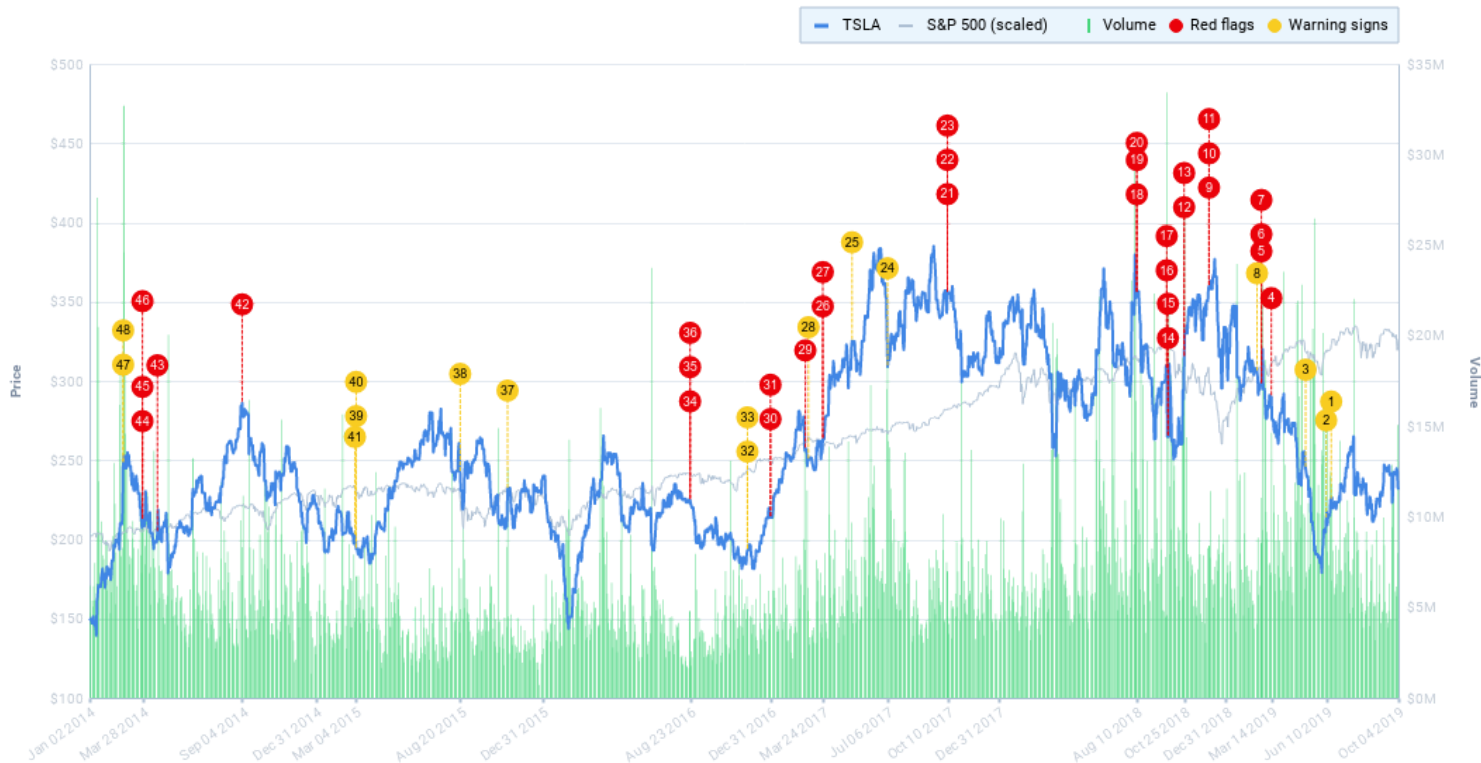
RECENT		HISTORICAL
✓	Auditor Experience	✓
✓	Auditor Tenure	✓
✓	Audit Fees	!
✓	Non-Audit Fees	✓



## Overview

### Price and Volume History

This graph shows the price and trading history for Tesla. Warning signs and red flags are marked on the graph according to their disclosure dates.



- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>1 Jun 18, 2019 - SEC letters to management</li> <li>2 Jun 10, 2019 - SEC letters to management</li> <li>3 May 8, 2019 - SEC letters to management</li> <li>4 Mar 14, 2019 - Change in CFO</li> <li>5 Feb 26, 2019 - Lawsuit: Leggett v. Maxwell Technologies Inc et al</li> <li>6 Feb 26, 2019 - Class Actions Lawsuit: Leggett v. Maxwell Technologies Inc et al</li> <li>7 Feb 26, 2019 - Securities Law Lawsuit: Leggett v. Maxwell Technologies Inc et al</li> <li>8 Feb 19, 2019 - Impairment</li> <li>9 Dec 4, 2018 - Lawsuit: Inter-Local Pension Fund GCC/IBT v. Tesla Inc et al</li> <li>10 Dec 4, 2018 - Class Actions Lawsuit: Inter-Local Pension Fund GCC/IBT v. Tesla Inc et al</li> <li>11 Dec 4, 2018 - Securities Law Lawsuit: Inter-Local Pension Fund GCC/IBT v. Tesla Inc et al</li> <li>12 Oct 25, 2018 - Lawsuit: In re Tesla Inc Shareholder Derivative Litigation</li> <li>13 Oct 25, 2018 - Securities Law Lawsuit: In re Tesla Inc Shareholder Derivative Litigation</li> <li>14 Sep 29, 2018 - Lawsuit: United States Securities and Exchange Commission v. Tesla Inc</li> <li>15 Sep 29, 2018 - Securities Law Lawsuit: United States Securities and Exchange Commis...</li> <li>16 Sep 27, 2018 - Lawsuit: United States Securities and Exchange Commission v. Musk</li> <li>17 Sep 27, 2018 - Securities Law Lawsuit: United States Securities and Exchange Commis...</li> <li>18 Aug 10, 2018 - Lawsuit: In re Tesla Inc Securities Litigation</li> <li>19 Aug 10, 2018 - Class Actions Lawsuit: In re Tesla Inc Securities Litigation</li> </ul> | <ul style="list-style-type: none"> <li>20 Aug 10, 2018 - Securities Law Lawsuit: In re Tesla Inc Securities Litigation</li> <li>21 Oct 10, 2017 - Lawsuit: Wochos v. Tesla Inc et al</li> <li>22 Oct 10, 2017 - Class Actions Lawsuit: Wochos v. Tesla Inc et al</li> <li>23 Oct 10, 2017 - Securities Law Lawsuit: Wochos v. Tesla Inc et al</li> <li>24 Jul 6, 2017 - SEC letters to management</li> <li>25 May 10, 2017 - Disclosure Controls</li> <li>26 Mar 24, 2017 - Lawsuit: In re Tesla Inc Stockholder Litigation</li> <li>27 Mar 24, 2017 - Securities Law Lawsuit: In re Tesla Inc Stockholder Litigation</li> <li>28 Mar 1, 2017 - Disclosure Controls</li> <li>29 Feb 24, 2017 - Change in CFO</li> <li>30 Dec 30, 2016 - Lawsuit: Ji Chang Son et al v. Tesla Motors Inc</li> <li>31 Dec 30, 2016 - Class Actions Lawsuit: Ji Chang Son et al v. Tesla Motors Inc</li> <li>32 Nov 23, 2016 - SEC letters to management</li> <li>33 Nov 23, 2016 - Revenue Recognition</li> <li>34 Aug 23, 2016 - Lawsuit: In re Solar City Corporation Securities Litigation</li> <li>35 Aug 23, 2016 - Class Actions Lawsuit: In re Solar City Corporation Securities Litigation</li> <li>36 Aug 23, 2016 - Securities Law Lawsuit: In re Solar City Corporation Securities Litigation</li> <li>37 Nov 4, 2015 - Change in CFO</li> <li>38 Aug 20, 2015 - Insider Sale</li> </ul> |
|---|---|



- 39 Mar 6, 2015 - SEC letters to management
- 40 Mar 6, 2015 - Revenue Recognition
- 41 Mar 4, 2015 - Insider Sale
- 42 Sep 4, 2014 - Insider Sale
- 43 Apr 21, 2014 - Insider Sale

- 44 Mar 28, 2014 - Lawsuit: Bao v. SolarCity Corporation et al
- 45 Mar 28, 2014 - Class Actions Lawsuit: Bao v. SolarCity Corporation et al
- 46 Mar 28, 2014 - Securities Law Lawsuit: Bao v. SolarCity Corporation et al
- 47 Feb 25, 2014 - SEC letters to management
- 48 Feb 25, 2014 - Revenue Recognition

## Peer Group

Peer groups are used by companies to benchmark executive compensation and performance. Each company identifies its own peer group. Peer groups vary from company to company.

### Peer Group

Company	Ticker	Market Cap
Tesla, Inc.	TSLA	\$42.2b
Fiat Chrysler Automobiles N.V. *	FCAU	\$29b
Ferrari N.V. *	RACE	\$24.3b
Paccar Inc. *	PCAR	\$23.3b
CNH Industrial N.V. *	CNHI	\$14.7b
NIO Inc. *	NIO	\$5.66b
Tata Motors Ltd. *	TTM	\$5.6b
Oshkosh Corp. *	OSK	\$5.2b
Rev Group, Inc. *	REVG	\$754m
Electrameccanica Vehicles Corp. *	ECCTF	\$118m

### Companies Who Named Tesla as a Peer

Company	Ticker	Market Cap
Nvidia Corp.	NVDA	\$90.6b
Intuit Inc.	INTU	\$75b
General Motors Co.	GM	\$57.6b
Tesla, Inc.	TSLA	\$42.2b
Ford Motor Co.	F	\$41.2b
Roku, Inc.	ROKU	\$14.6b
Harley Davidson Inc.	HOG	\$5.23b

\* Suggested by Watchdog.



## Peer Flag Comparison

The return to a company's stock is not the only measure of executive performance. Ethics matter, and growth can quickly reverse and gains evaporate if a company's accounting and financial reporting processes are not fundamentally sound and trustworthy. How does Tesla's accounting quality compare to its peer group?

	TSLA	PEER GROUP FLAGS		
<b>Reporting Irregularities</b>				
Financial Restatements	✓	9		
Revisions	✓	9		
Out of Period Adjustments	✓	9		
Impairments	!	6	3	
Changes in Accounting Estimates	✓	5	4	
Disclosure Controls	!	5	1	3
Internal Controls	✓	7		2
Critical / Key Audit Matters	⊖		1	1
<b>Anomalies in the Numbers</b>				
Benford's Law	✓	2		1
Beneish M-Score	⊖	5		
Accounting Disclosure Complexity	!	1	4	4
<b>Securities &amp; Exchange Commission Concerns</b>				
SEC Letters to Management	!		9	
Revenue Recognition	!	7	2	
Non-GAAP Measures	✓	9		

	TSLA	PEER GROUP FLAGS		
<b>Lawsuits</b>				
Significant Litigation	!	6		3
Class Actions	!	6		3
Securities Law	!	6		3
<b>External Pressures</b>				
Shareholder Activism	✓	9		
Cybersecurity	!	9		
<b>Management Review</b>				
CEO Changes	✓	1	1	1
CFO Changes	!	2	1	
Insider Sales	!	7	1	1
<b>Auditor Assessment</b>				
Auditor Experience	✓	9		
Auditor Tenure	✓	8	1	
Audit Fees	!	3	6	
Non-Audit Fees	✓	8	1	



## Reporting Irregularities

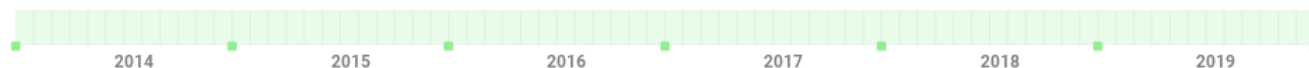
### ✓ Financial Restatements & Revisions

A financial restatement or revision is a serious event in the financial life of a company. When previous estimates of revenue, earnings, or equity are significantly lowered, financial restatements can have a dramatic impact on the valuation and projected growth of a company.

Financial restatements are always accompanied by a disclosure that their previous financial reports can no longer be relied upon. A revision is a change to a company's financials that is not accompanied by such a disclosure.

✓ No Restatements

✓ No Revisions

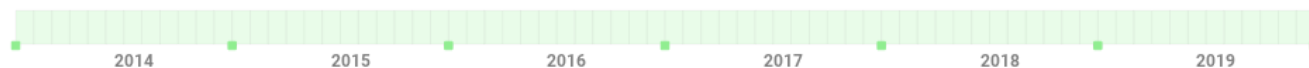


**Tesla has not restated their financials at least since 2014.**

**Tesla has not revised their financials at least since 2014.**

### ✓ Out of Period Adjustments

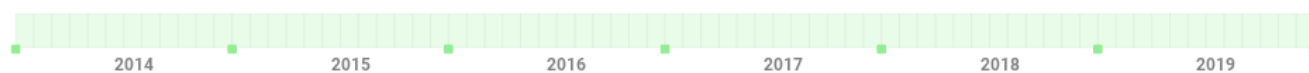
An adjustment or "out-of-period adjustment" is a one-time accounting entry that is intended to correct immaterial errors from previous reporting periods. Adjustments have a one-time impact on earnings when they are reported and indicate the existence accounting errors in previous financial reports. Analysts should pay close attention to the nature and magnitude of adjustments. The frequent use of adjustments may signal deeper issues with a company's accounting and financial reporting.



**Tesla has not made any adjustments to their financials at least since 2014.**

### ✓ Late Filings

Late filings can be significant warning signs. Why didn't the company file its financial report on time? Late filings may signal an impending financial restatement or deeper problems with a company's accounting processes.

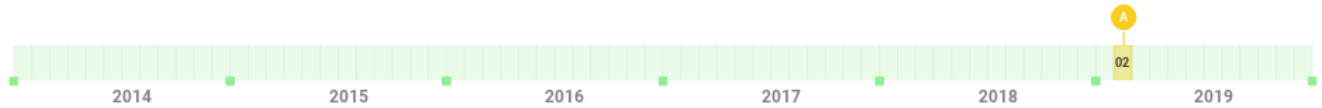


**Tesla has not filed any late financial statements at least since 2014. All financial statements have been filed on or before the appropriate deadline.**



## ! Impairments

An impairment is a permanent reduction in the value of an asset.



Tesla has reported 1 impairment on 1 annual report since 2014.

### DISCLOSURE A

02/19/2019 on SEC Form [10-K](#)

### IMPACT ON PRETAX INCOME

\$13.3m

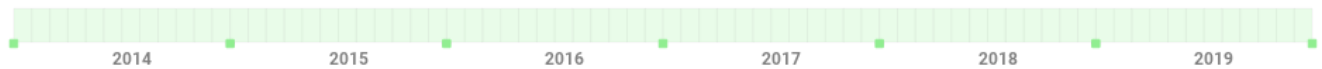
### IMPAIRMENT

1. Intangible Assets - In-process research and development

## ✓ Changes in Accounting Estimates

Some assets and liabilities require accountants to make assumptions about future performance in order to estimate their value. Occasionally, economic conditions cause these assumptions to be revised, resulting in a change in accounting estimates. A change in accounting estimates can have a significant impact on the bottom line and may be used strategically by management to disguise otherwise weak financial results.

The impact of changes in accounting estimates on pretax income are provided when available. If the impact of changes is measured in terms of net income, it is denoted with an asterisk (\*).



Tesla has not reported any changes in accounting estimates at least since 2014.

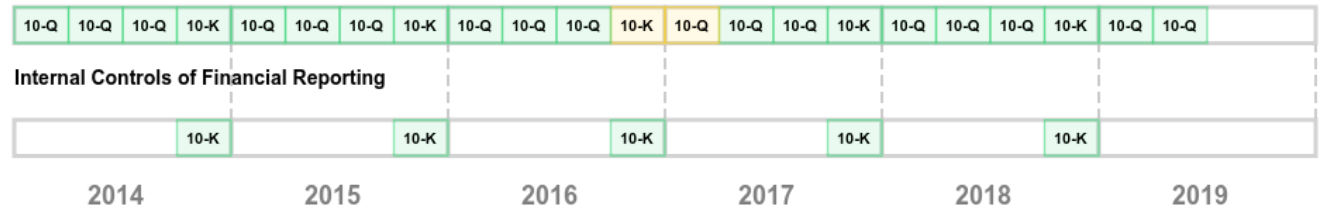




## Internal and Disclosure Controls

Internal controls are put in place in order to prevent fraud and financial misstatements. A company with ineffective internal controls is said to have a "material weakness." A material weakness is a serious warning sign about a company's accounting quality.

### Disclosure Controls



No material weakness. Tesla reported issues in 2016 and 2017.

Management attests that the disclosure controls are effective as of 06/30/2019.

The auditor and management attest that internal controls of financial reporting are effective as of 12/31/2018.

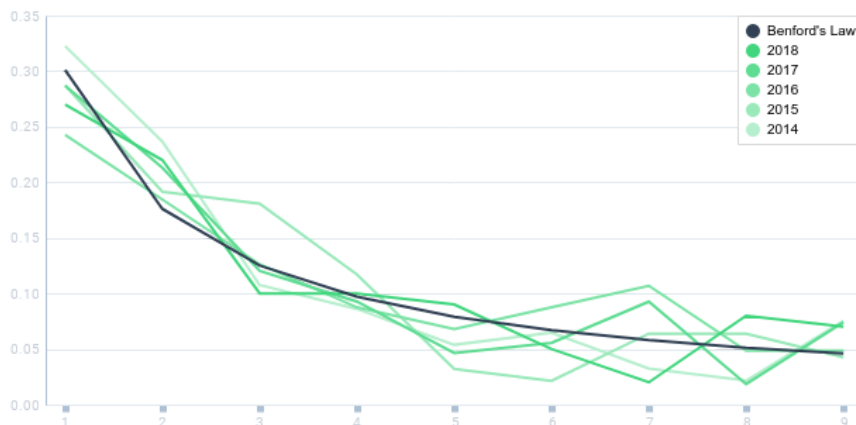
<p><b>DISCLOSURE DATE</b></p> <p>05/10/2017 on SEC Form <a href="#">10-Q</a></p> <p><b>PERIOD END DATE</b></p> <p>03/31/2017</p> <p><b>MANAGEMENT ASSESSMENT</b></p> <p>Effective disclosure controls</p> <p><b>ISSUES CITED</b></p> <p>Acquisition/integration exclusion or challenges noted</p>	<p><b>DISCLOSURE DATE</b></p> <p>03/01/2017 on SEC Form <a href="#">10-K</a></p> <p><b>PERIOD END DATE</b></p> <p>12/31/2016</p> <p><b>AUDITOR ASSESSMENT</b></p> <p>Effective internal controls</p> <p><b>MANAGEMENT ASSESSMENT</b></p> <p>Effective disclosure controls</p> <p>Effective internal controls</p> <p><b>ISSUES CITED</b></p> <p>Acquisition/integration exclusion or challenges noted</p>
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## Anomalies in the Numbers

### ✓ Benford's Law

Benford's Law is used to detect financial manipulation and fraud. When financial statements do not follow Benford's Law, there is reason to suspect problems with the accounting or financial reporting process.



Numbers generated by natural processes conform to Benford's Law.

All of Tesla's financial statements conform to Benford's Law. Tesla is at low risk for financial manipulation or fraud.

### ! Accounting Disclosure Complexity

Companies committed to transparency make their reports easier for investors to understand and compare. By contrast, a high degree of Accounting Disclosure Complexity makes it difficult to measure executive performance and the company's financial health. Accounting Disclosure Complexity may also be used to obfuscate serious accounting problems and other issues.



Tesla's highest level of accounting disclosure complexity was in the 10th decile in 2014. Tesla's most recent accounting disclosure complexity was in the 9th decile in 2018.



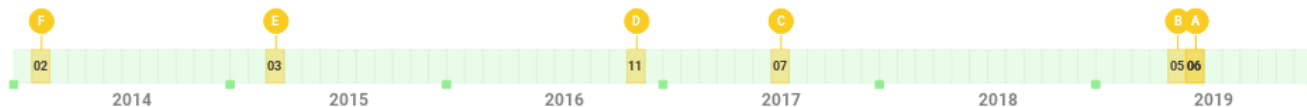


## Securities & Exchange Commission Concerns

### SEC Letters to Management

Regulators at the Securities and Exchange Commission (SEC) review each company's financial reporting. When the SEC has questions about a company's filing, they will write letters to the company asking for clarification about different accounting issues.

- ! Revenue Recognition
- ✓ Non-GAAP Measures



Tesla has had 7 conversations with the SEC since 2014.

**FROM** A  
Mark B. Baudler (Wilson Sonsini Goodrich & Rosati)

**TO**  
Nicholas P Panos

**DISSEMINATION DATE** 06/18/2019

**LETTERS** 2

**FIRST LETTER** [03/15/2019](#)

**LAST LETTER** 05/08/2019

**ISSUES CITED**

Safe harbor invoked but does not apply

Request for additional financial statements of offerors, bidders, target, or subsidiary

**FROM** A  
(unknown) (SEC)

**TO**  
Elon Musk

**DISSEMINATION DATE** 06/10/2019

**LETTERS** 5

**FIRST LETTER** [03/04/2019](#)

**LAST LETTER** 05/08/2019

**ISSUES CITED**

8-K Disclosure issues

Executive compensation plan disclosure issues

Questions about company bylaws or articles of incorporation

Request to accelerate or expedite registration



**FROM****B**

(unknown) (SEC)

**TO**

Deepak Ahuja

**DISSEMINATION DATE** 05/08/2019**LETTERS** 5**FIRST LETTER** [07/19/2018](#) ↗**LAST LETTER** 02/22/2019**ISSUES CITED**

Liabilities, payables, and accrual estimate issues

Questions about contractual obligations

Liquidity issues discussion (MD&amp;A)

Results of operations discussion (MD&amp;A)

Financial reporting issues related to a lack of comprehensive and clear disclosure

**FROM****C**

(Lyn) Lynwood F Shenk (SEC)

**TO**

Deepak Ahuja

**DISSEMINATION DATE** 07/06/2017**LETTERS** 3**FIRST LETTER** [05/02/2017](#) ↗**LAST LETTER** 06/07/2017**ISSUES CITED**

Liabilities, payables, and accrual estimate issues

Questions about contractual obligations

Liquidity issues discussion (MD&amp;A)

**FROM****D**

J Nolan McWilliams (SEC)

**TO**

Jason Wheeler

**DISSEMINATION DATE** 11/23/2016**LETTERS** 9**FIRST LETTER** [09/16/2016](#) ↗**LAST LETTER** 10/12/2016**ISSUES CITED**

Revenue recognition issues

8-K Disclosure issues

Cash flow statement classification errors

Debt, quasi-debt, warrants &amp; equity security issues

Liabilities, payables, and accrual estimate issues

**FROM****E**

(Lyn) Lynwood F Shenk (SEC)

**TO**

Deepak Ahuja

**DISSEMINATION DATE** 03/06/2015**LETTERS** 3**FIRST LETTER** [12/18/2014](#) ↗**LAST LETTER** 01/30/2015**ISSUES CITED**

Revenue recognition issues

Payroll, SGA, or other expense recording issues

Inventory, vendor, or cost of sales issues

Questions about contractual obligations

Liquidity issues discussion (MD&amp;A)



**FROM**

F

(Lyn) Lynwood F Shenk (SEC)

**TO**

Elon Musk

**DISSEMINATION DATE** 02/25/2014**LETTERS** 3**FIRST LETTER** [12/05/2013](#) **LAST LETTER** 01/27/2014**ISSUES CITED**

Revenue recognition issues

8-K Disclosure issues

Changes in accounting estimates issues

Lease and leasehold obligations and receipts reporting issues

Property, plant, and equipment (PPE) value or diminution issues



## Lawsuits

### Significant Litigation

Is the company involved in any lawsuits? This part of the Report summarizes recent and ongoing litigation that may have a significant impact on your investment.

 **8 Class Actions**

 **11 Securities Lawsuits**

**Tesla was named in 12 significant lawsuits. The most recent lawsuit is "Leggett v. Maxwell Technologies Inc et al" that began on 02/26/2019 and ended on 06/25/2019.**

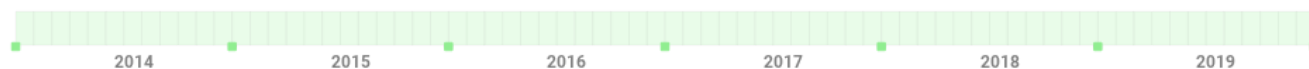
Name	Type	Start Date	End Date	Claim
Leggett v. Maxwell Technologies Inc et al	Class Action, Securities Law, Mergers & Acquisitions, Non-GAAP	02/26/2019	06/25/2019	undisclosed
Inter-Local Pension Fund GCC/IBT v. Tesla Inc et al	Class Action, Securities Law	12/04/2018	pending	undisclosed
In re Tesla Inc Shareholder Derivative Litigation	Director & Officer Liability, Securities Law, Derivative	10/25/2018	pending	undisclosed
United States Securities and Exchange Commission v. Tesla Inc	Securities Law	09/29/2018	settled	\$20m
United States Securities and Exchange Commission v. Musk	Securities Law, Director & Officer Liability	09/27/2018	settled	\$20m
In re Tesla Inc Securities Litigation	Class Action, Securities Law, Director & Officer Liability	08/10/2018	pending	undisclosed
Wochos v. Tesla Inc et al	Class Action, Securities Law	10/10/2017	03/25/2019	undisclosed
In re Tesla Inc Stockholder Litigation	Securities Law, Derivative, Mergers & Acquisitions, Director & Officer Liability	03/24/2017	pending	undisclosed
Ji Chang Son et al v. Tesla Motors Inc	Product Liability Law, Class Action, Product Liability - Motor Vehicle	12/30/2016	06/17/2019	undisclosed
In re Solar City Corporation Securities Litigation	Securities Law, Class Action	08/23/2016	09/11/2017	undisclosed
Bao v. SolarCity Corporation et al	Securities Law, Class Action, Financial Reporting	03/28/2014	08/09/2016	undisclosed
In Re Tesla Motors Inc Securities Litigation	Class Action, Securities Law	11/08/2013	12/05/2014	undisclosed



## External Pressures

### ✔ Shareholder Activism

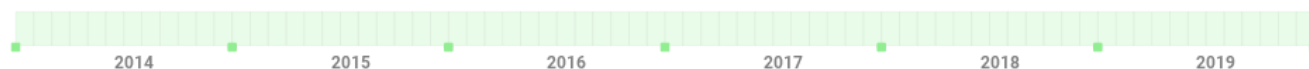
An activist shareholder uses his ownership stake to influence management and affect the strategy and direction of the company. While these shareholders contribute to oversight and may push for better financial performance or even a change in leadership, they may also pursue social, political, or environmental goals that can adversely affect a company's operations and profitability. Note that activist shareholders identified here may no longer be current shareholders.



**There are no activist shareholder reported for Tesla.**

### ✔ Cybersecurity

Cybersecurity is an area of increasing concern for many companies. A breach of confidential personal or financial data brings bad press, customer backlash and loss of goodwill, and substantial exposure to class actions. The SEC issued guidance in 2018 indicating cybersecurity risks should be treated like all other economic and business risks in regard to internal controls, financial reporting, and public disclosures.



**Tesla made a disclosure related to cybersecurity and data breaches on 02/20/0018.**

Disclosure Date	Date of breach	Description	Source
02/20/0018	-	Data breach	<a href="#">redlock</a>



## Management Review

### Management Turnover

Investors should always pay attention to CEO and CFO changes. These two officers are responsible for a company's performance and financial reporting. Why did they depart? There are many possible answers to this question, not all of them good.

#### Reported CEO Changes

Tesla has not reported a CEO change at least since 2014.

#### Reported CFO Changes

<p>↑ <b>Zachary Kirkhorn</b> CFO Appointed effective: 03/13/2019 (<a href="#">8-K</a> on 03/14/2019) Position Change within Company</p>
<p>↓ <b>Deepak Ahuja</b> CFO Resigned effective: 03/13/2019 (<a href="#">8-K</a> on 03/14/2019)</p>
<p>↑ <b>Deepak Ahuja</b> CFO Returned to Position effective: 04/2017 (<a href="#">8-K</a> on 02/24/2017)</p>
<p>↓ <b>Jason Wheeler</b> CFO Resigned effective: 04/2017 (<a href="#">8-K</a> on 02/24/2017)</p>
<p>↑ <b>Jason Wheeler</b> CFO / Principal Accounting Officer / Principal Financial Officer Appointed effective: 11/30/2015 (<a href="#">8-K</a> on 11/04/2015)</p>
<p>↓ <b>Deepak Ahuja</b> CFO / Principal Accounting Officer / Principal Financial Officer Retired effective: 11/30/2015 (<a href="#">8-K</a> on 11/04/2015)</p>

### Insider Sales

What are the CEO and CFO doing? Do they have confidence in the company, or are they unloading their shares? A large sale of stock is a big warning sign and may indicate a lack of confidence in the future prospects of the company. These two officers know more about the company than you do, and if they think it is a good time to sell, maybe you should too.

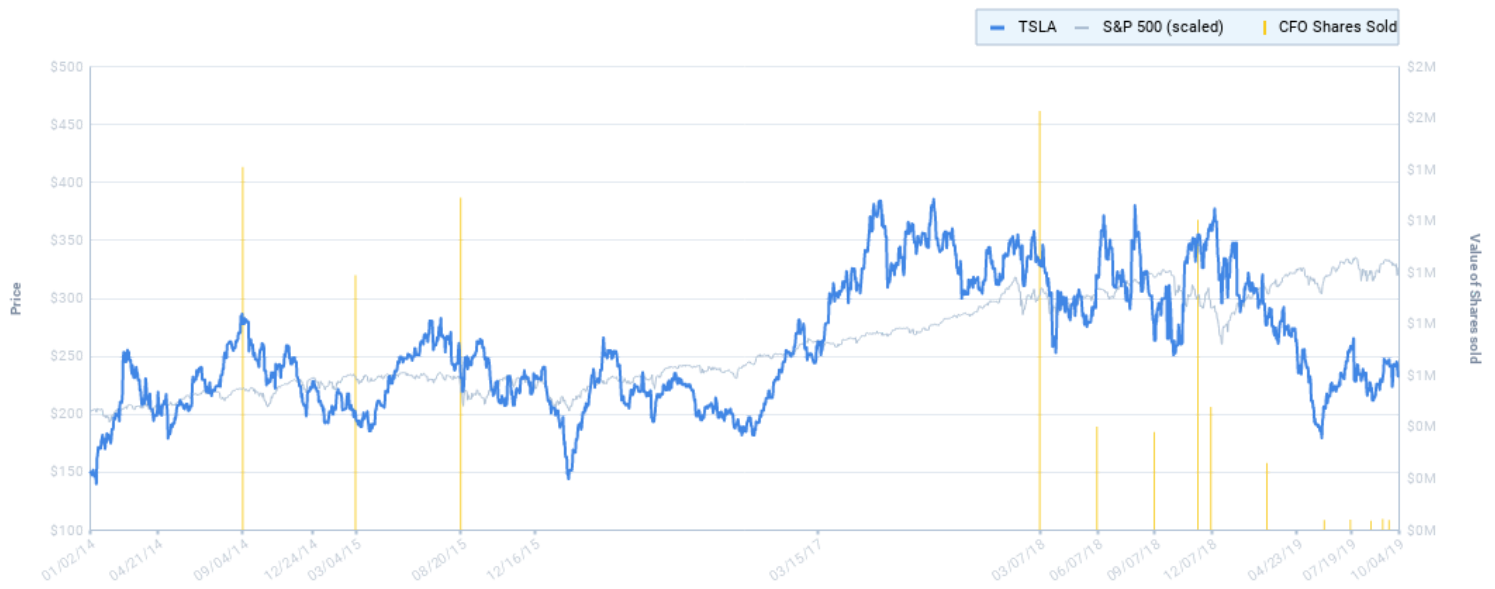
**There are significant insider sales from the company's officers.**

**Here are the significant insider sales for the CEO:**





Here are the significant insider sales for the CFO:



Here are the significant insider sales for Tesla:

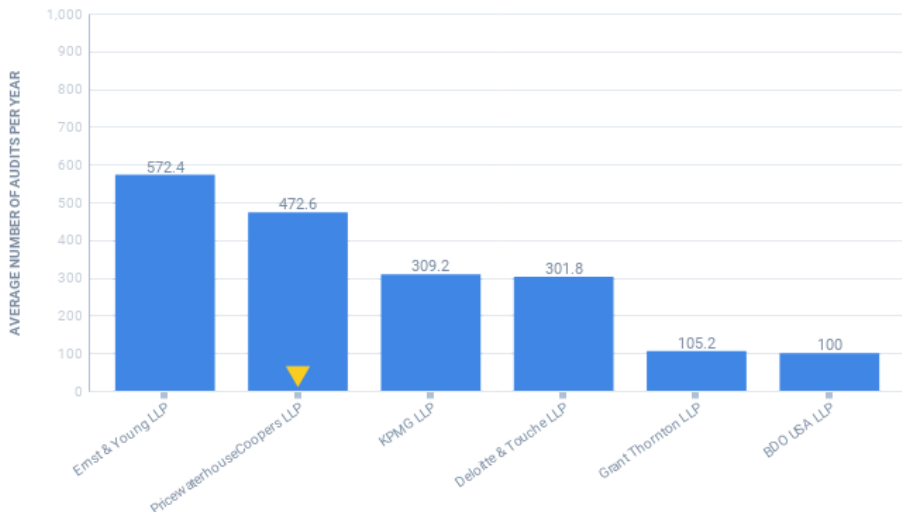
Date	Owner	Title	Shares sold	Value	Holdings	% Sold	
08/20/2015	AHUJA DEEPAK	CFO	5,000.0	\$1.29m	7,270.0	40.7%	!
03/04/2015	AHUJA DEEPAK	CFO	5,000.0	\$988k	7,270.0	40.7%	!
09/04/2014	AHUJA DEEPAK	CFO	5,000.0	\$1.41m	3,152.0	61.3%	!
04/21/2014	AHUJA DEEPAK	CFO	10,000.0	\$1.97m	3,151.0	76.0%	!



## Auditor Assessment

### ✓ Auditor Experience

How much experience does the auditor have in this industry? This graph shows the average number of audits of the largest auditors in this industry in the last five years (based on our population). The current auditor is marked with an arrow.

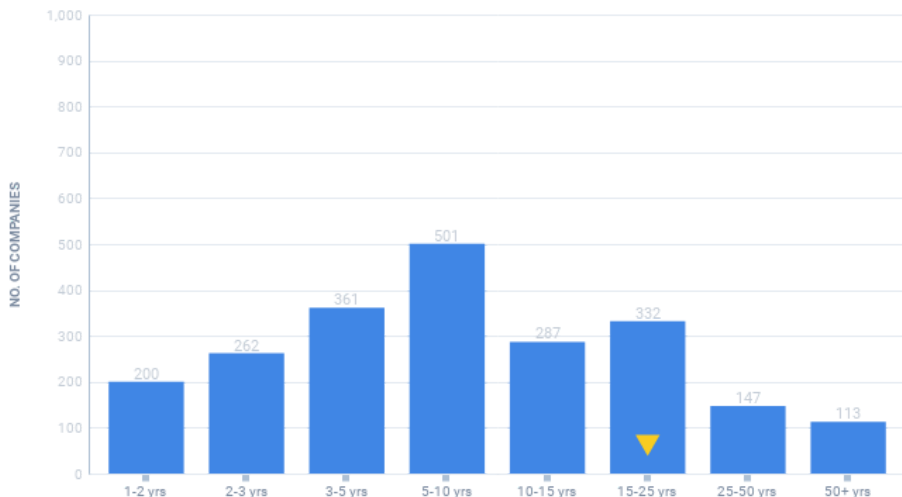


Current auditor is PricewaterhouseCoopers LLP.

Auditors with relatively little industry experience may be more likely to make mistakes. Auditors that do more audits tend to have greater industry expertise.

### ✓ Auditor Tenure

How long have they had the same auditor? This graph shows a histogram of the number of companies in the industry (from our population) and the corresponding auditor tenure. Current auditor tenure for Tesla is marked with an arrow.



PricewaterhouseCoopers LLP has been Tesla's auditor for the last 15 years.

Mistakes may be more common in the early years of an auditor's tenure as they gain knowledge of a company's accounting policies and processes. On the other hand, there is some concern that a lengthy tenure may make auditors too "cozy" with the company and reluctant to report on issues or problems.

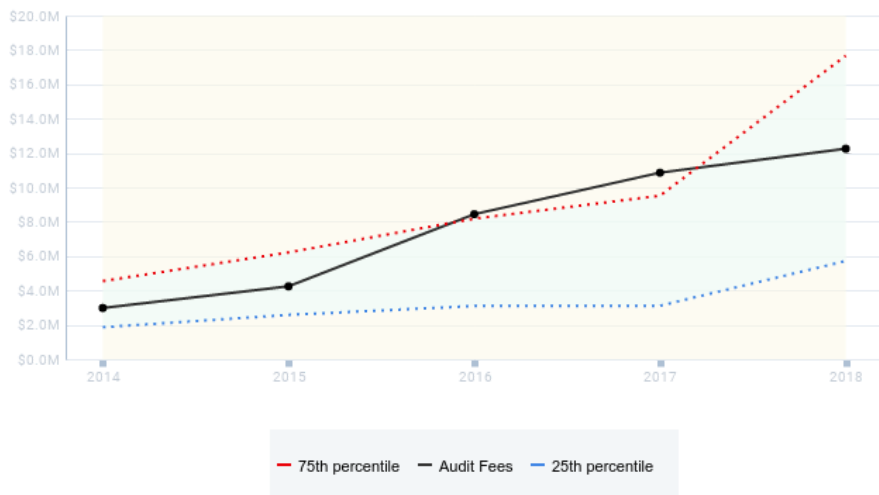




## Auditor Assessment

### ✓ Audit Fees

Audit fees are fees paid to the auditor for the audit and services related to the audit. This graph compares recent audit fees to the rest of the industry based on audit fee to revenue ratios (or audit fees to asset ratios for financial companies).



#### MOST RECENT AUDIT FEES

\$12.2m ▲12.85%

#### AUDIT FEES TO REVENUE RATIO

0.06%

Tesla's audit fees increased by 12.85% from last year. Tesla's most recent audit fees are in the normal range.

High audit fees create incentives that undermine auditor independence. On the other hand, low audit fees may result in a lower quality audit.

### ✓ Non-Audit Fees

Non-audit fees are fees paid to the auditor for the services unrelated to the audit.



#### MOST RECENT NON-AUDIT FEES

\$517k ▲683.33%

#### NON-AUDIT FEES TO AUDIT FEES RATIO

4.22%

Tesla's most recent non-audit fees are in the normal range.

Relatively high non-audit fees create incentives that undermine the auditor's objectivity and are often used as a proxy measure of auditor independence.



## Appendix

### Appendix A. SEC Letters to Management

**A** Conversation disseminated on 06/18/2019

2 

**FROM:** Mark B. Baudler (Wilson Sonsini Goodrich & Rosati)

**TO:** Nicholas P Panos

**LETTERS**

**ISSUES CITED**

- Safe harbor invoked but does not apply
- Request for additional financial statements of offerors, bidders, target, or subsidiary

**LETTERS**

- dated 03/15/2019
- dated 05/08/2019

**RELATED FILINGS**

- SC TO-T/A 05/08/2019
- SC TO-T/A 04/30/2019
- SC TO-T/A 03/15/2019
- SC TO-T 02/20/2019

**B** Conversation disseminated on 06/10/2019

5 

**FROM:** (unknown) (SEC)

**TO:** Elon Musk

**LETTERS**

**ISSUES CITED**

- 8-K Disclosure issues
- Executive compensation plan disclosure issues
- Questions about company bylaws or articles of incorporation
- Request to accelerate or expedite registration

**LETTERS**

- dated 03/04/2019
- dated 03/15/2019
- dated 03/26/2019
- dated 04/02/2019
- dated 05/08/2019

**RELATED FILINGS**

- S-4/A 04/30/2019
- S-4/A 04/03/2019
- S-4/A 03/15/2019
- S-4 02/20/2019

**C** Conversation disseminated on 05/08/2019

5 

**FROM:** (unknown) (SEC)

**TO:** Deepak Ahuja

**LETTERS**

**ISSUES CITED**

- Liabilities, payables, and accrual estimate issues
- Questions about contractual obligations
- Liquidity issues discussion (MD&A)
- Results of operations discussion (MD&A)
- Financial reporting issues related to a lack of comprehensive and clear disclosure

**LETTERS**

- dated 07/19/2018
- dated 08/16/2018
- dated 10/17/2018
- dated 11/14/2018
- dated 02/22/2019

**RELATED FILINGS**

- 10-Q 08/06/2018
- 10-K 02/23/2018



**D Conversation disseminated on 07/06/2017****FROM:** (Lyn) Lynwood F Shenk (SEC) **TO:** Deepak Ahuja**3**   
**LETTERS****ISSUES CITED**

- Liabilities, payables, and accrual estimate issues
- Questions about contractual obligations
- Liquidity issues discussion (MD&A)

**LETTERS**

dated [05/02/2017](#)  
dated [05/24/2017](#)  
dated [06/07/2017](#)

**RELATED FILINGS**

[10-K 03/01/2017](#)

**E Conversation disseminated on 11/23/2016****FROM:** J Nolan McWilliams (SEC) **TO:** Jason Wheeler**9**   
**LETTERS****ISSUES CITED**

- Revenue recognition issues
- 8-K Disclosure issues
- Cash flow statement classification errors
- Debt, quasi-debt, warrants & equity security issues
- Liabilities, payables, and accrual estimate issues
- Liquidity issues discussion (MD&A)
- Results of operations discussion (MD&A)
- Board of Directors oversight and fiduciary duty issues
- Questions about company bylaws or articles of incorporation
- Compensation or benefits of executives from offering disclosure issues
- Conflict of interest disclosure
- Offering-related expense disclosure issues
- Questions about the proper identification of all owners required for registration
- Questions about disclosures of tax consequences of the offering
- Voting agreements disclosure issues
- Financial reporting issues related to a lack of comprehensive and clear disclosure
- Substantial debt risk factors
- Questions about the origin of funds in a material transaction
- Request to identify, disclose, or explain legal matters or issues
- Questions about going private plan and related issues
- Questions about contractual obligations
- SEC-requested tax opinion about a statement made in financial reporting
- Request to accelerate or expedite registration

**LETTERS**

dated [09/16/2016](#)  
dated [09/19/2016](#)  
dated [09/23/2016](#)  
dated [09/29/2016](#)  
dated [10/06/2016](#)  
dated [10/07/2016](#)  
dated [10/11/2016](#)  
dated [10/12/2016](#)  
dated [10/12/2016](#)

**RELATED FILINGS**

[S-4/A 10/11/2016](#)  
[S-4/A 10/07/2016](#)  
[S-4/A 09/29/2016](#)  
[S-4/A 09/20/2016](#)  
[S-4/A 09/19/2016](#)  
[S-4 08/31/2016](#)  
[8-K 08/03/2016](#)  
[10-K 02/24/2016](#)

**F Conversation disseminated on 03/06/2015****FROM:** (Lyn) Lynwood F Shenk (SEC) **TO:** Deepak Ahuja**3**   
**LETTERS****ISSUES CITED**

- Revenue recognition issues
- Payroll, SGA, or other expense recording issues
- Inventory, vendor, or cost of sales issues
- Questions about contractual obligations
- Liquidity issues discussion (MD&A)

**LETTERS**

dated [12/18/2014](#)  
dated [01/22/2015](#)  
dated [01/30/2015](#)



**FROM:** (Lyn) Lynwood F Shenk (SEC)      **TO:** Elon Musk

**ISSUES CITED**

- Revenue recognition issues
- 8-K Disclosure issues
- Changes in accounting estimates issues
- Lease and leasehold obligations and receipts reporting issues
- Property, plant, and equipment (PPE) value or diminution issues
- Discussion of critical accounting policies and estimates (MD&A)
- Liquidity issues discussion (MD&A)
- Results of operations discussion (MD&A)
- Depreciation, depletion, or amortization reporting issues
- Inventory, vendor, or cost of sales issues

**LETTERS**

- dated 12/05/2013
- dated 12/30/2013
- dated 01/27/2014



## Appendix B. Significant Litigation

### Leggett v. Maxwell Technologies Inc et al

Case began on 02/26/2019

Plaintiffs allege that Defendants violated Sections 14(a) and 20(a) of the Securities and Exchange Act of 1934 and breached their fiduciary duties as a result of Defendants' efforts to sell the Company to Tesla, Inc. (Parent), and Cambria Acquisition Corp. According to the complaint, Maxwell filed a materially incomplete and misleading Solicitation/Recommendation Statement on Schedule 14D-9 with the SEC in support of the transaction on February 20, 2019. Additionally, Tesla filed a materially incomplete and misleading Registration Statement on Schedule 14D-9 with the SEC on February 20, 2019. The Proxy Materials are allegedly materially deficient, depriving Maxwell stockholders of the information they need to make an intelligent, informed and rational decision of whether to tender their shares in favor of the Proposed Transaction, and are thus in breach of the Defendants' fiduciary duties. As detailed below, the Proxy Materials allegedly omitted and/or misrepresented material information concerning, among other things: (a) the sales process and in particular certain conflicts of interest for management; (b) the financial projections for Maxwell and Tesla, provided by Maxwell and Tesla to the Company's financial advisor Barclays Capital, Inc. (Barclays) for use in its financial analyses; and (c) the data and inputs underlying the financial valuation analyses that purport to support the fairness opinions provided by the Company's financial advisors, Barclays. Similar complaints were filed: Shiva Stein v. Maxwell Technologies, Inc., et al., Case No. 3:19-cv-00395 (filed February 26, 2019), Joel Rosenfeld IRA v. Maxwell Technologies, Inc., et al., Case No. 3:19-cv-00413 (filed March 1, 2019), Franck Prissert v. Maxwell Technologies, Inc., et al., Case No. 3:19-cv-00429 (filed March 4, 2019) and Jonathan Mantak v. Maxwell Technologies, Inc., et al., Case No. 3:19-cv-00451 (filed March 7, 2019); all filed in the United States District Court for the Southern District of California. Other federal court cases include John Solak v. Maxwell Technologies, Inc., et al., Case No. 1:19-cv-00448 (filed March 4, 2019) and Sabatini v. Maxwell Technologies, Inc., et al., Case No. 1:19-cv-00443 (filed March 1, 2019), both filed in the United States District Court District of Delaware. Another complaint, captioned Jack Phillipps v. Maxwell Technologies, Inc., et al., Case No. 1:19-cv-01927 (filed February 28, 2019), was filed in the United States District Court for the Southern District of New York. The complaints seek, among other things, to enjoin the proposed transaction, rescission of the proposed transaction should it be completed, and other equitable relief.

### Inter-Local Pension Fund GCC/IBT v. Tesla Inc et al

Case began on 12/04/2018

Plaintiffs bring strict liability claims under Sections 12(a)(2) and 15 of the 1933 Act, 15 U.S.C. §§77k, 771 (a)(2) and 77o, and negligent violations of California Corporations Code § 25401 against Tesla, its Chief Executive Officer, Elon Musk, Goldman Sachs Co. LLC, Morgan Stanley & Co. LLC, Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Deutsche Bank Securities Inc., and RBC Capital Markets, LLC. According to the complaint, defendants disseminated a materially misleading offering circular ("the Offering Circular") on August 11, 2017. The Offering Circular allegedly contained misleading statements regarding the production of Tesla's Model 3 line of vehicles. In particular, the Offering Circular claimed that Tesla would be able to quickly scale its production of the Model 3 to 5,000 vehicles per week by the end of 2017 and 10,000 vehicles per week by the end of 2018 with the help of its Gigafactory 1. Just two months after the issuance of the Notes, Tesla admitted that it would be unable to make 5,000 vehicles per week by 2017. Further, as first reported by The Wall Street Journal, rather than using the high tech assembly line described in the Offering Circular, Tesla was still making a significant portion of the Model 3s by hand. Since that time, Tesla has continually moved back when it will be able to consistently produce 5,000 Model 3s per week. In addition, Tesla has since admitted that its battery factory, the "Gigafactory 1," did not have the ability to make the batteries in the needed amounts for the Model 3 throughout 2017, and still did not as of February 2018.

### In re Tesla Inc Shareholder Derivative Litigation

Case began on 10/25/2018

Between October 17, 2018 and November 9, 2018, five derivative lawsuits were filed in the Delaware Court of Chancery against Elon Musk and the members of Tesla's board of directors as then constituted in relation to statements made and actions connected to a potential going private transaction. These cases have been stayed pending resolution of the stockholder class action. In addition to these cases, on October 25, 2018, another derivative lawsuit was filed in federal court in Delaware against Mr. Musk and the members of the Tesla board of directors as then constituted, and the parties have agreed to also stay this case pending resolution of the stockholder class action. On February 25, 2019, case 1:19-cv-00298-CFC was consolidated into this case and the case was stayed. All documents or pleadings filed in the Consolidated Derivative Action shall include the caption of the consolidated case, be served on all parties within such cases, and be filed only in the lead case, 18-cv-1669-CFC.



## United States Securities and Exchange Commission v. Tesla Inc

Case began on 09/29/2018

This case involves the failure of Tesla, Inc. ("Tesla") to implement disclosure controls or procedures to assess whether information disseminated by its Chief Executive Officer, Elon Musk, via his Twitter account was required to be disclosed in reports Tesla files pursuant to the Securities Exchange Act of 1934 ("Exchange Act") within the time periods specified in the Commission's rules and forms. On November 5, 2013, Tesla publicly filed a Form 8-K with the Commission stating that it intended to use Musk's Twitter account as a means of announcing material information to the public about Tesla and its products and services and has encouraged investors to review the information about Tesla published by Musk via his Twitter account. Since that time, Musk has used his Twitter account to distribute material information about Tesla, including company financial projections and key non-financial metrics. Tesla, however, did not have disclosure controls or procedures in place to assess whether the information Musk disseminated via his Twitter account was required to be disclosed in reports Tesla files pursuant to the Exchange Act within the time periods specified in the Commission's rules and forms. Nor did it have sufficient processes in place to ensure the information Musk published via his Twitter account was accurate or complete. By engaging in the conduct, Tesla violated, and unless restrained and enjoined will violate again, Rule 13a-15 [17 C.F.R. § 240.13a-15] of the Exchange Act [15 U.S.C. § 78a, et seq.].

## United States Securities and Exchange Commission v. Musk

Case began on 09/27/2018

This case involves a series of false and misleading statements made by Elon Musk, the Chief Executive Officer of Tesla, Inc., on August 7, 2018, regarding taking Tesla, a publicly traded company, private. Musk's statements, disseminated via Twitter, falsely indicated that, should he so choose, it was virtually certain that he could take Tesla private at a purchase price that reflected a substantial premium over Tesla stock's then-current share price, that funding for this multi-billion dollar transaction had been secured, and that the only contingency was a shareholder vote. In truth and in fact, Musk had not even discussed, much less confirmed, key deal terms, including price, with any potential funding source. At approximately 12:48 p.m. EDT on August 7, 2018, during trading hours, Musk tweeted to his over 22 million Twitter followers, "Am considering taking Tesla private at \$420. Funding secured. #". This statement was false and misleading. Over the next three hours, Musk made a series of additional materially false and misleading statements via Twitter. On October 16, 2018, the Court entered Final Judgment against Musk permanently enjoining him from violating Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, ordering him to pay a penalty of \$20,000,000, and ordering him to comply with the undertakings detailed in the Final Judgment. The SEC announced that on February 25, 2019, it filed a motion for an order to show cause why Elon Musk, CEO of Silicon Valley-based Tesla, Inc., should not be held in contempt for violating the terms of the Court's October 16, 2018 Final Judgment which required, among other things, Musk to obtain pre-approval of any written communications that contain, or reasonably could contain, information material to Tesla or its shareholders. On February 19, 2019, Musk tweeted, "Tesla made 0 cars in 2011, but will make around 500k in 2019. #". Musk did not seek or receive pre-approval prior to publishing this tweet, which was inaccurate and disseminated to over 24 million people. Musk has thus violated the Court's Final Judgment by engaging in the very conduct that the preapproval provision of the Final Judgment was designed to prevent. On February 26, 2019, the Court entered an Order requiring Musk to show cause why he should not be held in contempt for violating the Court's Final Judgment. Without admitting or denying any of the SEC's allegations, and with no restriction on Mr. Musk's ability to serve as an officer or director on the Board (other than as its Chair), among other things, Tesla and Mr. Musk paid civil penalties of \$20 million each and agreed that an independent director will serve as Chair of the Board for at least three years, and the Company appointed such an independent Chair of the Board and two additional independent directors to the Board, and further enhanced its disclosure controls and other corporate governance-related matters. On April 26, 2019, the settlement was amended to modify certain of the previously-agreed disclosure procedures to clarify the application of such procedures, which was subsequently approved by the Court. All other terms of the prior settlement were reaffirmed without modification.

## In re Tesla Inc Securities Litigation

Case began on 08/10/2018

Between August 10, 2018 and September 6, 2018, nine purported stockholder class actions were filed against Tesla and Elon Musk. All of the suits are now pending in the U.S. District Court for the Northern District of California. Plaintiffs allege that defendants violated Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5. According to the complaint, defendants made materially false and misleading statements in an attempt to artificially manipulate the price of Tesla stock to completely decimate the Company's short-sellers. The charges stem from a number of "tweets" made by Tesla CEO, Elon Musk, and other Tesla executives, indicating that Tesla was going to go private. These series of tweets sparked a trading frenzy that drove Tesla shares to an intraday high of \$387.46 ▲ \$45.47 above the previous day's closing price. Trading volume spiked to 30 million shares (compared to an average of 8 million), representing over \$11 billion of purchases in the open market. Plaintiffs allege that the "going private" series of tweets was merely a tactic to damage Tesla stock short-sellers. Plaintiffs seek damages, costs, pre and post judgment interest, and any other relief deemed appropriate by the Court. Plaintiffs filed their consolidated complaint on January 16, 2019 and added as defendants the members of Tesla's board of directors. Defendants plan to file a motion to dismiss the complaint on or before March 7, 2019. The hearing on the motion to dismiss is tentatively set for June 20, 2019. The now-consolidated purported stockholder class action is stayed while the issue of selection of lead counsel is briefed and argued before the U.S. Court of Appeals for the Ninth Circuit.



### **Wochos v. Tesla Inc et al**

Case began on 10/10/2017

On October 10, 2017, a purported stockholder class action was filed in the U.S. District Court for the Northern District of California against Tesla, Inc., two of its current officers, and a former officer. The complaint alleges violations of federal securities laws, and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of Tesla securities from May 4, 2016 to October 6, 2017. The lawsuit claims that Tesla supposedly made materially false and misleading statements regarding the Company's preparedness to produce Model 3 vehicles. Plaintiffs assert violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. According to the complaint, throughout the Class Period, Defendants made materially false and misleading statements regarding Tesla's business, operational and compliance policies. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) contrary to Defendants' representations that Tesla was prepared for the launch of its Model 3 sedan, in reality, the Company had severely inadequate inventory and was woefully unprepared to launch Model 3 sedan as anticipated; and (ii) as a result, Tesla's public statements were materially false and misleading at all relevant times. Plaintiffs filed an amended complaint on March 23, 2018, and defendants filed a motion to dismiss on May 25, 2018. The court granted defendant's motion to dismiss with leave to amend. Plaintiffs filed their amended complaint on September 28, 2018. On November 20, 2018, Defendants filed a Motion to Dismiss the second amended complaint. On March 25, 2019, the Court entered an Order granting Defendants' Motion to Dismiss and dismissed the case with prejudice. On April 8, 2019, plaintiffs filed a notice of appeal and on July 17, 2019 filed their opening brief.

### **In re Tesla Inc Stockholder Litigation**

Case began on 03/24/2017

On March 24, 2017, a lawsuit was filed in the United States District Court for the District of Delaware by a purported Tesla stockholder challenging the SolarCity acquisition. The complaint alleges, among other things, that Tesla's board of directors breached their fiduciary duties in connection with the acquisition and alleges violations of the federal securities laws.

### **Ji Chang Son et al v. Tesla Motors Inc**

Case began on 12/30/2016

Tesla Motors is facing a potential defective automotive class action lawsuit alleging Model X has a serious sudden unintended acceleration (SUA) defect. According to complaint, the ratio of the sudden unintended acceleration events for Tesla Motors versus the rate found in the literature on other vehicles is far higher. Specifically, the suit alleges that Tesla Motors designed the vehicle to accept an instruction to accelerate full speed into a wall in a vehicle owner's home, as was recorded by the plaintiff on the built in camera in his Tesla. The plaintiff, Mr. Son alleges he was pulling his Tesla Model X into his garage, when it suddenly accelerated, causing the vehicle to crash through his garage wall and into his living room, injuring Son and his passenger. According to the plaintiff's attorneys, Tesla Motors has marketed and sold these very expensive vehicles to consumers claiming that they are far and away the smartest and safest vehicles on the road. A vehicle that has been engineered to know it is at home, open the garage door, and even pull in or out of the garage without a driver, but then blindly accepts an instruction (whether the result of driver error or electronic malfunction) to go full speed into the garage wall is neither smart nor safe and is defective. On June 17, 2019, Plaintiffs filed a Stipulation of Dismissal.

### **In re Solar City Corporation Securities Litigation**

Case began on 08/23/2016

On August 15, 2016, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against SolarCity, two of its officers and a former officer. According to the complaint, throughout the Class Period, defendants made materially false and/or misleading statements, as well as failed to disclose material adverse facts about SolarCity Corporation's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose: that demand for SolarCity's products was weakening; that SolarCity was concealing the weakening demand from investors; and that, as a result of the foregoing, Defendants' statements about SolarCity's business, operations, and prospects, were false and misleading and/or lacked a reasonable basis. The plaintiffs claim violations of federal securities laws and seek unspecified compensatory damages and other relief on behalf of a purported class of purchasers of SolarCity's securities from May 5, 2015 to February 16, 2016. On March 20, 2017, the purported stockholder class filed a consolidated complaint that includes the original matter in the same court against SolarCity, one of its officers and three former officers. As consolidated, the complaint alleges that SolarCity made projections of future sales and installations that it failed to achieve and that these projections were fraudulent when made. The suit claimed violations of federal securities laws and sought unspecified compensatory damages and other relief on behalf of a purported class of purchasers of SolarCity's securities from May 6, 2015 to May 9, 2016. On July 25, 2017, the court took SolarCity's fully-briefed motion to dismiss under submission. On August 11, 2017 the Court GRANTS Defendants' Motion to Dismiss with leave to amend. On September 11, 2017, the action was dismissed with prejudice, with parties each bearing their own attorney's fees, expenses, and costs and a final judgment of dismissal was entered.



### **Bao v. SolarCity Corporation et al**

Case began on 03/28/2014

On March 28, 2014, a purported stockholder class action lawsuit was filed in the United States District Court for the Northern District of California against the Company and two of its officers. The complaint alleges claims for violations of the federal securities laws, and seeks unspecified compensatory damages and other relief on behalf of a purported class of purchasers of SolarCity securities from March 6, 2013 to March 18, 2014. On January 5, 2016, the District Court dismissed the amended complaint and allowed the plaintiffs until February 15, 2016 to file a further amended complaint in an attempt to remedy the defects in the amended complaint. After a series of amendments to the original complaint, the District Court dismissed the amended complaint and entered a judgment in SolarCity's favor on August 9, 2016. The plaintiffs have filed a notice of appeal, and on December 4, 2017, the Court heard oral argument on the appeal. On March 8, 2018, the Court upheld the District Court ruling of dismissal and judgment in our favor.

### **In Re Tesla Motors Inc Securities Litigation**

Case began on 11/08/2013

In November 2013, a putative securities class action lawsuit was filed against Tesla in U.S. District Court, Northern District of California, alleging violations of, and seeking remedies pursuant to, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5. The claims were originally asserted by plaintiff Robert Rahimi, against Tesla and two of its executive officers, Elon Musk and Deepak Ahuja. On February 14, 2014, the Court granted the motion of Kazim Acar to serve as lead plaintiff, and gave him leave to file an amended complaint within 60 days. The current complaint seeks damages, attorney fees and other relief, and alleges, among other things, that Tesla made false and/or misleading representations and omissions including with respect to the safety of the Model S vehicle and Tesla's ability to meet public expectations with respect to its financial performance. The current complaint is brought on behalf of a putative class consisting of all persons other than Defendants who purchased Tesla's securities between May 10, 2013 and November 6, 2013, inclusive. It is possible the amended complaint will modify the class or the class period. On September 26, 2014, the trial court, upon the motion of Tesla and Mr. Musk, dismissed the complaint with prejudice, and thereafter issued a formal written order to that effect. The plaintiffs appealed from the trial court's order, and on December 21, 2016, the Court of Appeals affirmed the trial court's decision dismissing the complaint with prejudice.





## About Watchdog Research, Inc.

Watchdog Research, Inc. is an independent research provider and publisher of Watchdog Reports. Watchdog Reports identify red flags, issues, and other anomalies in financial reporting. Our reports contain warning signs, red flags, material disclosures, and peer analysis for use in valuation, risk analysis, due diligence research, and idea generation.

Watchdog Reports are designed to assist investment professionals fulfill their fiduciary or suitability obligations and to help investors, executives, board members, regulators and educators learn what they need to know about publicly traded companies.

The company is headquartered in Naples, FL. Watchdog Research, Inc. utilizes over 75 specialists and analysts to provide accurate and timely information to our readers.

### Our management team is:

**CEO: Brian Lawe.** Brian has been part of the corporate staff at The New York Times Company and IBM. He has created and operated several technology companies including MyStoreCredit, OnPage Ideas and HelloCampus. He holds an MBA from Harvard Business School and a BBA from Texas Christian University. He and his wife have four children and live in the Naples, FL area. One son is deployed with the US Marine Corps in Afghanistan.

**CTO: Radu Cugut.** Radu has led the award-winning technology team that developed the Watchdog Report and services. He, his wife and son split their time between his home in Naples, FL and his home in Timisoara, Romania where he oversees five talented development professionals. Radu has a bachelors in Computer Science and a masters in Banking and Financial Information Systems, both from the West University of Timisoara.

**Chief Content Officer: Joseph Burke, Ph.D.** is responsible for the content development, analysis, and quality control for the Watchdog Report. He also edits the blog and directs our custom research. Joseph worked previously as a professor of economics at Ave Maria University. He received his Ph.D. from the University of Wisconsin-Madison and resides with his family in the Naples area.



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# How to analyze a company's Watchdog Report

If you walk into a doctor's office complaining about a pain in your left shoulder, your doctor's training kicks-in and he will immediately begin assessing your age and physical appearance, checking your vital signs and asking you a very specific series of questions about your symptoms. After just a few brief moments of assessing you, the doctor will either begin life-saving intervention or simply hand you an ice pack for your sore arm after a workout.

**Like that doctor, we assume you are reading our Watchdog Report because you want to quickly assess the health of the company you are analyzing. You want to know if the company is undergoing any major problems or is simply displaying minor issues. Here is how to get your answer:**

## BEFORE YOU START

Make sure you have a basic understanding of the company. Know its market cap, the size of its revenues, profits and assets and liabilities. Review any major news related to the financials of the company and its management team.

### STEP 1

10 SEC

Scan down the right side of the first page of the company's report, paying attention to the 'RECENT' column to find the latest yellow and red flags.

### STEP 2

2 SEC

When you see a red or yellow flag, click the title next to the flag and you will instantly jump to that section of the company's report.

### STEP 3

60 SEC

Read that section's headline, the timeline and review the specific issue highlighted for the company's red or yellow flag.

### STEP 4

3 MIN

Each section will usually have a link to the original filing or legal summary for the issue. Click that link. If it takes you to a SEC Edgar page, review the original filing. **HINT:** Use your browser's "find" button to search for a key word or number related to the issue as shown on the Watchdog Report.

### STEP 5

15 SEC

Review the stock price movement chart on page two of the report. If you check the report online, you can adjust the timeline to a narrow time. The stock movement chart will overlay each of the red and yellow flags to stock price changes. Make note of those red and yellow flags around major stock price declines. These issues are worth reviewing in detail.

### STEP 6

1 MIN

Before continuing, it is worth comparing the company to its peers. Go to the third page of the report and compare the red and yellow flags for the company (first column) to the number of companies with red and yellow flags from your company's peer group. Is the company an outlier with a red or yellow flag in an area that other peers have only green? If so, the outlying issues are also worth reviewing in detail.

### STEP 7

5 MIN

Repeat steps 2-4 for each red or yellow flag. At the end of this process, you'll have a good idea of the core issues the company has reported.

### STEP 8

5 MIN

Now comes the creative, but hard part. Like a doctor trying to understand what might be wrong with a patient, you must now use your judgment, past knowledge and the insights you gathered in the prior steps to develop your own view of how serious the issues are facing the company.

If you see a consistent pattern of delays, accounting irregularities, management turnover, legal troubles, the company is clearly in trouble. Use the peer group analysis step above to see why your company may be different than its peers. Think of the various issues as connected. It seems passé but a bad management team is going to be bad in multiple ways. The challenge is to find the thread that runs through all the issues to understand any management failures.

When you find a pattern of unusual accounting moves, it is almost always tied to management protecting their own interests over investors. You should also consider what particular forces in the industry are affecting the company more than its peers. If you can assess that, try to think about how a company's management might "adjust" the financial disclosures to mask the weakness. It helps to think like a detective here. Everyone is entitled to a presumption of innocence, but if management was trying to hide something, how might they go about doing so?

This step is where we leave you with our 6,000+ Watchdog Reports. Good luck with your analysis!

