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## In a Plus for Electrics, Tesla Repays a Big Federal Loan Early

By: Peter Eavis – May 23, 2013

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The taxpayer no longer has to worry about Tesla Motors.

Tesla, the maker of electric cars, paid off a \$465 million loan on Wednesday that the Energy Department made in 2010. The repayment is a lift to the Obama administration, whose clean-energy loan programs faced criticism after the collapse of Solyndra, the solar panel maker. The company, using money it raised last week in the markets, is repaying the government nine years before its loan was due.

“Today’s repayment is the latest indication that the Energy Department’s portfolio of more than 30 loans is delivering big results for the American economy while costing far less than anticipated,” Ernest Moniz, the energy secretary, said in a statement.

Tesla’s payment will be the latest source of excitement to its supporters. But whether Tesla remains a good advertisement for government aid partly depends on how the company now performs. Should Tesla falter badly, it will only highlight the risks of lending to experimental companies.

Electric car enthusiasts have rushed to buy its main product, the Model S, a high-priced luxury sedan. Tesla also has plenty of fans in the markets, where investors who have piled into the company’s shares, in the belief that Tesla will find plenty of buyers for its cars.

Elon Musk, who co-founded and leads Tesla, issued a statement thanking the Energy Department, Congress and taxpayers for the loan. “I hope we did you proud,” he said.

After the demise of Solyndra in 2011, government efforts to subsidize clean-energy companies came in for special scrutiny. Mitt Romney included Tesla in a batch of companies he called “losers” during last year’s presidential contest.

Tesla’s exit from the government loan may now refresh the debate over how much support to give young, clean-energy firms.

“Tesla is repaying early and it’s a great vindication,” said Greg Kats, president of Capital-E, a firm that invests in clean-energy companies. “Tesla has really helped push the Big Three automakers down the energy efficiency track.”

The Energy Department on Wednesday said that losses on its loans were equivalent to 2 percent of its \$34 billion portfolio.

Tesla has not fully weaned itself from government support. Buyers of Tesla cars can get substantial tax credits that reduce the purchase price. After a \$7,500 tax credit, the lowest-cost Model S is \$62,400.

The company is also able to generate large amounts of revenue from selling green energy credits to other automakers. Morgan Stanley estimates that Tesla can cover its capital expenditures this year from selling those credits.

Tesla was able to pay back the loan all at once because it took advantage of a meteoric rise in its stock price. Its soaring share prices helped it raise approximately \$1 billion in the market last week by selling new stock and debtlike securities.

“The reason the loan is being paid off is not because of vehicle sales,” said Patrick J. Michaels, a director at the Cato Institute, a libertarian-leaning research group.

Tesla started delivering the Model S to consumers earlier this year and expects to sell 21,000 cars in all of 2013. But it is not clear whether the initial burst of demand for its sedan was merely the result of enthusiasts rushing to get their cars. Skeptics doubt the market is as big as the company projects, and expect the shares to plunge when that becomes apparent. While Tesla has made ambitious targets for selling cars, its more immediate financial projections seem less impressive. It recently suggested that cash flows from its operations might not be positive in the second quarter and it seemed to forecast a drop in North American sales in the second half of the year.

One perceived weakness in Tesla’s plans is the relative expense of the Model S. The company may face only limited demand until it comes up with a substantially cheaper car.

“They are going to have to have a vehicle that costs much less than \$100,000,” Mr. Michaels said.

Though Tesla is on an upswing now, the Energy Department appeared to have some concerns about the company during the life of the loan. In several instances, the department softened the conditions of the loan. These amendments to important covenants might have allowed Tesla to avoid falling into a default, which could have been embarrassing for the Energy Department after the collapse of Solyndra.

Defenders of the amendments say it is common for investors to change the terms of financing for young companies. Also, the changes show that the Energy Department spotted that Tesla had potential and was wise to make the adjustments.

“Tesla is arguably making the most exciting car in the world today,” said Mr. Kats, who worked in the Energy Department during the Clinton administration. “This loan program has exceeded expectations.”