

Demetri Kofinas: 00:00 Today's episode of Hidden Forces is made possible by listeners like you. For more information about this week's episode, or for easy access to related programming, visit our website at hiddenforces.io and subscribe to our free email list. If you listen to the show on your Apple podcast app, remember, you can give us a review. Each review helps more people find the show and join our amazing community, and with that, please enjoy this week's episode.

Demetri Kofinas: 00:31 What's up everybody? I'm Demetri Kofinas, and you're listening to Hidden Forces, where each week I speak with experts in the fields of technology, science, finance and culture, to help you gain the tools to better navigate an increasingly complex world, so that you're less surprised by tomorrow, and better able to predict what happens next.

Demetri Kofinas: 00:54 In this special time-sensitive episode of Hidden Forces, Lawrence Fossi, known to most of you by the penname Montana Skeptic, breaks his silence for the first time on camera after having been forced to terminate his Twitter handle on account of legal threats made by none other than Tesla's CEO, Elon Musk. The impetus for Elon's threats were Fossi's critical writings about the company going back to November of 2015, as well as Fossi's growing popularity on social media among a community of skeptics and short sellers.

Demetri Kofinas: 01:33 A graduate of Yale Law School, Lawrence has 30 years of experience as a commercial trial attorney, and is currently the portfolio manager for a family office with over \$1 billion under management. This is a conversation unlike any other you will have heard on this podcast. We devoted three prior episodes to understanding the numbers supporting Tesla's evaluation: the logic, the point by its investors, as well as the technology available in its cars, but we have always treated Tesla as a company, when in fact, it may have more in common with religion.

Demetri Kofinas: 02:12 In this episode, we devoted our time to the most critical events consuming the electric car maker, specifically, the recently announced charges of securities fraud levelled against its leader, Elon Musk, that threaten to derail an already fragile company's ability to raise capital in the face of what appears to be a collapse in demand for the Model 3.

Demetri Kofinas: 02:36 Lawrence also shares details of his personal experience, being in the crosshairs of Tesla's embattled CEO, and why he has chosen this moment to make his first on-camera appearance, which we recorded on Friday evening after the SEC's charges of securities

fraud were levelled against Elon Musk, and have made it available on our YouTube channel.

- Demetri Kofinas:** 03:00 In the hour since that recording, Elon Musk has reportedly agreed to a deal with regulators that will require him to step down as chairman, but allow him to remain as CEO of Tesla. What you are about to hear is the audio of that conversation, and it's something that I promise you won't want to miss, and with that, let's get right in to this conversation.
- Demetri Kofinas:** 03:29 Lawrence Fossi, welcome to Hidden Forces.
- Lawrence Fossi:** 03:31 Well, thank you. Happy to be here.
- Demetri Kofinas:** 03:32 Most people don't know, actually, probably hardly anyone knows, you as Lawrence Fossi. Your name is actually Montana Skeptic. That's your penname.
- Lawrence Fossi:** 03:39 That's my penname, exactly. Friends and family know me as Lawrence Fossi.
- Demetri Kofinas:** 03:43 Many people on Twitter know you, and you have many adoring fans, people that have been following your writing for a while, so people are going to be very excited to see you on the program, and as I understand it, this is the first time that you're actually doing video, so thank you for coming on.
- Demetri Kofinas:** 03:58 Let's start with the SEC because this is why you're on the program. This literally broke yesterday, last night. We are recording this on Friday. The SEC has charged Elon Musk with securities fraud. What can you tell us about the charges levied by the SEC?
- Lawrence Fossi:** 04:12 The SEC's complaint is 15, 16 pages long, and I read a news report this morning that after they had failed to settle, they quickly threw it together. It's not quickly thrown together. It was carefully drafted and really, it's evident that the SEC did some interviews, did some research, talked to at least a good number of people before they drafted the complaint and filed it. It's a very good piece of work and lays out the case in great detail.
- Lawrence Fossi:** 04:41 I can tell you that it's serious as a heart attack, if you are the CEO of a company to be sued by the SEC for securities fraud under 10b-5 where the relief that they seek is not only fines against you, but a permanent injunction to bar you from serving further as a director or officer of any publicly traded company.

Demetri Kofinas: 05:00 Let's set the table for this. I also want to mention, we are going to get into your experience with Elon Musk because Elon Musk has actually reached out to your boss, and as I understand it, wanted you fired, and wanted you to stop writing and tweeting about his company, right?

Lawrence Fossi: 05:16 I don't know that he said, "I want you to fire this guy." I think he said, "I want you to shut him up."

Demetri Kofinas: 05:21 Shut him up or something like that, and that was in July, I believe?

Lawrence Fossi: 05:24 Correct.

Demetri Kofinas: 05:25 That's the context of this conversation. That's why many people know you, but the SEC had announced I think a probe, or that they were considering charges. I don't know how they had stated it. That was in August?

Lawrence Fossi: 05:35 That was in August, yes.

Demetri Kofinas: 05:36 The criminal probe by the DOJ was announced just a few days.

Lawrence Fossi: 05:39 It was.

Demetri Kofinas: 05:39 Or like a week ago or something, right?

Lawrence Fossi: 05:41 Yeah.

Demetri Kofinas: 05:41 Last week?

Lawrence Fossi: 05:42 It was leaked, actually.

Demetri Kofinas: 05:43 It was leaked?

Lawrence Fossi: 05:44 Yeah.

Demetri Kofinas: 05:44 Do we know who it was leaked from?

Lawrence Fossi: 05:46 Probably somebody, the DOJ said, "There's enough monkey business going on here. It's time to let investors know we are looking at this." Speculating.

Demetri Kofinas: 05:53 The SEC's complaint alleges that this is quoting now the SEC. "In truth, Musk had not discussed specific deal terms with any potential financing partner," this refers to the 420 taking Tesla private tweet that he put out,

Lawrence Fossi: 06:06 Right.

Demetri Kofinas: 06:07 “with any potential financing partners and he allegedly knew that the potential transaction was uncertain and subject to numerous contingencies. Steven Peikin,” is that how you pronounce his name? “The co-director of the SEC said further, corporate officers hold positions of trust in our markets and have important responsibilities to shareholders. An officer's celebrity status or reputation as a technological innovator does not give license to take those responsibilities lightly.”

Demetri Kofinas: 06:34 In response to that, Elon Musk was quoted by CNBC saying in a statement, "This unjustified action by the SEC leaves me deeply saddened and disappointed. I have always taken action in the best interests of truth, transparency and investors. Integrity is the most important value in my life, and the facts will show I have never compromised this in any way."

Demetri Kofinas: 06:56 What do you think about, given what the SEC has put out, and given Elon's reaction, and the board as well has said that they are behind Elon and behind his integrity and his leadership of the company? What is your take on the reaction at Tesla? Do you think that the board understands the gravity of this situation? Do you think Elon Musk appreciates it, and what do you think is going to be the impact for investors? The stock, I think, is only down like 13% today, right?

Lawrence Fossi: 07:22 Yeah. I think that's right. Closed down about just there. Okay, so a couple of things. One, I'm glad that the SEC officials talked about his *reputation* for a technological innovation and his celebrity status. He certainly has celebrity status, and he certainly has that reputation, but I think it's an unearned reputation.

Lawrence Fossi: 07:43 The SEC acted, I think, with remarkable celerity here, and this lawsuit came just a few months after the event in question, August 7th, and here we are, the end of September. This is lickety-split because I think the SEC thought this was serious.

Demetri Kofinas: 07:59 They did it quickly. You think they moved quickly.

Lawrence Fossi: 08:01 I think they did move quickly.

Demetri Kofinas: 08:02 Because they took it seriously.

Lawrence Fossi: 08:03 Yeah, but this agency is overwhelmed with work. There's plenty of other companies to look at besides Tesla. The Tesla fanatics

on both sides of the trade fail to realize that sometimes, but for this action to be filed this quickly, that's extraordinary, and for all the investigation and time that evidently has been put into it. That statement of Elon Musk was drafted by his lawyers beyond question, and I think it was Williams and Connolly yesterday and it's-

- Demetri Kofinas:** 08:27 He hasn't been tweeting. He hasn't tweeted today, I don't think.
- Lawrence Fossi:** 08:29 It's Latham and Watkins today. No. A staggering thing is how long it has taken somebody to say to him, "No more tweets until we see them first." I assume that's finally happened.
- Demetri Kofinas:** 08:38 Well, you recommended, I think a few years ago in writing, that the board should take away his Twitter account.
- Lawrence Fossi:** 08:43 I did. I said, "If there are any grown-ups left at Tesla, someone should take this guy's Twitter account away." Because it was reckless back then.
- Demetri Kofinas:** 08:50 Well, the board has not proven themselves up to the task of managing this CEO. Not that it's even their job to manage him, but certainly in these situations. The ridiculous scenarios like the pedo guy tweet and all these ridiculous things that surpass any level of morality and also proper business practice. Not only that, but the media has cheered him on, and you have some of these investors and fund managers and analysts that have been cheerleaders for this guy as well during this entire period of time.
- Lawrence Fossi:** 09:18 Let's talk about the board a second, for just - in the pedo guy. First, he says, "Well, his feelings are hurt because Vern Unsworth says, your idea was really stupid. If you'd picked up the phone and called somebody, you would have known that, but you just had to suck up as much as oxygen as you could at every moment during the crisis," so Elon says, "Well, you are pedophile." Apologizes, sort of, if you are not a pedophile and I hurt your feelings, I'm sort of sorry. Then, he does it again later and says, "Well, the guy hasn't sued me," and then, he does it again a third time and says, "Well, he's a child rapist, and he married child-bride, and he did all these terrible things."
- Lawrence Fossi:** 09:50 I mean, where does the board directors finally say ... They had so many opportunities to this stop this craziness, and the result now is a defamation suit, which is a serious suit, by the way, in England, much easier to prove it, and he's been sued in England and in the United States.

Lawrence Fossi: 10:05 I think, what's interesting about the board's reaction here, "Elon, we support Elon. We are still behind Elon." I haven't seen an 8-K filed. There's no official statement at Tesla investor relations. Who drafted that statement, and who approved it? Did the whole board approve it? Is it an official board announcement? I'm-

Demetri Kofinas: 10:23 Well, CNBC apparently said it was drafted by Tesla or released by Tesla and Elon Musk. Something like that.

Lawrence Fossi: 10:28 Yeah.

Demetri Kofinas: 10:29 I think it was joint statement. That was the word they used, a joint statement to CNBC. I don't know. It's an interesting question.

Lawrence Fossi: 10:35 I'd like to know the extent to which the board actually participated in the drafting of that. It's an open question in my mind, but if the board genuinely says that, and they genuinely believe it, this train wreck will continue.

Demetri Kofinas: 10:49 It's the least of the most ridiculous things we've seen.

Lawrence Fossi: 10:51 Yeah.

Demetri Kofinas: 10:51 One of the things that you've compared Tesla to, early on, in a number of your writings and some interviews, has been that it's something more like a religion. We've covered the company so far on three separate episodes. One with Charley Grant, one with Mark Spiegel, we both know and Gordon Johnson as well, recently, as I mentioned.

Demetri Kofinas: 11:11 We have covered it as a company during this time, and I wonder if maybe we should have been covering it more as a religion, and I want to take a quote of yours from our mutual friend Jim Grant's podcast that you were on some months ago. You said, "Tesla cannot be understood as a business enterprise. It must be understood as the new religion of our day. Elon Musk is the minister of this great church, and his congregation is deeply faithful, and unless you acknowledge that there is a religious aspect to this, where we are saving the Earth and we are engaged in a Manichaean struggle with these evil fossil fuel companies, you are going to have a hard time understanding Tesla."

Demetri Kofinas: 11:52 You're bringing up the board, we see that with the investors. What is it that those of us who have been approaching this as a company have missed in our analysis of Tesla?

Lawrence Fossi: 12:05 Well, the stunning weakness of the fundamentals absolutely doesn't matter. The company can fail, can miss deadline after deadline, it can fail to execute, and the share price can rise in the face of all that kind of news. It's impervious to bad news, and when you read, you need to read the forums of the people who are investors or who buy the cars and there's frequently an overlap.

Lawrence Fossi: 12:29 Those who buy the cars will say things like, "Yes, it's been to the service center six times and I had to have this replaced and this, but they were so great about it and wonderful, and I really believe in this company and I'm going to buy another one," and the investors will say ... Galileo Russell today, one of these people who has no business giving advice is-

Demetri Kofinas: 12:47 He's an analyst? What is he, or he's just some random YouTube guy? Because there are all these YouTube analysts, too.

Lawrence Fossi: 12:52 He purports to represent the retail investors, and Elon Musk calls on him now during conference calls and allows him to ask questions.

Demetri Kofinas: 12:58 Is it the guy that was on Fox News? Was he the guy that asked 12 questions on the Q4 call?

Lawrence Fossi: 13:01 Exactly. Was it Q1 or-

Demetri Kofinas: 13:03 Q3. Whichever. It was one them.

Lawrence Fossi: 13:05 In the last two calls he's asked questions -

Demetri Kofinas: 13:06 It was the one where Elon Musk said boring ... boring, you guys, these questions are so dry, I'm going to YouTube?

Lawrence Fossi: 13:10 Exactly. Yeah. That was earlier this year, I believe.

Demetri Kofinas: 13:13 Okay.

Lawrence Fossi: 13:13 Maybe it was Q4. You're right.

Demetri Kofinas: 13:15 Gordon had asked me if I listened to those calls. I don't, but I had heard that because I feel like a lot of people heard that. That had made news, and I went back, and I listened to more of

one of the recent calls ahead of our conversation, and it's bizarre listening to those calls. In that particular one, he became noticeably annoyed when he was asked very normal questions that any CEO would have to answer, any CEO of a public company.

- Lawrence Fossi:** 13:36 Yeah. He cut off people who are asking really excellent questions, actually. Galileo Russell today tweeted out something like, "Sure, I see this fraud lawsuit, but it doesn't matter because we are doing this for the sustainability of the Earth, and we have to do away with fossil fuels and fossil fuel companies, and so I will never stop believing." That's not investing. That's religion, okay.
- Demetri Kofinas:** 13:58 Yeah.
- Lawrence Fossi:** 13:58 Now, do they really believe that Tesla is saving the Earth by adding a third car to your garage and your gated community, your car costing 100,000 plus, hauling around this 1-1/2-ton battery with cobalt mined by underage Africans who are getting sick doing this? Is this saving the Earth? And where does the electricity come from? The whole thing is preposterous.
- Lawrence Fossi:** 14:23 If you'd just taken the subsidies Tesla has received over time and when you add it all up, the federal income tax credits, the ZEV credits which are kind of silent tax on people who don't buy EVs but buy other cars, all the tax abatements, all the money that they got in Nevada, the transferable tax credits, the \$750 million that New York state spent. All of this.
- Lawrence Fossi:** 14:45 You're talking \$6 billion plus, and if you'd taken that money and shut down a few coal-burning plants and substituted them with natural gas, you'd have done much, much more for the environment than having these Tesla cars. It's sort of a new-age religion where they honestly think they are saving the Earth.
- Demetri Kofinas:** 15:02 We'll get into the SEC report, but I want to actually follow up on this thread because, again, you've written so much of this stuff, so much stuff on Tesla, and had been bearish on the company for a while, and you've been short for a while. You didn't ever, I don't think ever encourage openly anyone to short it. You had discouraged people for a while because of the volatility and because of the fact that, pointing at your point, this is a religion. It does not trade like a normal stock.

Lawrence Fossi: 15:25 I don't want to encourage anybody to short -- I do it by way of long-dated options, but I'm not giving any investment advice here and-

Demetri Kofinas: 15:29 We are definitely not doing that here. That's for sure. This is not investment advice. I always say this is not investment advice. Don't sue me, I've actually done that a couple of times, whenever we've covered a subject like this, but you actually had the 24, 25 points that you put out on Seeking Alpha or 22 points. It was 23, 23 points. One of them, at the very top of the list, was Elon Musk.

Demetri Kofinas: 15:47 It's interesting because our mutual acquaintance, Mark Spiegel, said that the people that he meets that are long Tesla, are long, because of Elon Musk, and he said, "The number one reason I'm short is because of Elon Musk." You had that at the top of your list, but you also the valuation. You made the point about the subsidies, the competition. You said long ago that the company is structurally bankrupt, Model 3 shortcuts, logistics infrastructure, the autonomous driving fairy tale.

Demetri Kofinas: 16:13 So many of these things that were just meat and potato facts in terms of what did matchup with reality. Before we even get into this, which looks like this could end up killing the company before anything else because it's going to kill their ability to raise capital, which is what they need, which brings us back to their fundamental problems, right. They wouldn't need to sell these fairy tales to the public if they were actually a profitable company or had any hope of really paying back their debtors and their investors.

Demetri Kofinas: 16:39 Let's start with how did you get to the point of even investigating this company? When did you begin to take a clear look at Tesla, and what was the process like, and give us a timeline for when you started looking at it to when you came to the determination that, "Okay, this stock is overvalued. Okay, this stock is egregiously overvalued. Okay, this company might be engaging in accounting fraud, et cetera."

Lawrence Fossi: 16:56 It's a progress, right. At first, I was neutral about Tesla, but one heard so much about it, say starting in 2013 or 2014, and I started reading about it. Then, I started reading a forum in a site called Yahoo! where people who are very pro or con Tesla put their comments in about what was going on, and then I started reading the 10-Qs and the 10-Ks, and they were fascinating to take a close look at.

Demetri Kofinas: 17:22 What made them fascinating?

Lawrence Fossi: 17:23 What makes them fascinating are the changes that are made from iteration to iteration. The changes aren't announced. They're not highlighted, but things would appear that hadn't appeared before. Things would disappear that had been there, and I thought, "This is interesting. I may start writing about this," and I like to write. I used to be a newspaper reporter way back in my youth.

Demetri Kofinas: 17:43 Before you were a lawyer?

Lawrence Fossi: 17:44 Before I was a lawyer, yeah.

Demetri Kofinas: 17:45 Where did you write?

Lawrence Fossi: 17:46 For some local newspapers in Connecticut, right? I was a sports reporter. I had a sports column in high school called Larry's Locker, and then I would go to the board of education or board of selectmen or planning and zoning or conversation commission or whatever, and you do everything from birth announcements to obits to editorials to features et cetera.

Lawrence Fossi: 18:05 I like writing and it's fun and the law of course, the writing is very constrained. This was a chance to start writing again, and I thought I'll try and write and Seeking Alpha rejected my first few efforts, and finally they accepted one, and once you get going a little bit, it's easier, and I developed a following, a tiny following, right. I think I had 5,000 or so followers at the end compared to Elon Musk's 22 million Twitter followers.

Demetri Kofinas: 18:32 It feels like you have many more followers than that. I was telling you before, the number of people who copied your profile picture after you deleted your Twitter account, have you completely deleted that, or can you restore that account?

Lawrence Fossi: 18:43 I could restore it, right. I imagine I can restore it. I haven't tried.

Demetri Kofinas: 18:46 Bring it back from the dead, and we had interacted a few times on Twitter, if I'm not mistaken, with Spiegel and then Charley's interviews, but then, afterwards after you shut down the account, I kept getting comments from all sorts of people. I thought it was you, and I took a closer look and it was some random Twitter account with your profile picture.

Lawrence Fossi: 19:01 Yeah.

Demetri Kofinas: 19:01 You have a ton of supporters who came to your defense after the incident with Elon.

Lawrence Fossi: 19:04 Ironically, after I shut down Twitter and stopped writing, and then Elon Musk ... The story gets out about, he calls my boss, and then, he has his investor relations people tell media people, "Here's his boss, phone his boss." He gives them the name and phone number of my boss.

Demetri Kofinas: 19:20 Sorry, say that again. What-

Lawrence Fossi: 19:21 Tesla, a few days after I shut it down, they send an email out to all, from investor relations to various reporters saying, "Here's the name and phone number of this guy's boss. Call him."

Demetri Kofinas: 19:33 Why? Wait a minute, you'd already shut down your account.

Lawrence Fossi: 19:36 I'd already shut it all down, right, because Elon was taking heat in the media for this, and he said, "Go ahead, and call this guy. You'll see he likes Tesla." Since my boss gave Tesla no permission to use his name in promoting the company. What business does he have giving out my boss's name or phone number? It was outrageous.

Demetri Kofinas: 19:53 How did he find out who you were?

Lawrence Fossi: 19:54 Well, I was doxed. By whom, who knows? I believe Tesla has companies it engages to do research on people, possibly-

Demetri Kofinas: 20:03 Remarkable, sick, frightening that a CEO would allot his time to this.

Lawrence Fossi: 20:08 Yeah. Yeah.

Demetri Kofinas: 20:09 I think it speaks to a part of the problem.

Lawrence Fossi: 20:11 Right. If you can't even build a car correctly, why are you worried about some guy writing articles about your 10-Q.

Demetri Kofinas: 20:17 That brings us back to the Tesla 420, taking Tesla private. Speculation is that he was certainly obsessed and had been obsessed with the shorts, and there's plenty of reason to assume that that could have played a role in his tweet. Wanting to burn the shorts, wanting to-

Lawrence Fossi: 20:33 Well, he'd announced, yeah, this is going to be the short burn of the century, and here it comes, guys, and all this stuff.

Demetri Kofinas: 20:38 Who would you compare this CEO to, like to other CEOs or to other executives of public-facing organizations?

Lawrence Fossi: 20:46 He's sui generis. Is that how you pronounce it?

Demetri Kofinas: 20:49 Yeah.

Lawrence Fossi: 20:49 Okay. Elmer Gantry. I don't know who you compare this guy to.

Demetri Kofinas: 20:53 We've compared him to P.T. Barnum.

Lawrence Fossi: 20:55 Yeah.

Demetri Kofinas: 20:55 That's his soft side. That the showman quality.

Lawrence Fossi: 20:57 Yeah.

Demetri Kofinas: 20:58 He is a great showman.

Lawrence Fossi: 20:59 He's a tremendous showman.

Demetri Kofinas: 21:00 He's a fantastic showman.

Lawrence Fossi: 21:01 No. Some of the greatest show pieces I've ever seen were the battery swapping demonstration, totally fake, but it got him lots of ZEV credits from California. The reveal of the Model 3.

Demetri Kofinas: 21:14 The semi. The big semi-truck.

Lawrence Fossi: 21:15 That \$35,000 Model 3 that was going to be available this year. Yeah, the semi. Where is the semi, by the way? No. He's very good at shows and for people who like shows, he's their guy.

Demetri Kofinas: 21:27 One of the things that Gordon brought up in our conversation had to do with his theory about what Elon and Tesla would do to try to get the numbers up.

Lawrence Fossi: 21:34 Yeah.

Demetri Kofinas: 21:35 This report implicates the CFO, as I understand it, right?

Lawrence Fossi: 21:37 Yeah. Let's talk about this just a second.

Demetri Kofinas: 21:38 Let's talk about the report. No. Let's spend a lot of time on it. That's the biggest-

Lawrence Fossi: 21:41 On the SEC complaint? Yeah. I think it's, A, it's very detailed. It lays out a chronology and provides information we never had before, okay, about who was talking to whom about what, and what you see here is that, very clearly, Musk has some

conversation with the board of directors a few days in advance of this August 7th tweet, doesn't mention to them any details about who a potential buyer would be, hasn't explored any of this, there's no price talked about. It's clear, there was nothing done.

- Lawrence Fossi:** 22:11 There certainly was no funding secured from anyone, and certainly not at \$420 a share, and he had done nothing to verify - first of all, you would need a special committee appointed. The idea that there were no contingencies except shareholder approval, totally wrong. The idea that you could bring along all your public investors who wanted to come along and put them in some special purpose vehicle, absolutely nuts. He had reason to believe that was wrong.
- Demetri Kofinas:** 22:37 That was his statement that what he wanted to do was take it private, but also not have any of the people that were invested in the company stock to lose out, right?
- Lawrence Fossi:** 22:44 Yeah. Exactly. Some of the stuff he said to these people on the tweets were just incredible.
- Demetri Kofinas:** 22:51 In fact, his relationship to both his investors and to his customers is not a normal relationship that a CEO has with their customers or in their investors. Not necessarily a bad thing, but it could be seen as exploitative, certainly. He even reached out to his customers to ask them to help with educating consumers, educating new car buyers leaving the lot, right?
- Lawrence Fossi:** 23:11 They're helping deliver Model 3s three week, yeah.
- Demetri Kofinas:** 23:14 Yeah.
- Lawrence Fossi:** 23:15 Let's say this, he has built brand loyalty or if you will, religious fervor like no one. I mean, it's extraordinary, and that's a great accomplishment. But on this famous tweet storm on August 7th, somebody said to him, "If you take Tesla private, will the retail guys be able to hang in there? Can we convert to private?" and he said, "Absolutely. I'm super appreciative of Tesla shareholders. Will ensure their prosperity in any scenario."
- Demetri Kofinas:** 23:40 Will ensure their prosperity in any scenario. That's in the SEC report?
- Lawrence Fossi:** 23:43 Yeah.
- Demetri Kofinas:** 23:44 Remarkable.

Lawrence Fossi:	23:44	Yeah.
Demetri Kofinas:	23:45	I didn't know he said that.
Lawrence Fossi:	23:46	Yeah. He wrote it.
Demetri Kofinas:	23:47	That's so stupid. That's so obviously stupid. It's remarkable that someone would think to do that.
Lawrence Fossi:	23:51	Now, he's being sued by people who said, "Wait, you would ensure my prosperity. You promised \$420. I bought the stock thinking it was going to go to 420, and in fact I've now lost money." Among other things this SEC complaint creates a lot of impetus in the private lawsuits that he faces for this. It's a huge problem.
Demetri Kofinas:	24:11	Of which there are many.
Lawrence Fossi:	24:12	There are many.
Demetri Kofinas:	24:12	Who is represented in this lawsuit?
Lawrence Fossi:	24:14	Only Musk is sued in this lawsuit. I think there's a few things to note. One, the CFO is implicated pretty deeply in this, with information we had no idea about. Because it turns out that 35 minutes after Musk sent his initial funding secured tweet, the CFO, Deepak Ahuja, sends a text message to Musk and he says, "Elon, I'm sure you have thought about a broader communication on your rationale and structure to employees and potential investors. Would it help if the head of communications and the general counsel, Todd Maron, and I draft a blog post or employee email for you?"
Lawrence Fossi:	24:50	Okay, so here he is offering to help out with more dissemination of this lie. This is-
Demetri Kofinas:	24:58	The CFO? The chief financial officer of Tesla?
Lawrence Fossi:	25:00	He'd been involved just a few days earlier in a discussion with the board of directors where it was clear there was no price. There was no funding. There was no nothing.
Demetri Kofinas:	25:07	How long has he been with the company?
Lawrence Fossi:	25:09	Ahuja was with the company, left, and then they had a new guy named Wheeler. I'm trying to remember his first name, who came, and then he departed after a year or so, and-

Demetri Kofinas: 25:19 I bet he's feeling very smart right now.

Lawrence Fossi: 25:21 Yeah. Yeah. That was a strange short-lived tenure for a guy who left a lot on the table, and so many have since then. Ahuja is back again, and I'm staggered that he has exposed himself to this kind of liability, but he's complicit in this fraud, in this complaint. And that's a real danger because Tesla now has its top two officers who are under a microscope here.

Demetri Kofinas: 25:44 I have a bunch of questions there. Let's see if we can tackle them all. One is, what does that do to their ability to fund themselves, right? Like that is the most obvious thing. They should have already been concerned about that to begin with. In fact, let's begin with that. Just this report and then the other thing I want to ask you is, reportedly, the SEC was looking to settle with Elon. He turned down the settlement. What does that say to you? Let's take those as you like, either the debt thing first, funding themselves or Elon turning down the settlement.

Lawrence Fossi: 26:08 Well, let's talk about funding. First of all, the investigation continues. There may be many other things the SEC ... We know they're looking more than just-

Demetri Kofinas: 26:16 The DOJ is also still looking at him, right?

Lawrence Fossi: 26:17 The DOJ is still looking. We are not done, okay, and for Musk and Tesla to go kick the hornet's nest is not going to help things.

Demetri Kofinas: 26:25 By kicking the hornet's nest, you mean rejecting an offer, a settlement offer.

Lawrence Fossi: 26:27 Rejecting an offer and putting out these public statements for the board to say, "Not only are ... Well, we are disappointed. We are going to investigate this carefully, but we still have confidence in our CEO." They say, "No. We are totally behind him and everything he did is virtuous." It's crazy. I think you risk ticking off the -- You know, the people who are the SEC, they're human beings.

Demetri Kofinas: 26:47 The SEC. Could it be a negotiation ploy? Could that be his opening salvo and his attempt to negotiate with the SEC to try and get more favorable terms because as I understand it, one of the terms was to bar him for life from being a chairman and possibly even also a CEO of a public company, correct?

Lawrence Fossi: 27:01 Well, they seek to bar him for life in the complaint.

Demetri Kofinas: 27:03 In the complaint?

Lawrence Fossi: 27:04 It is reported and who knows exactly what the truth is because there are several different accounts out there that the SEC and Tesla and Musk have come to some kind of a settlement. Evidently, it would involve both Tesla and Musk, and it would involve Musk and Tesla paying some money by way of fines. On a short, either no bar at all, which is what Andrew Ross Sorkin reported-

Demetri Kofinas: 27:27 Really?

Lawrence Fossi: 27:28 I'm suspicious of his reporting.

Demetri Kofinas: 27:30 Was that come out this morning on CNBC?

Lawrence Fossi: 27:32 On CNCB. Exactly.

Demetri Kofinas: 27:32 He stated that?

Lawrence Fossi: 27:33 Later there were reports that, yes, there was going to be a bar of two years, and they thought they had this deal sewed up and then, Musk rejected it at the last minute, and so the SEC went ahead and filed its lawsuit. What is true, I don't know any more than what I read.

Demetri Kofinas: 27:48 That is what they're pursuing in this report? You said, "Let's first talk about what it does for their ability to raise capital."

Lawrence Fossi: 27:53 Exactly.

Demetri Kofinas: 27:54 The have huge cash problems and they have debts coming due at the end of the year and then again, a total of a billion plus after the beginning of 2019, right?

Lawrence Fossi: 28:02 Yeah. Let's talk about that. They have \$230 million of SolarCity ... Congratulations. SolarCity convertible debt coming from-

Demetri Kofinas: 28:10 From the March 2016 purchase.

Lawrence Fossi: 28:11 Right.

Demetri Kofinas: 28:12 For the roll over.

Lawrence Fossi: 28:12 Well, it closed later that year, right.

Demetri Kofinas: 28:16 Okay.

Lawrence Fossi:	28:16	The acquisition of Solar, the bail out, so \$230 million of debt has to be paid then. We'll put a footnote and come back to that, and then, next year, on March 1st, another \$920 million from a Tesla convertible. Under their asset-based lending agreement, that March 1st date is actually January 1st because by January 1st they are required to post the entire amount of that debt as cash. They are supposed to have it as unrestricted cash plus another \$400 million.
Demetri Kofinas:	28:46	They just show that they have the money by then.
Lawrence Fossi:	28:47	They do. Because think of the secured lenders. They don't want money walking out of the company if the company is about to go under. They want to be first in line. They've got liens on everything.
Lawrence Fossi:	28:56	I think pendency of this complaint and the gravity of the charges here and the detail that has been developed for all the private litigants drives a stake through the heart of Tesla's ability to raise desperately needed cash. Just cash to settle these upcoming debt obligations, never mind capital expenditures. People ignore this capital expenditure issue.
Lawrence Fossi:	29:20	They are not spending enough money right now on maintenance capex, and what happens when you get to the end of this year? The federal income tax credit gets cut in half, you pull forward all your demand, you've skimmed the cream from the Model 3 demand, you've taken all the premium, all-wheel drive cars that you had backorders for and delivered them.
Demetri Kofinas:	29:40	90% of those orders have been filled, right? Something like that.
Lawrence Fossi:	29:42	Probably the rear-wheel drive cars backlog is just about 100% clear, but the all-wheel drive cars-
Demetri Kofinas:	29:48	60%.
Lawrence Fossi:	29:49	Probably around 60%, a little bit more, a little bit less, but rapidly rising, and people who have looked carefully at the numbers say, you know by the end of October they're just about out of backlog here. And so you look at what's the new order volume on these cars. It's tiny. Not nearly enough to support the average sales price they need on this car.
Demetri Kofinas:	30:08	Just to reiterate that point, and then I'll let you continue what you're talking about when you spoke about this with Gordon Johnson, is the unspoken about unreported on, or

underreported crisis in demand that appears to be happening based on the VIN numbers, based on some information we have from VIN numbers about Tesla Model 3s.

- Demetri Kofinas:** 30:24 Up until now, the story has been that Tesla is suffering from supply issues that their issue is that they haven't been able to build these cars fast enough. They set up a tent, started building them. But in fact, there is a concern that's been raised by you, Gordon, and other people that there is a demand crisis for this Tesla Model 3s.
- Demetri Kofinas:** 30:42 And what's going to happen once that demand runs out, they're already suffering from cash problems. They can't raise additional capital now that Elon Musk is facing these charges by the SEC. What are they going to do? That's going to be one more thing on top of it.
- Lawrence Fossi:** 30:56 Well, you know, where to start? First of all, there's huge demand for the Model 3. If there really were a \$35,000 Model 3 that you could buy this year and take a \$7,500 federal income tax credit on, I think they would have a lot of demand for that. They had 400,000 or so orders two years ago based on that promise but it's not going to happen this year. They can't build a car for that amount of money. The federal income tax credit will be gone by the time they ever do offer the car at that price, if they ever do, which I really do doubt, in anything other than nominal numbers.
- Lawrence Fossi:** 31:29 Yeah, what Tesla is trying to do is to sell a \$50,000 or \$60,000 midsized sedan into an addressable market that cannot support the volume that Tesla is talking about here, where sedan demand is shrinking anyway in favor of SUVs, and maybe, maybe selling the car with an average sales price of \$60,000, which is what they'll achieve in Q3 for the Model 3. If you could do that and sell \$60,000 every quarter, maybe you could break even on that car and maybe you could actually show a tiny GAAP profit, but the demand isn't there for that car.
- Demetri Kofinas:** 32:05 Further to that point, their ability now to manipulate and massage the numbers is going to be under strain because they have now the SEC and now the DOJ breathing down their throat. That's going to make it even more difficult for them to put the lipstick on a pig, so to speak.
- Lawrence Fossi:** 32:22 Yeah, maybe.
- Demetri Kofinas:** 32:23 Do you think they're still going to try and do it?

Lawrence Fossi: 32:26 Desperate times beget desperate measures, and I've seen no hesitation on their part to be very aggressive in everything they do. I think you're going to see some dressed up Q3 numbers. We know, for example that, one of their favorite accounting stratagems is to hoard these so-called ZEV credits, and then sell them all at once so the revenue shows up strategically in a quarter. You can't do that if you average them out over every quarter, they would be never profitable, but they did manage to show a tiny profit in Q3 2016 doing that.

Lawrence Fossi: 32:59 I would imagine they want to do that again this quarter though there's some question about how strong demand is for ZEV credits right now for a lot of reasons. They're very aggressive with their accounting in terms of, Is it CAPEX or is it expenditure? They capitalize a lot of things that you might think should be expenses.

Lawrence Fossi: 33:15 Obviously, their gross margin is not comparable to anybody else's gross margin. Other auto dealers have to discount cars because they have dealership networks. Tesla doesn't. It owns its own service centers and distribution, which is another strategic mistake. But it doesn't put the cost of that into cost of goods sold so the numbers aren't at all comparable there.

Demetri Kofinas: 33:36 It also puts them in a difficult bind now because they don't have a distributor network. There isn't let's say, a network that's purchasing the cars off of them. They own all of that liability, right?

Lawrence Fossi: 33:45 They do. People who spoke about the visionary entrepreneurial genius of Elon Musk, he's going to cut out the middleman. We're going to sell cars by -- people will get online and order them and the car will be customized for you. Total BS. The dealership networks exist for a really good reason. They're economically efficient. You can control your inventory that way. Somebody else has the carrying cost on the inventory.

Lawrence Fossi: 34:09 You'll get an accurate read on demand from all these people who have incentives to give you a lot of feedback. Tesla and Musk decided they were smarter than that and now they can't get cars out the door. If you read the Twitter post, there is just an epidemic right now of people saying, "What happened to my VIN number? It's gone. I went to pick up my car and they said it's not here. I got an email saying--"

Demetri Kofinas: 34:30 Because they were selling those cars at the other door. That's one theory, right?

Lawrence Fossi: 34:33 I don't know. It could be just massive ineptitude.

Demetri Kofinas: 34:36 Right. It totally could be.

Lawrence Fossi: 34:37 Yeah.

Demetri Kofinas: 34:38 How do you see this playing out right now? Because this creates a time crunch on the company that didn't exist before. Well, they had time crunches around capital raises but this accelerates that.

Lawrence Fossi: 34:47 Yeah.

Demetri Kofinas: 34:48 How do you think things are going to be able to play out and why did you decide that now is a good time to come here and to speak with me, and to be on camera for the first time?

Lawrence Fossi: 34:57 Well, let's do the first thing. What I think is going to happen? I think Tesla will have a story in Q3 and it's a good story. This is the most cars we've ever made. We've just about doubled our production. It's the most cars we've ever delivered, and we had record sales in the Netherlands where you have incentives that are pulling demand forward. They'll probably have close to record sales, if not record sales, in Norway. They'll be able to tell a really good story around those numbers.

Lawrence Fossi: 35:22 Will they able to show free cash flow? Will they be able to show a GAAP profit? I'm very skeptical though who knows how the numbers will be massaged. Maybe with a huge ZEV credit number, they might be able to do that. I just don't know. We see widely divergent estimates of how many cars they produced this quarter. The number I happen to think is accurate is close to 4,000 a week. Tesla is claiming it's closer to 4,500 or 4,600, or at least electrek is.

Lawrence Fossi: 35:51 By the way, how many American companies have propaganda outlet? Tesla has Teslarati. It has electrek. It has insideEVs that write these propaganda pieces for it. That's part of the whole religious ... They print the bibles every week. The prayer hymnals.

Lawrence Fossi: 36:07 I think they'll have a story to tell in Q3 and they won't ever be able to tell that story again. But they'll tell it in Q3, and I always thought, this is what they will do to try to spike the price up and do a capital raise. This [pointing to SEC complaint] throws a huge monkey wrench into that whole-

Demetri Kofinas: 36:24 Well, and also, by getting the stock high enough, I forget what the target is that would convert the debt that they have due in March, right?

Lawrence Fossi: 36:32 Right. I think it's about \$360 a share.

Demetri Kofinas: 36:34 Right.

Lawrence Fossi: 36:35 Yeah. Let's talk about that a little bit, even for the ... I think the debt that comes due in November possibly has a provision where the board can change the conversion price, and lower it all the way to \$252 a share or something like that. People thought, well, they won't have to pay that \$920 million next March. What they'll do is they'll talk to those people into taking stock instead of cash.

Demetri Kofinas: 36:57 It just feels like this has come to a head now. I know that this is being going on forever and the stock has been remarkably resilient, but I feel like this is a phase transition. This is not something like anything that we've had before in the story of the stock. I mean, this is serious.

Lawrence Fossi: 37:11 Yeah. Well, it's like Rasputin. They killed them in every way. They drowned him. They shot him, and he kept coming back. I don't know-

Demetri Kofinas: 37:18 Security fraud is a big deal. Do we have any examples ... Can you think of any example of any company where the CEO is facing charges like this from the SEC and on top of that is under investigation by the DOJ and we're at this state in the market cycle, and they're not profitable, and they need to raise capital in order to stay alive? I mean, I just don't see a path here for the company.

Lawrence Fossi: 37:40 Okay.

Demetri Kofinas: 37:42 What would be the path? Walk me through -- I don't want to minimize the remarkable resilience of the Tesla advocates because it is remarkable. I've spoken to people that... they're just totally impervious. This is like a societal phenomenon. It isn't just with Tesla. It's a remarkable thing.

Demetri Kofinas: 37:57 I mentioned to you before we started, when Gordon Johnson was on the program and he mentioned Cathie Wood and ARKInvest, and her \$4,000 price target, that totally went right over my head. I didn't even register it. I listened to the

conversation afterwards. I was like, "Did he say, \$4,000?" I just did not believe it.

- Demetri Kofinas:** 38:14 I went on Twitter and I went on ARKInvest's website, and I found the \$4,000. In fact, I have the tweet that she put out. If ARKInvest's analysis, this was literally August 16th. This was two weeks after they released record losses, right?
- Lawrence Fossi:** 38:27 Yeah.
- Demetri Kofinas:** 38:28 This is a week after the Tesla "funding secured."
- Lawrence Fossi:** 38:32 Let's pause right there. The last two conference calls have come in the wake of record quarterly losses. Not once in any of those calls were the quarterly losses mentioned. No one asked about it. No one mentioned it. But go ahead, with Cathie.
- Demetri Kofinas:** 38:43 Yeah. To remind our viewers as well, Gordon made the point that in their recent report, ARKInvest in their best and worst case scenarios, they give ... they had the same EBITDA number for Tesla, which doesn't make any sense whatsoever. Then, apparently when he questioned them about that, he couldn't get a straight answer, bizarre.
- Demetri Kofinas:** 38:59 She puts out this tweet, "If ARKInvest's analysis of the autonomous taxi network opportunity is correct," – which, by the way, what is the relationship there? I don't know – "Tesla will be worth \$4,000 in five years, \$4,000, I think she means the stock per share. At a 15% discount rate, Tesla should be priced at \$2,000 today. And we're not including trucks, energy storage, or China in that calculation." Exclamation mark!
- Demetri Kofinas:** 39:23 And there was another tweet that she had put out, where she said, "If Tesla is not going to be a 10-bagger, it's going to be ..." I think she said like a three bagger or something.
- Lawrence Fossi:** 39:30 Yeah.
- Demetri Kofinas:** 39:30 Totally wild. It makes no sense, and she's running a fund, and she is an advocate that's on CNBC on Charlie Rose.
- Lawrence Fossi:** 39:37 Yeah.
- Demetri Kofinas:** 39:38 I mentioned to you, I saw it on Charlie Rose a year and a half ago talking about Bitcoin, made absolutely no sense.
- Lawrence Fossi:** 39:43 Yeah.

Demetri Kofinas:	39:43	Just my opinion here. I'm not trying to criticize her. It's a phenomenon I'm seeing across the board.
Lawrence Fossi:	39:48	Well-
Demetri Kofinas:	39:49	Totally bizarre.
Lawrence Fossi:	39:50	The depth of the well of stupidity is profound.
Demetri Kofinas:	39:53	I don't want to rip on somebody. I don't get it. I don't understand it.
Lawrence Fossi:	39:57	Well, we're in this age of endless momentum investing and nobody worries about fundamentals anymore. Maybe they think they'll never matter.
Demetri Kofinas:	40:04	But I've met momentum investors who they're picking pennies in front of a bulldozer. They're not going around telling everyone that, "I've got the best strategy in the world, look at me. I'm picking up pennies and these are worth diamonds." It's just the public announcement that I don't understand. It's just a forward-facing enthusiasm, pinning the most absurd comments at the top of your timeline doesn't make any sense to me.
Lawrence Fossi:	40:24	I'm not-
Demetri Kofinas:	40:24	A social analyst.
Lawrence Fossi:	40:25	I'm not a social analyst. Have we lost modesty we used to have? What's more disturbing than the fact that there are idiots like her out there, and there are just endless idiots out there, is that this parade of clowns gets trotted into the CNBC studios and gets air time, and spouts their views. You hear this guy Ross Gerber on there. You hear Cathie Wood on there. You hear Gene Munster. Some of these people, if you asked them, "Could you show me just an analysis that justifies in any metric that we're familiar with how can you justify a share price of \$100 for Tesla?"
Lawrence Fossi:	41:01	I'd love to see it. I've never seen anybody perform a valuation analysis that had anything close to non-fantasy assumptions that could justify the share valuation. They don't care.
Demetri Kofinas:	41:13	And the media, to your point, they are not holding these people accountable. They are not vetting them properly and no one is doing their homework. Not these investors, and certainly not the media. I wouldn't expect the media to do their homework,

but again, I would expect some homework to be done at least where you wouldn't embarrass yourself publicly. I just don't understand a \$4,000 price target on the stock. It just makes no sense. It literally, it hurts. I don't get it.

- Lawrence Fossi:** 41:35 Yeah, it hurts.
- Demetri Kofinas:** 41:35 It doesn't make sense to me.
- Lawrence Fossi:** 41:36 I've just become inured to it. Maybe I'm immune to this kind of idiocy at this point, so I tune it out. As for the media, no one has gotten more adoring – persistently adoring press coverage – than Tesla and Musk. People think he's an engineer. If you talk to people about Elon, “Elon, yeah, he's a great engineer. He designs rockets or something, right?” He's not an engineer. What is his great vision? I think he was forced out of PayPal as I understand it, and the company became profitable after he got forced out.
- Lawrence Fossi:** 42:06 He is not a founder of Tesla, but he sued somebody to get the right with some settlement payment that he made, I guess, to call himself a co-founder. What patent does Elon Musk have? What inventions does the company have? What proprietary technology does it have? It's just a lot of nonsense. And he talks about colonizing Mars and people take this seriously.
- Demetri Kofinas:** 42:29 I wasn't sure how I wanted to do this conversation with you today because you've written so much just factual stuff. I've spent a lot of time trying to structure it that way even though we've talked about the facts and the figures with a lot of people with Mark, with Charley certainly, and recently with Gordon. I don't think that's what's most interesting about this company and the story. I think that the size of his personality and as you've said the religious nature of the story, is not something that should be overlooked.
- Demetri Kofinas:** 42:58 I don't think it's just another ... I don't want to call it a fraud even, though it may very well be on some measure, certainly. Whatever you want to call it, to me the size and scope of it speaks to something much larger. Again, we're not like anthropologists or social scientists, but I don't think that that should stop us really from trying to think about this because it is so bizarre. Like you said, he talks about colonizing Mars.
- Demetri Kofinas:** 43:23 And that's great. Again, to bring Gordon up because he was ... His was still on my mind. He makes the point that dreams are wonderful, and they are wonderful, and you need to have

dreams. What I think Elon Musk has done is he has tapped into the zeitgeist, the cultural zeitgeist of the time, this fascination with technology, futurism, AI, living forever, going to the moon, going to Mars, all these things.

- Demetri Kofinas:** 43:48 And unfortunately, it seems to me, again, it's my opinion, it seems to me that he's grossly taking advantage of that. It comes across to me in the way in which he ... I mean, going on Joe Rogan and smoking a blunt on Joe Rogan's podcast and talking about AI, and also the stuff as a CEO of a public company. People have invested money.
- Demetri Kofinas:** 44:08 In some cases, certainly their savings, their life savings into this company. They have put down deposits and are waiting for cars. They have taken cars that are ... That have their bumpers falling off that need to be repainted. What service centers are going to take care of these cars if Tesla goes bankrupt? How was all that going to work? It's a serious thing.
- Lawrence Fossi:** 44:27 How is it that people are taking them seriously? For example, Antarctica is a thousand times less forbidding and more hospitable to human life than Mars is. And Antarctica is a place where you can easily lose your life and he's talking about colonizing Mars. It's utterly stupid. Any scientists will tell you it's stupid.
- Lawrence Fossi:** 44:44 When you bring it down to the car manufacturing, he was going to have the machine that makes the machine. We're going to show all these other auto makers that they are dinosaurs and they are left behind. He can't even turn out a car where the pieces fit together, right?
- Lawrence Fossi:** 44:57 As you said, when the rain storm comes, the bumper falls off, the people get their cars, got one color paint here and other color paint there. I mean, what a joke. What a complete joke this guy is and yet, it's the nature of religious belief. If the minister of the great apocalypse says the apocalypse is imminent, and the day comes and it doesn't come,
- Lawrence Fossi:** 45:16 the believers believe all the more strongly now in him. When people push back, it just reinforces their belief in him. If you look at what's going on today, these people will hold the religious beliefs are more convinced than ever that this guy is being tortured and persecuted by the SEC. That the shorts must be in some great conspiracy to cause this, and that we need now more than ever to support our visionary hero who was going to create a sustainable earth for us and save us.

Lawrence Fossi:	45:43	This is what they say. This is what they believe. I am not a specialist in comparative religion. How can I evaluate what will happen next? Okay.
Demetri Kofinas:	45:53	Totally insane.
Lawrence Fossi:	45:53	Yeah.
Demetri Kofinas:	45:54	They needed a Reformation years ago. How ... Like you said-
Lawrence Fossi:	45:56	Yeah. Well, I have my 23 Theses. I nailed those to the door, and I stand by those.
Demetri Kofinas:	46:01	Well, now they are going to ask you. You said, they are going to get an apocalypse. What's the apocalypse going to look like? I've showed you here, for our audience we see that this is a picture of Elon Jesus over the planet earth. This is actually an author, his name is S.J. Morden and he has this movie or book out. I think it's a book, it's a Sci-Fi novel, it's called, One Way.
Demetri Kofinas:	46:20	It's about a prison colony in Mars, penal colony. From here, to Jesus saving the planet to here, marooned for life on Mars, on that spectrum of possibilities, what do you think we're looking at based on the facts, based on ... You've done so much work looking at this company. You've been following this, I have not.
Demetri Kofinas:	46:38	I followed it literally. I only follow to the extent that I prepare for interviews with you or with Gordon or with Mark and then just ephemerally on Twitter. What do you think ... Give me some scenarios here, what can we imagine that this is going to look like?
Lawrence Fossi:	46:52	Okay, so I'll speculate. One of the most interesting analyses I've read of the Tesla phenomenon is by a guy named Brian Johnson, who's at Barclays, a great analyst who asks terrific questions on the conference calls. He has something called the purple pillers. They haven't taken the red pill and they haven't taken the blue pill, it's a matrix type analysis.
Lawrence Fossi:	47:11	The purple pills are not buying necessarily the Musk narrative and the Tesla narrative. They are suspicious of it. As long as this momentum trade exists, they are going to keep riding it, because the institutional investors are really what is going to govern the share price. As long as the big ones, T. Rowe Price and Fidelity and Baillie Gifford, those are the big three, stay with Tesla. The share price is going to hold up and there's ... Say,

another dozen or so who are also important but not quite as big.

- Lawrence Fossi:** 47:44 Some of them have been trimming their holdings. We don't know what they've been doing this quarter obviously. We don't know whose buying or selling today. One the purple pillers who are not true believers, start to doubt the efficacy, the viability of the narrative, then the share price collapses. Okay. That's what Brian Johnson thinks. I think there's something to that.
- Lawrence Fossi:** 48:05 More immediately, we have a huge cash problem here. I don't see how they can go to the public markets right now and find any big investor who wants to put more money into this company. I think they'll try to have a price spike around this Q3 delivery numbers. I think when you get the 10Q and see the financials, they will be terrible and it will be evident that the company has non-sustainable performance here, that Q4 will look worse, and 2019 is a catastrophe, because they haven't spent any Cap Ex on new products, okay.
- Lawrence Fossi:** 48:35 All they have now are the ones they ... the Model 3, the Model S, the Model X. And you've talked about competition, we might mention that too. Maybe you'll find a private investor to come in, and that will be hugely dilutive to the public investors. They don't understand that, but maybe there is a lot of stupidity out there.
- Demetri Kofinas:** 48:51 Who could you sell this company for right now, given the outstanding liabilities? What do they have in terms of assets? What price do you think this company could sell at?
- Lawrence Fossi:** 48:58 Well, a private investor would have to be dumb. There's a lot of dumb private investors out there.
- Demetri Kofinas:** 49:04 Sovereign Wealth Funds.
- Lawrence Fossi:** 49:05 Take a look at them, right. They've made some idiotic investments, maybe they'll make one more.
- Demetri Kofinas:** 49:09 It was a smart play for him going to the Saudis. That was a smart play.
- Lawrence Fossi:** 49:12 Yeah.
- Demetri Kofinas:** 49:12 He might have made it work if he hadn't jumped the gun on Twitter.

Lawrence Fossi: 49:15 I agree with you. I almost wonder whether he didn't time this 420 secured to be contemporaneous with the news that the Saudis had invested, and hoped to create this huge short burn. I don't know. I've wondered that, but-

Demetri Kofinas: 49:29 Your point is, that's still in the cards because there is still a lot of money out there in some of these sovereign wealth funds as we've said. But the Chinese, for example, they have their own domestic electric car company or companies.

Lawrence Fossi: 49:41 Right.

Demetri Kofinas: 49:41 They're not looking to use their sovereign wealth fund to their money to purchase Tesla. Where would that come from in that scenario? Have you thought about some options?

Lawrence Fossi: 49:50 Yeah, the story gets harder and harder as you see other big investors going Lucid or going with NiO over in China or whoever there-

Demetri Kofinas: 49:59 That was a big kick to the balls. Lucid, I mean, you couldn't have come up with a bigger kick to the balls than Lucid. Literally a Silicon Valley electric car company which may end up having all the same problems that Tesla has and they bought them. I don't know what their financials look like or what their roadmap looks like. They're pretty nascent. They're prototype phase.

Lawrence Fossi: 50:18 What happened to the-

Demetri Kofinas: 50:18 Unless they don't have all the liabilities.

Lawrence Fossi: 50:19 What happened to the Tesla share price when that news came out? Nothing.

Demetri Kofinas: 50:24 It probably went up, right?

Lawrence Fossi: 50:25 It probably did. It certainly didn't drop. I really think you're right. I think it may be the end of the road. If I had to guess that's what I would say but-

Demetri Kofinas: 50:33 Do they you think they'll make it past the year?

Lawrence Fossi: 50:36 My personal view is this-

Demetri Kofinas: 50:37 I should also state like I know we're just spit balling here, right?

Lawrence Fossi: 50:41 Yeah.

Demetri Kofinas: 50:41 No one knows the future. I think if it wasn't Tesla we were talking about, I don't think I would even entertain this. I think we'd focus much more on the numbers here. We could go through these numbers over and over and over again, we have. At the end of the day, like you said, you need to be a theologian to understand what's going on with this company. Having an MBA or an accounting degree isn't going to help you.

Lawrence Fossi: 51:01 Yeah. It isn't right now. I think that the most responsible thing that the CEO, CFO, and Board of Directors could do right now is explore and intelligently organized, pre-packaged bankruptcy so that the company could be reorganized. It could shed itself of some of this debt and start again. And focus on the high-end market where that's where the bread and butter is. It's never going to make money selling in the mass market, especially with a huge cost advantage.

Demetri Kofinas: 51:31 They are not going to do that.

Lawrence Fossi: 51:32 They won't do that.

Demetri Kofinas: 51:33 They won't do that.

Lawrence Fossi: 51:34 But it's a shame because that would preserve jobs for all these people who work for them, and it's a shame to see them suffer. And it also might enable the people who bought their cars to have continued warranty coverage which in a chapter seven, good-bye warranty coverage, good-bye free supercharging, good-bye to all these wonderful things you were promised. Good luck trying to find parts, for crying out loud, okay? You're in deep trouble when all that happens.

Demetri Kofinas: 51:56 Just become like a DeLorean.

Lawrence Fossi: 51:57 Yeah.

Demetri Kofinas: 51:58 We see a back to the future film and is that-

Lawrence Fossi: 51:59 They are parallels. It might be.

Demetri Kofinas: 52:02 Instead of cocaine, it's potentially hallucinogens or something like that, or the spliff on Joe Rogan's podcast.

Lawrence Fossi: 52:08 Instead? Or in addition to?

Demetri Kofinas: 52:11 John DeLorean had been caught trying to sell drug, buy cocaine from the Colombians and selling in United States, right?

Lawrence Fossi: 52:16 Yeah. I think that was right.

Demetri Kofinas: 52:17 Bizarre. Was that comparable in any way to this? Not in terms of the specifics, but I mean, the bizarre nature of the story.

Lawrence Fossi: 52:24 This story is bizarre.

Demetri Kofinas: 52:25 I think this is way more bizarre.

Lawrence Fossi: 52:25 Well, I don't even want to get into the Grimes stuff and Azealia Banks and all of this. This will make for one heck of a movie, I'll tell you.

Demetri Kofinas: 52:33 You know what else I'm thinking about? I feel like the story is beneath all of us, in a sense, do you feel that in a way like covering it? You just feel like I have to do this because this is where I'm at, but this is not what I want to be doing. This is not the story that I want to be covering, right? Do you feel what I'm saying?

Lawrence Fossi: 52:51 I feel it and I wanted to share this with you. After I got doxxed and I had to stop writing at Seeking Alpha and I deleted my Twitter account. It was, A, I lived on because then the Financial Times reported on the story, and were appalled by what had happened, and started taking some of my pieces and digesting them and publishing them, under something called Je Suis Montana Skeptic, which got more coverage of my work than I'd ever got in writing for Seeking Alpha.

Lawrence Fossi: 53:16 Suddenly, I had all this free time I was able to go and read all these books that have been stacking up and refocused on my personal life, and things that are important. That was a lovely thing actually. I hope I don't get sucked back into this too deeply. I should probably get out of here as soon as I can.

Demetri Kofinas: 53:34 What have you been reading?

Lawrence Fossi: 53:35 Right now, I'm reading a terrific book called Adam Smith: Father of Economics. It is really a beautifully written book that will explode all your assumptions about who Adam Smith was and what he believed. It examines in detail a very important book he wrote early on called, I think it's called, A Theory of Moral Sentiments.

Demetri Kofinas: 53:57 He talks a lot of about morality.

Lawrence Fossi: 53:59 Yeah, he does. Where it comes from, and the relational nature of it and evolutionary nature of it. And he has an explication which I find very compelling of The Wealth of Nations. And he talks about how people have attempted to appropriate Adam Smith to themselves and their own theories, and how that frequently creates great distortions.

Lawrence Fossi: 54:17 How the idea that Adam Smith was this dogmatic free marketeer is simply wrong. The word “capitalism” is actually never mentioned once in The Wealth of Nations, which is something I didn’t realize. It’s very illuminating. Adam Smith is such a fascinating character, so I’m really enjoying that book right now.

Demetri Kofinas: 54:31 Well, my engineer knows this, but we did Episode 18 was with Sam Bowles on Moral Economics. We covered Adam Smith and specifically that work and those misunderstandings about him, and then connecting a lot of his ideas. In fact, he was concerned about moral sentiments and moral ethics and moral philosophy.

Lawrence Fossi: 54:46 In his lifetime, he was far more famous for that first book than for The Wealth of Nations, which he published late. And he also had this lifelong friendship with David Hume which is really fascinating. Hume who – brilliant philosopher – who because he was agnostic or atheistic was much maligned at the time, but he enjoyed a really warm friendship with Adam Smith, so... Fascinating. Good stuff. I have lots of good books to read and that’s the one I’m reading right this moment.

Demetri Kofinas: 55:12 Well, I’m sorry to have pulled you into this. Again, I imagine that there will be many people ... Your phone will be ringing after this interview I’m sure. Many people want to interview you especially as we move forward into the New Year. The one thing I think with Tesla is, it’s made fools all of us, I think.

Demetri Kofinas: 55:30 Eventually I think it will make fools unfortunately of those who are still along the stock and I think I don’t understand how anyone is ... I tweeted out actually last night that I said, the most remarkable thing about the story is that at 10:30 p.m. on Thursday that there are still people that are long the stock. It’s not investment advice, but it’s just a remarkable thing. Lawrence, I want to thank you so much for coming on the program, it was really great having you on.

Lawrence Fossi: 55:54 My pleasure. Thanks. I enjoyed it.

Demetri Kofinas: 55:57 That was my episode with Lawrence Fossi. I want to thank Lawrence for being on my program. Today's episode of Hidden Forces was recorded at Edge Studio in New York City. For more information about today's episode or if you want easy access to related programming, visit our website at hiddenforces.io and subscribe to our free email list. If you're a regular listener of the show, take a moment to review us on Apple Podcast.

Demetri Kofinas: 56:25 Each review helps more people find the show and join our amazing community. Today's episode was produced by me and edited by Stylianos Nicolaou. For more episodes, you can check out our website at hiddenforces.io. Join the conversation at Facebook, Twitter and Instagram at [hiddenforcespod](https://www.instagram.com/hiddenforcespod) or send me an email. As always, thanks for listening. We'll see you next week.