

TESLA MOTORS INC  
Form S-1/A  
June 02, 2011  
Table of Contents

As filed with the Securities and Exchange Commission on June 2, 2011

Registration No. 333-174466

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 1**  
**TO**  
**FORM S-1**  
**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**Tesla Motors, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**3711**  
(Primary Standard Industrial  
Classification Code Number)  
**3500 Deer Creek Road**

**91-2197729**  
(I.R.S. Employer  
Identification Number)

**Palo Alto, California 94304**

**(650) 681-5000**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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Elon Musk

Chief Executive Officer

Tesla Motors, Inc.

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Palo Alto, California 94304

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(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer "

Accelerated filer "

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company "

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.**



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**Table of Contents**

**The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION DATED JUNE 2, 2011**

**5,300,000 Shares**

**Common Stock**

This is a public offering of shares of common stock of Tesla Motors, Inc.

Tesla Motors, Inc. is offering all of the shares to be sold in the offering.

Our common stock is traded on the Nasdaq Global Select Market under the symbol TSLA. The last reported sale price of our common stock on June 1, 2011, as reported on Nasdaq, was \$28.52 per share.

Mr. Elon Musk, our Chief Executive Officer, Product Architect and Chairman of our Board of Directors, will purchase 1,416,000 shares of our common stock directly from us at the public offering price in a concurrent private placement, for an aggregate purchase price of approximately \$40,400,000. In addition, Blackstar Investco LLC, an affiliate of Daimler AG, will purchase up to 637,475 shares of our common stock directly from us at the public offering price in a concurrent private placement for an aggregate estimated purchase price of up to approximately \$18,200,000. The purchase price in the concurrent private placement assumes an offering price of \$28.52 per share.

**See the section entitled Risk Factors beginning on page 11 to read about factors you should consider before buying shares of the common stock.**

	<b>Per Share</b>	<b>Total</b>
Offering price	\$	\$
Underwriting discount	\$	\$

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Proceeds, before expenses, to Tesla Motors

\$

\$

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

To the extent that the underwriter sells more than 5,300,000 shares of common stock, the underwriter has the option to purchase up to an additional 795,000 shares from Tesla Motors at the offering price less the underwriting discount.

The underwriter expects to deliver the shares against payment in New York, New York on or about \_\_\_\_\_, 2011.

## **Goldman, Sachs & Co.**

Prospectus dated June \_\_\_\_\_, 2011

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<u>Prospectus Summary</u>	1
<u>The Offering</u>	6
<u>Summary Consolidated Financial Data</u>	8
<u>Risk Factors</u>	11
<u>Special Note Regarding Forward Looking Statements</u>	52
<u>Market, Industry and Other Data</u>	53
<u>Use of Proceeds</u>	54
<u>Price Range of Common Stock</u>	55
<u>Dividend Policy</u>	56
<u>Capitalization</u>	57
<u>Dilution</u>	59
<u>Selected Consolidated Financial Data</u>	60
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	62
<u>Business</u>	102
<u>Management</u>	130
<u>Executive Compensation</u>	138
<u>Certain Relationships and Related Party Transactions</u>	161
<u>Principal Stockholders</u>	166
<u>Description of Capital Stock</u>	169
<u>Shares Eligible for Future Sale</u>	174
<u>Material United States Tax Considerations for Non-United States Holders</u>	176
<u>Underwriting</u>	179
<u>Concurrent Private Placement</u>	183
<u>Legal Matters</u>	184
<u>Experts</u>	184
<u>Where You Can Find Additional Information</u>	184
<u>Index to Consolidated Financial Statements</u>	F-1

You should rely only on the information contained in this prospectus and in any free writing prospectus. Neither we nor the underwriter has authorized anyone to provide you with information different from that contained in this prospectus. We, and the underwriter, are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

Neither we nor the underwriter has done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside of the United States.

**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors, Business and our consolidated financial statements and related notes before deciding whether to purchase shares of our capital stock. Unless the context otherwise requires, the terms Tesla Motors, Tesla, the Company, we, us and our in this prospectus refer to Tesla Motors, Inc., and its subsidiaries, and the term Tesla store means Tesla retail locations as well as Tesla galleries where we show potential customers our vehicles but do not consummate sales.*

**Overview**

We design, develop, manufacture and sell high-performance fully electric vehicles and advanced electric vehicle powertrain components. We own our sales and service network and have operationally structured our business in a manner that we believe will enable us to rapidly develop and launch advanced electric vehicles and technologies. We believe our vehicles, electric vehicle engineering expertise, and operational structure differentiates us from incumbent automobile manufacturers.

We are the first company to commercially produce a federally-compliant electric vehicle, the Tesla Roadster, which achieves a market-leading range on a single charge combined with attractive design, driving performance and zero tailpipe emissions. Our Tesla Roadster offers impressive acceleration and performance without producing any tailpipe emissions. The Tesla Roadster's proprietary electric vehicle powertrain system is the foundation of our business and, with design enhancements, will also form the basis for our Model S sedan, our Model X crossover and other future vehicles. The Model S, which is currently scheduled to begin customer deliveries in mid-2012, is in development with several drivable prototypes already complete. We expect the Model S will be manufactured with an adaptable platform architecture upon which other future vehicles, including our Model X crossover, will be based. We currently plan to reveal a prototype of the Model X crossover by the end of 2011 followed by the anticipated commercial introduction of this vehicle in the fourth quarter of 2013. We are designing the Model X to incorporate the functionality of a minivan with the consumer appeal of a sports utility vehicle.

In addition to developing our own vehicles, we provide services for the development of electric powertrain components and sell electric powertrain components to other automotive manufacturers. We have provided development services to Daimler AG (Daimler) and are currently selling battery packs and chargers to Daimler for its Smart fortwo and A-Class electric vehicles. We also have a development services agreement to produce a validated electric powertrain system for Toyota Motor Corporation (Toyota) for use in its RAV4 EV. Toyota anticipates bringing the RAV4 EV to market in the United States in 2012, and we are negotiating with Toyota to finalize a separate agreement to supply production parts for that project; however, no agreement has yet been executed and there are no assurances that we will be able to enter into any such agreement.

The commercial production of a highway capable, fully electric vehicle that meets consumers' range and performance expectations required substantial design, engineering, and integration work on almost every system of our Tesla Roadster. Our roots in Silicon Valley have enabled us to recruit engineers with strong skills in electrical engineering, power electronics and software engineering. We have complemented this talent base with automotive engineers with substantial expertise in vehicle engineering and manufacturing. Our ability to combine expertise in electric powertrain and vehicle engineering provides a broad capability in electric vehicle design and systems integration. We believe these capabilities, coupled with our focus solely on electric vehicle technology as well as our strong inhouse engineering and manufacturing capacity, will enable us to sustain the electric vehicle industry leadership we created through the production of the Tesla Roadster.

## **Table of Contents**

We sell and service our Tesla Roadster through our company-owned sales and service network and have opened 18 Tesla stores in the United States, Europe and Japan. Our intent is to offer a compelling customer experience while achieving operating efficiencies, better control costs of inventory, manage warranty service and pricing, maintain and strengthen the Tesla brand, and obtain rapid customer feedback. Our Tesla stores do not carry large vehicle inventories and, as a result, do not require corresponding large floor spaces. We believe the benefits we receive from distribution ownership, combined with our product design based on modularity and common platforms, will enable us to improve the speed of product development and improve the capital efficiency of our business. We believe that this approach provides us with a competitive advantage as compared to incumbent automobile manufacturers.

Our first vehicle, the Tesla Roadster, can accelerate from zero to 60 miles per hour in 3.9 seconds and has a maximum speed of approximately 120 miles per hour. The Roadster Sport version can accelerate from zero to 60 miles per hour in 3.7 seconds. The Tesla Roadster has a range of 245 miles on a single charge, as determined using the United States Environmental Protection Agency's (EPA's), combined two-cycle city/highway test. Recently, the EPA announced its intention to develop and establish new energy efficiency testing methodologies for electric vehicles, which we believe could result in a significant decrease to the advertised ranges of all electric vehicles, including ours. The Tesla Roadster has a range that is almost double that of any other commercially released electric vehicle and reportedly set a new world distance record of 313 miles on a single charge for a production electric car in a rally across Australia as part of the 2009 Global Green Challenge. The current effective price of the base configuration of the Tesla Roadster is \$101,500 in the United States, assuming and after giving effect to the continuation of a currently available United States federal tax credit of \$7,500 for the purchase of alternative fuel vehicles. The Tesla Roadster is currently in production, and as of March 31, 2011, we had delivered approximately 1,650 Tesla Roadsters to customers in over 31 countries, almost all of which were sold in North America and Europe. We currently intend to end the production run of the Tesla Roadster in December 2011, but we will continue to sell the remaining inventory of Tesla Roadsters in the first half of 2012. To date, our customers have driven the Tesla Roadster for an estimated aggregate of over 11.0 million miles. We have developed extensive software systems to manage the overall efficiency, safety and controls within our vehicles. Additionally, we have met battery shipping and testing protocols of the United Nations, United States Department of Transportation and other government agencies, allowing us to ship the Tesla Roadster to a number of countries throughout the world.

We announced our second electric vehicle, the Model S, with the public exhibition of a drivable early prototype in March 2009. We have completed the construction of several drivable Model S alpha prototypes, which are currently undergoing detailed testing. We currently plan to begin customer deliveries of the Model S in mid-2012. We are designing the Model S to be a four door, five-passenger premium sedan that offers exceptional performance, functionality and attractive styling. As a fully electric vehicle, the Model S will produce zero tailpipe emissions while accelerating from zero to 60 miles per hour in a targeted time of approximately 6 seconds. We currently anticipate that the base Model S will have an effective price of \$49,900 in the United States with the standard 160 mile battery pack, assuming and after giving effect to the continuation of a United States federal tax credit of \$7,500 for the purchase of alternative fuel vehicles. Even without the tax credit, we believe the base list price will be competitive from a pricing perspective with other premium vehicles. We are designing the Model S to offer a variety of range options from 160 miles to 300 miles on a single charge, as projected using the EPA's combined two-cycle city/highway test. The EPA has announced its intention to develop and establish new energy efficiency testing methodologies for electric vehicles, which we believe could result in a significant decrease to the advertised ranges of all electric vehicles, including ours.

We anticipate that the initial units of the Model S will be introduced with a Signature Series which will have range capability of 300 miles and include certain colors and options, some of which may not be available in the general production of the Model S. We also plan to offer the capability to fast charge in as little as 45 minutes and the ability to rapidly swap out its battery pack at commercial charging stations and/or specialized commercial

## **Table of Contents**

battery exchange facilities, which capabilities we expect may be widely available in the future. We believe that the Model S will demonstrate our ability to produce increasingly affordable electric vehicles that offer long-range capabilities and uncompromised performance, energy efficiency, convenience and design.

We are designing the Model S for a significantly broader customer base than the Tesla Roadster. Accordingly, we currently intend to target an annual production rate of approximately 20,000 cars per year from our planned manufacturing facility in Fremont, California. The drivable early prototype of the Model S was exhibited to the public in March 2009. As of April 30, 2011, we had received approximately 4,600 customer reservations with a minimum refundable payment of \$5,000.

We intend to develop a substantially integrated electric vehicle manufacturing facility in Fremont, California for the manufacture of the Model S and its components. In October 2010, we completed the purchase of this facility from New United Motor Manufacturing, Inc. (NUMMI). We intend to use the facility for the production of our Model S vehicle and to build our future electric vehicles. We have entered into a loan agreement with the United States Federal Financing Bank and United States Department of Energy (DOE Loan Facility), to arrange loans for up to \$465.0 million, \$363.9 million of which is intended for the continued development of the Model S and the build out of our Fremont facility.

We also plan to manufacture our Model X crossover in our Fremont, California facility. We anticipate that we will make the Model X available with three range variants, with pricing of each variant similar to those of the Model S. We currently intend to target an annual production rate of approximately 10,000 -15,000 cars per year.

The electric powertrain we developed for the Tesla Roadster has provided the foundational technology for our Model S, our future vehicles including the Model X crossover, and for electric powertrain components that we have begun selling to Daimler and its affiliates and that we intend to sell to Toyota. Our electric powertrain consists of the following: battery pack, power electronics, motor, gearbox and the control software which enables the components to operate as a system. This design contains far fewer moving parts than a gasoline powertrain. These features enable us to adapt it for a variety of vehicle applications. For example, using the existing Tesla Roadster battery pack, we have worked with Daimler since June 2008 to develop a battery pack and charger for an initial trial of the Smart fortwo electric drive vehicle pilot program. We have expanded this business by developing and selling additional powertrain components to Daimler and Toyota, and have secured \$101.2 million of an aggregate \$465.0 million from our DOE Loan Facility to fund the infrastructure for these powertrain activities. We believe that our efforts in our powertrain development will enable us to advance our technology and rapidly and cost effectively develop vehicles.

Our battery pack and electric powertrain system has enabled us to deliver market-leading range capability on the Tesla Roadster at what we believe is a compelling battery cost per kilowatt-hour. The battery pack of the Tesla Roadster uses commercially available lithium-ion battery cells and contains 53 kilowatt-hours of usable energy, almost double the energy of any other commercially available electric vehicle battery pack, thereby significantly increasing its range capability. Designing an electric powertrain and a vehicle to exploit its energy efficiency has required extensive safety testing and innovation in battery packs, motors, powertrain systems and vehicle engineering. Our proprietary technology includes cooling systems, safety systems, charge balancing systems, battery engineering for vibration and environmental durability, customized motor design and the software and electronics management systems necessary to manage battery and vehicle performance under demanding real-life driving conditions. These technology innovations have resulted in an extensive intellectual property portfolio as of March 31, 2011, we had 35 issued patents and approximately 207 pending patent applications with the United States Patent and Trademark Office and internationally in a broad range of areas.

We are designing our vehicles to enable the cost effective development of our future vehicles. First, our battery pack is based on commodity battery cells placed in modules that we believe will form the basis of later

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## Table of Contents

generations of our battery packs, such as those we are developing for the Model S. Second, we use upgradeable software extensively for managing vehicle performance and the driver experience. Finally, we are designing a common platform architecture for the Model S, which compactly positions the battery pack, motor and other elements of our powertrain within the frame of the vehicle. We believe this architecture will form the basis of several future vehicles, including our planned Model X crossover vehicle, and enable us to efficiently and cost effectively launch these new vehicle models in the future.

Our design and vehicle engineering capabilities, combined with the technical advancements of our powertrain system, have enabled us to design and develop zero tailpipe emission vehicles that we believe overcome the design, styling, and performance issues that we believe have historically limited broad consumer adoption of electric vehicles. As a result, we believe our Tesla Roadster customers enjoy, and Model S customers will enjoy, several benefits, including:

*Long Range and Recharging Flexibility.* The range of the Tesla Roadster is almost double the range of any other commercially available electric vehicle. We are designing the Model S to offer an even greater range option. In addition, the Tesla Roadster incorporates our proprietary on-board charging system, permitting recharging from almost any available electrical outlet, and we are designing the Model S to offer fast charging capability from higher power electrical outlets. We believe the long-range and charging flexibility of our vehicles will help reduce consumer anxiety over range, alleviate the need for expensive, large-scale charging infrastructure, and differentiate our vehicles as compared to our competitors' currently announced electric vehicle product offerings.

*Energy Efficiency and Cost of Ownership.* We believe our Tesla Roadster offers and our Model S will offer consumers an attractive cost of ownership when compared to similar internal combustion engine or hybrid electric vehicles. Using only a single electric powertrain enables us to create a lighter, more energy efficient vehicle that is mechanically simpler than currently available hybrid or internal combustion engine vehicles. For example, assuming a 245 mile range of the Tesla Roadster, an average electricity cost of 11.2 cents per kilowatt-hour and an average gasoline price of \$3.21 per gallon, which were the average residential electricity cost and the gasoline price in the United States for February 2011 as reported by the U.S. Energy Information Administration of the U.S. Department of Energy, the cost per mile to fuel the Tesla Roadster is approximately 75% less than the cost to fuel the 2009 Porsche 911 Carrera, which has an EPA mileage rating of 18 miles per gallon city and 25 miles per gallon highway. Furthermore, we expect our electric vehicles will have lower relative maintenance costs than hybrid, plug-in hybrid, or internal combustion engine vehicles due to fewer moving parts and the absence of certain components, including oil, oil filters, spark plugs and engine valves. Additionally, government incentives that are currently available can reduce the cost of ownership even further.

*High-Performance Without Compromised Design or Functionality.* We believe we have been able to successfully overcome the design and performance tradeoff issues that encumbered most early electric vehicle designs. We believe the Tesla Roadster delivers an unparalleled driving experience with instantaneous and sustained acceleration through an extended range of speed. In addition, our Model S is being designed to seat five adults, provide best in class storage in the trunk and hood while offering design and performance comparable to, or better than, other premium sedans.

We were incorporated in 2003 and began selling the Tesla Roadster in 2008. As of March 31, 2011, we had 1,010 employees worldwide.

Since inception through March 31, 2011, we had generated \$292.5 million in revenue. As of March 31, 2011, we had an accumulated deficit of \$463.9 million and had experienced net losses of \$82.8 million for the year ended December 31, 2008, \$55.7 million for the year ended December 31, 2009, \$154.3 million for the year ended December 31, 2010, and \$48.9 million for the three months ended March 31, 2011.

## **Table of Contents**

### **Risks Affecting Us**

Our business is subject to a number of risks and uncertainties that you should understand before making an investment decision. These risks are discussed more fully in the section entitled "Risk Factors" following this prospectus summary. These include:

our limited operating history makes evaluating our business and future prospects difficult, and may increase the risk of your investment;

we anticipate that we will experience an increase in losses and will experience a decrease in automotive sales revenues prior to the launch of the Model S;

our relationship with Toyota is subject to various risks which adversely affect our business and future prospects;

our production model for the non-powertrain portion of the Model S is unproven, still evolving and is very different from the non-powertrain portion of the production model for the Tesla Roadster;

we may experience significant delays in the design, manufacture, launch and financing of the Model S, including in the build out of our Model S manufacturing facility;

we have a history of losses and we expect significant increases in our costs and expenses to result in continuing losses for at least the foreseeable future;

our future growth is dependent upon consumers' willingness to adopt electric vehicles;

we are dependent upon our ability to fully draw down on our loan facility from the United States Department of Energy, which may restrict our ability to conduct our business;

our distribution model is different from the predominant current distribution model for automobile manufacturers, which makes evaluating our business, operating results and future prospects difficult; and

we are significantly dependent upon revenue generated from the sale of our electric vehicles, specifically the Tesla Roadster, in the near term, and our future success will be dependent upon our ability to design and achieve market acceptance of new vehicle models, and, in particular, the Model S.

### **Corporate Information**

We are headquartered in Palo Alto, California. Our principal executive offices are located at 3500 Deer Creek Road, Palo Alto, California 94304, and our telephone number at this location is (650) 681-5000. Our website address is [www.teslamotors.com](http://www.teslamotors.com). Information contained on our website is not incorporated by reference into this prospectus and you should not consider information on our website to be part of this prospectus.

The Tesla Motors design logo, Tesla Motors, Tesla Roadster, Model S and other trademarks or service marks of Tesla Motors appearing in this prospectus are the property of Tesla Motors. When used herein, the term "Tesla store" means Tesla retail locations as well as Tesla galleries where

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we show potential customers our vehicles but do not consummate sales. This prospectus contains additional trade names, trademarks and service marks of other companies. We do not intend our use or display of other companies' tradenames, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

**Table of Contents**

**THE OFFERING**

Common stock we are offering	5,300,000 shares
Common stock sold by us in the concurrent private placement	<p>Subsequent to the closing of this offering, Elon Musk will purchase directly from us in a private placement, 1,416,000 shares of our common stock, at the per share public offering price, for an estimated aggregate purchase price of approximately \$40.4 million. In addition, Blackstar Investco LLC, an affiliate of Daimler AG, will purchase directly from us in a private placement 570,000 shares of our common stock at the per share public offering price, for an estimated aggregate purchase price of approximately \$16.3 million (and up to an additional 67,475 shares if the underwriter exercises in full its option to purchase additional shares). The estimated purchase price assumes a public offering price of \$28.52 per share. We will receive the full proceeds and will not pay any underwriting discounts or commissions with respect to the shares that are sold in the private placement. The sales of these shares to Elon Musk and Blackstar are not registered in this offering and the shares purchased by them, in addition to all other shares owned by them, will be subject to a lock-up of 90 days. We refer to the private placement of these shares of common stock as the concurrent private placement.</p>
Common stock to be outstanding after this offering and the concurrent private placement	102,840,840 shares (or 103,703,315 if the underwriter exercises in full its option to purchase additional shares)
Use of proceeds	<p>We intend to use a portion of the net proceeds from this offering and the concurrent private placement to fund the development of our Model X crossover vehicle. We may also use a portion of the net proceeds from this offering and the concurrent private placement for working capital and other general corporate purposes, including any unfunded amounts we need to pay to complete the production of the Model S and any remaining amounts that we have agreed to spend under our loan facility with the United States Department of Energy, which we refer to herein as our DOE Loan Facility. Under our DOE Loan Facility, we have agreed to spend up to a total of \$33 million plus any cost overruns we may encounter in developing our Model S and our Model S manufacturing facility as well as any cost overruns we encounter in developing our powertrain facility. We currently anticipate that our total capital expenditures for the remaining three quarters of 2011 and all of 2012, including for the Model S and Model X, will be in the range of \$330 million to \$370 million. We anticipate that most of the capital expenditures on the Model S will be funded by the DOE Loan Facility. Our aggregate capital expenditures will also include funding the expansion of our Tesla stores. See Use of Proceeds.</p>
Nasdaq Global Select Market symbol	TSLA

**Table of Contents**

The number of shares of common stock that will be outstanding after this offering is based on the 95,554,840 shares outstanding as of March 31, 2011 and excludes:

14,654,270 shares of common stock issuable upon the exercise of options outstanding at March 31, 2011 at a weighted average exercise price of \$10.76 per share;

483,100 shares of common stock issuable upon exercise of options granted after March 31, 2011 at a weighted average exercise price of \$26.58 per share;

3,085,011 shares of common stock issuable upon the exercise of a warrant granted to the DOE in connection with the closing of our DOE Loan Facility in January 2010, at an exercise price of \$7.54 per share and 5,100 shares of common stock issuable upon the exercise of a warrant granted to the DOE in May 2010, at an exercise price of \$8.94 per share (if we prepay our DOE Loan Facility in full or in part, the total amount of shares exercisable under these warrants will be proportionately reduced); and

13,918,481 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 11,415,533 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan and 2,502,948 shares of common stock reserved for issuance under our 2010 Employee Stock Purchase Plan and shares that become available under the 2010 Equity Incentive Plan and 2010 Employee Stock Purchase Plan pursuant to provisions thereof that automatically increase the share reserves under the plans each year, as more fully described in Management Employee Benefit Plans.

Unless otherwise indicated, all information in this prospectus assumes:

no exercise by the underwriter of its right to purchase up to an additional 795,000 shares of common stock from us; and

no purchase by Blackstar Investco LLC, an affiliate of Daimler AG, pursuant to its commitment to purchase up to 67,475 shares of our common stock if the underwriter exercises its right to purchase up to an additional 795,000 shares of common stock from us in this offering.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL DATA**

The following summary consolidated financial data for the years ended December 31, 2008, 2009 and 2010 are derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The summary unaudited consolidated financial data for the three months ended March 31, 2010 and 2011 and as of March 31, 2011 are derived from unaudited consolidated financial statements for such periods and dates, which are included elsewhere in this prospectus. The unaudited consolidated financial statements were prepared on a basis consistent with our audited consolidated financial statements and include, in the opinion of management, all adjustments necessary for the fair statement of the financial information contained in those statements. The historical results presented below are not necessarily indicative of financial results to be achieved in future periods.

In June 2010, we identified an error related to the understatement in stock-based compensation expense subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2009. This error had the effect of understating selling, general and administrative expenses and net loss for the year ended December 31, 2009 by \$2.7 million. The error did not have an effect on the valuation of the stock options. As stock-based compensation expense is a non-cash item, there was no impact on net cash used in operating activities for the year ended December 31, 2009. We determined that the impact of this error was not material and corrected the error by recording additional stock-based compensation expense of \$2.4 million during the three months ended June 30, 2010. See Note 1 to our consolidated financial statements included elsewhere in this prospectus.

Prospective investors should read these summary consolidated financial data together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended	
	2008	2009	2010	2010	2011
	March 31,				
	(in thousands, except share and per share data)				
<b>Consolidated Statement of Operations Data:</b>					
Revenues:					
Automotive sales	\$ 14,742	\$ 111,943	\$ 97,078	\$ 20,585	\$ 33,628
Development services			19,666	227	15,402
<b>Total revenues</b>	<b>14,742</b>	<b>111,943</b>	<b>116,744</b>	<b>20,812</b>	<b>49,030</b>
Cost of revenues(1):					
Automotive sales	15,883	102,408	79,982	16,858	26,961
Development services			6,031	102	4,041
<b>Total cost of revenues</b>	<b>15,883</b>	<b>102,408</b>	<b>86,013</b>	<b>16,960</b>	<b>31,002</b>
Gross profit (loss)	(1,141)	9,535	30,731	3,852	18,028
Operating expenses(1):					
Research and development (net of development compensation of \$23,249 for the year ended December 31, 2009)	53,714	19,282	92,996	13,265	41,162
Selling, general and administrative	23,649	42,150	84,573	16,585	24,212
<b>Total operating expenses</b>	<b>77,363</b>	<b>61,432</b>	<b>177,569</b>	<b>29,850</b>	<b>65,374</b>
<b>Loss from operations</b>	<b>(78,504)</b>	<b>(51,897)</b>	<b>(146,838)</b>	<b>(25,998)</b>	<b>(47,346)</b>
Interest income	529	159	258	48	40
Interest expense	(3,747)	(2,531)	(992)	(230)	
Other expense, net(2)	(963)	(1,445)	(6,583)	(3,221)	(1,485)
<b>Loss before income taxes</b>	<b>(82,685)</b>	<b>(55,714)</b>	<b>(154,155)</b>	<b>(29,401)</b>	<b>(48,791)</b>
Provision for income taxes	97	26	173	118	150
<b>Net loss</b>	<b>\$ (82,782)</b>	<b>\$ (55,740)</b>	<b>\$ (154,328)</b>	<b>\$ (29,519)</b>	<b>\$ (48,941)</b>
<b>Net loss per share of common stock, basic and diluted(3)</b>	<b>\$ (12.46)</b>	<b>\$ (7.94)</b>	<b>\$ (3.04)</b>	<b>\$ (4.04)</b>	<b>\$ (0.51)</b>
	6,646,387	7,021,963	50,718,302	7,301,940	95,187,345

Shares used in computing net loss per share of common stock,  
basic and diluted(3)

**Table of Contents**

- (1) Includes stock-based compensation expense as follows:

	Year Ended December 31,			Three Months Ended	
	2008	2009	2010	2010	2011
	(in thousands)				
Cost of revenues	\$ 26	\$ 61	\$ 243	\$ 42	\$ 154
Research and development	125	376	4,139	281	2,299
Selling, general and administrative	286	997	16,774	3,064	3,473
Total	\$ 437	\$ 1,434	\$ 21,156	\$ 3,387	\$ 5,926

- (2) In January 2010, we issued a warrant to the DOE in connection with the closing of the DOE Loan Facility to purchase shares of our Series E convertible preferred stock. This convertible preferred stock warrant became a warrant to purchase shares of our common stock upon the closing of our initial public offering (IPO). Beginning on December 15, 2018 and until December 14, 2022, the shares subject to purchase under the warrant will become exercisable in quarterly amounts depending on the average outstanding balance of the DOE Loan Facility during the prior quarter. Since the number of shares of common stock ultimately issuable under the warrant will vary, this warrant will be carried at its estimated fair value with changes in the fair value of this common stock warrant liability reflected in other income (expense), net, until its expiration or vesting. Potential shares of common stock issuable upon exercise of the DOE warrant will be excluded from the calculation of diluted net loss per share of common stock until at least such time as we generate a net profit in a given period.
- (3) Our basic net loss per share of common stock is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period. The diluted net loss per share of common stock is computed by dividing the net loss by the weighted-average number of shares of common stock, excluding common stock subject to repurchase, and, if dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of stock options to purchase shares of our common stock and warrants to purchase shares of our convertible preferred stock (using the treasury stock method) and the conversion of our convertible preferred stock and convertible notes payable (using the if-converted method). For purposes of all these calculations, potential shares of common stock have been excluded from the calculation of diluted net loss per share of common stock as their effect is antidilutive since we generated a net loss in each period.

Our consolidated balance sheet data as of March 31, 2011 is presented:

on an actual basis; and

on an as adjusted basis to give effect to (i) the sale of 5,300,000 shares of common stock by us in this offering at the assumed offering price of \$28.52 per share, which is the closing price of our common stock on June 1, 2011, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us; and (ii) the sale of 1,986,000 shares of common stock to be purchased directly by Mr. Elon Musk and Blackstar at such price in the concurrent private placement.

	As of March 31, 2011	
	Actual	Adjusted(1)
	As	
	(Unaudited)	
	(in thousands)	
<b>Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 100,655	\$ 305,852
Restricted cash(2)	47,877	47,877
Property and equipment, net	143,372	143,372
Working capital	113,930	319,127
Total assets	407,289	612,486
Common stock warrant liability	7,509	7,509
Capital lease obligations, less current portion	421	421

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Long-term debt(3)	102,484	102,484
Total stockholders equity	167,738	372,935

- (1) Each \$1.00 increase or decrease in the assumed offering price of \$28.52 per share would increase or decrease, as applicable, our cash and cash equivalents, working capital, total assets and total stockholders

**Table of Contents**

- equity by approximately \$7.2 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Our as adjusted amounts exclude \$22.4 million in additional funds borrowed under our DOE Loan Facility in April and May 2011.
- (2) The restricted cash represents primarily the portion of the proceeds from our IPO that we are required to hold in a separate dedicated account pursuant to our DOE Loan Facility to fund certain costs of our powertrain and Model S manufacturing facility projects. Restricted cash also includes security deposits related to lease agreements, equipment financing, as well as security held by a vendor as part of the vendor's standard credit policies.
- (3) On January 20, 2010, we entered into a loan agreement with the United States Federal Financing Bank, or the FFB, and the DOE, pursuant to the Advanced Technology Vehicles Manufacturing Incentive Program, or the ATVM Program. Under such facility, the FFB has made available to us two multi-draw term loan facilities in an aggregate principal amount of up to \$465.0 million. Up to an aggregate principal amount of \$101.2 million will be made available under the first term loan facility to finance up to 80% of the costs eligible for funding under the ATVM Program for the build out of a facility to design and manufacture lithium-ion battery packs, electric motors and electric components. Up to an aggregate principal amount of \$363.9 million will be made available under the second term loan facility to finance up to 80% of the costs eligible for funding under the ATVM Program for the development of, and to build out the manufacturing facility for the Model S sedan. See the section titled "Business - Governmental Programs, Incentives and Regulations - United States Department of Energy Loans" below for additional information.

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**Table of Contents**

**RISK FACTORS**

*You should carefully consider the risks described below together with the other information set forth in this prospectus, which could materially affect our business, financial condition and future results. The risks described below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.*

**Risks Related to Our Business and Industry**

*Our limited operating history makes evaluating our business and future prospects difficult, and may increase the risk of your investment.*

You must consider the risks and difficulties we face as an early stage company with limited operating history. If we do not successfully address these risks, our business, prospects, operating results and financial condition will be materially and adversely harmed. We were formed in July 2003. We began delivering our first performance electric vehicle, the Tesla Roadster, in early 2008, and as of March 31, 2011, we had only sold approximately 1,650 production vehicles to customers, almost all of which were sold in the United States and Europe. Our revenues for the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2010 and 2011 were \$14.7 million, \$111.9 million, \$116.7 million, \$20.8 million and \$49.0 million, respectively. We have a very limited operating history on which investors can base an evaluation of our business, operating results and prospects.

To date, we have derived our revenues principally from sales of the Tesla Roadster and related sales of zero emission vehicle credits, and from electric powertrain development services and sales. We intend in the longer term to derive substantial revenues from the sales of our Model S sedan and future electric vehicles, including our Model X crossover vehicle. The Model S is in development and we do not expect to start delivering to customers until mid-2012. We have no operating history with respect to the Model S electric vehicle and have not yet fully completed the component procurement process for the Model S, which limits our ability to accurately forecast the cost of the vehicle. Further, we have not yet produced a prototype of the Model X crossover vehicle and do not expect this vehicle to be available for sale before the fourth quarter of 2013 at the earliest. In addition, we only recently completed the purchase of a manufacturing facility in Fremont, California to produce such vehicles, and we have not yet completely finalized the full vehicle design or our engineering, manufacturing or component supply plans for the Model S. In addition, our powertrain sales, development services revenue and powertrain research and development compensation have been almost entirely generated under arrangements with Daimler AG (Daimler) for the development and sale of a battery pack and charger for Daimler's Smart fortwo electric drive and for the development of a battery pack for Daimler's A-Class vehicle as well as with Toyota Motor Corporation (Toyota) for the development of a validated powertrain system which will be integrated into an electric vehicle version of the Toyota RAV4. Blackstar Investco LLC (Blackstar), an affiliate of Daimler, holds more than 5% of our outstanding capital stock. In October 2010, Tesla and Toyota entered into an agreement to develop a validated electric powertrain for the Toyota RAV4. Toyota also purchased 2,941,176 shares of our common stock in a private placement transaction that occurred concurrently with the closing of our IPO. We have also announced our intention for Tesla to receive Toyota's support with sourcing parts and production and engineering expertise for the Model S. However, we have not entered into any agreements with Toyota for any such assistance, including any purchase orders, and we may never do so. There are no assurances that we will be able to secure future business with Daimler, Toyota, or any of their affiliates.

It is difficult to predict our future revenues and appropriately budget for our expenses, and we have limited insight into trends that may emerge and affect our business. For example, during the four quarters of 2009 and 2010, we recorded quarterly revenue of as much as \$45.5 million and as little as \$18.6 million and quarterly operating losses of as much as \$51.6 million and as little as \$4.3 million. In the event that actual results differ from our estimates or we adjust our estimates in future periods, our operating results and financial position could be materially affected.

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**Table of Contents**

In addition, our revenues to date have included amounts we receive from selling zero emission vehicle (ZEV) credits to other automobile manufacturers, pursuant to certain state regulations. We have entered into two contracts for the sale of ZEV credits with two separate automotive manufacturers. For the three months ended March 31, 2010 and 2011, we earned revenue from the sale of ZEV credits of \$0.5 million and \$0.6 million, respectively. Our current agreement with American Honda Co., Inc. (Honda) provides for the sale of ZEV credits that we earn from the sale of vehicles that we manufacture through December 31, 2011. As of March 31, 2011, we had sold credits for 521 vehicles under this agreement and Honda has an obligation to purchase credits for up to 135 additional vehicles that Tesla manufactures prior to the expiration of the agreement. We may not be able to enter into new agreements to sell any additional credits we may earn in excess of the current contractual amounts on equivalent terms and if this occurs, our financial results will be harmed.

***We are significantly dependent upon revenue generated from the sale of our electric vehicles, specifically the Tesla Roadster, in the near term, and our future success will be dependent upon our ability to design and achieve market acceptance of new vehicle models, and specifically the Model S.***

We currently generate a significant percentage of our revenue from the sale of our Tesla Roadsters. We began production of our Tesla Roadster in 2008 and will end the production run of the Tesla Roadster in December 2011. Beyond 2011, our sales of new Tesla Roadsters will be limited to any vehicles available from our 2011 production.

Our second planned vehicle, our Model S, is not expected to be in production until mid-2012, requires significant investment prior to commercial introduction, and may never be successfully developed or commercially successful. There can be no assurance that we will be able to design future models of performance electric vehicles that will meet the expectations of our customers or that our future models, including the Model S, will become commercially viable. In particular, it is common in the automotive industry for the production vehicle to have a styling and design different from that of the concept vehicle, which may happen with the Model S. We believe the design of the early prototype Model S is one of the key reasons why we have received approximately 4,600 reservations for the vehicle as of April 30, 2011. To the extent that we are not able to build the production Model S to the expectations created by the early prototype and our anticipated specifications, customers may cancel their reservations and our future sales could be harmed. Additionally, historically, automobile customers have come to expect new and improved vehicle models to be introduced frequently. In order to meet these expectations, we may in the future be required to introduce on a regular basis new vehicle models as well as enhanced versions of existing vehicle models. As technologies change in the future for automobiles in general and performance electric vehicles specifically, we will be expected to upgrade or adapt our vehicles and introduce new models in order to continue to provide vehicles with the latest technology. To date, we have limited experience simultaneously designing, testing, manufacturing and selling our electric vehicles.

***We anticipate that we will experience an increase in losses and will experience a decrease in automotive sales revenues prior to the launch of the Model S.***

Prior to the launch of our Model S, we anticipate our automotive sales may decline, potentially significantly. We currently produce the Tesla Roadster gliders, which are partially assembled vehicles that do not contain our electric powertrain, with Lotus Cars Limited (Lotus) in Hethel, England. We currently intend to manufacture gliders with Lotus for our current generation Tesla Roadster until December 2011. We intend to use these gliders in the manufacturing of the Tesla Roadster to both fulfill orders placed in 2011 as well as new orders placed in 2012 until our supply of gliders is exhausted. Through March 31, 2011, we have delivered approximately 1,650 vehicles, leaving approximately 750 vehicles left to sell. As a result, we anticipate that we will generate limited revenue from selling electric vehicles in 2012 until the launch of our Model S. The launch of our Model S could be delayed for a number of reasons and any such delays may be significant and would extend the period in which we would generate limited revenues from sales of our electric vehicles. The potential decrease in automotive

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**Table of Contents**

sales revenue for the periods prior to the launch of the Model S may be significant and could materially and adversely affect our business, prospects, operating results and financial condition and our ability to fund operating losses could seriously constrain our growth.

Furthermore, except for our arrangements with Daimler and its affiliates, we do not currently have any arrangements in place with third parties for the purchase of powertrain components. There are no assurances that we will be able to secure future business with Daimler or its affiliates as Daimler has indicated its intent to produce all of its lithium-ion batteries by 2012 through Deutsche Accumotive GmbH & Co. KG, an entity affiliated with Daimler, and has announced it has entered into a joint venture with BYD Auto to collaborate on the development of an electric car under a jointly owned new brand for the Chinese market. We do not have any signed agreements for powertrain component sales after 2011.

***Our relationship with Toyota is subject to various risks which could adversely affect our business and future prospects.***

In October 2010, we and Toyota entered into an agreement to develop a validated electric powertrain for the Toyota RAV4. We have also previously announced our intention for Tesla to receive Toyota's support with sourcing parts and production and engineering expertise for the Model S. However, we have not entered into any agreements with Toyota for any such assistance or for any commercial supply, and we may never do so. Moreover, even were we to enter into such agreement, in all likelihood such agreement would not contain binding purchase commitments. There are no assurances we will be able to enter into any further agreements with Toyota for a long-term supply of electric powertrains for the Toyota RAV4, or any other vehicles.

***Our production model for the non-powertrain portion of the Model S is unproven, still evolving and is very different from the non-powertrain portion of the production model for the Tesla Roadster.***

Our future business depends in large part on our ability to execute on our plans to develop, manufacture, market and sell our Model S electric vehicle. To date, our revenues have been principally derived from the sales of our Tesla Roadster. The Tesla Roadster has only been produced in low volume quantities and the body is assembled by Lotus in the United Kingdom, with the final assembly by us at our facility in Menlo Park, California for sales destined in the United States. We plan to manufacture the Model S in higher volumes than our present production capabilities in our planned manufacturing facility in Fremont, California. As a result, the non-powertrain portion of the production model for the Model S will be substantially different and significantly more complex than the non-powertrain portion of the production model for the Tesla Roadster. In addition, we plan to introduce a number of new manufacturing technologies and techniques, such as aluminum spot welding systems, which have not been widely adopted in the automotive industry. Our Model S production model will require significant investments of cash and management resources and we may experience unexpected delays or difficulties that could postpone our ability to launch or achieve full manufacturing capacity for the Model S, which could have a material adverse effect on our business, prospects, operating results and financial condition.

Our production model for the Model S is based on many key assumptions, which may turn out to be incorrect, including:

that we will be able to secure the funding necessary to build out and equip our planned manufacturing facility in Fremont, California in a timely manner, including meeting milestones and other conditions necessary to draw down funds under our loan facility with the United States Department of Energy (DOE);

that we will be able to develop and equip our planned manufacturing facility for the Model S in Fremont, California without exceeding our projected costs and on our projected timeline;

that the equipment which we have purchased or which we select will be able to accurately manufacture the vehicle within specified design tolerances;

**Table of Contents**

that our computer aided design process can reduce the product development time by accurately predicting the performance of our vehicle for passing relevant safety standards, including standards that can only be met through expensive crash testing;

that we will be able to comply with environmental, workplace safety and similar regulations to operate our planned manufacturing facilities and our business on our projected timeline;

that we will be able to engage suppliers for the necessary components on terms and conditions acceptable to us and that we will be able to obtain components on a timely basis and in the necessary quantities and at acceptable prices;

that we will be able to deliver final component designs to our suppliers in a timely manner;

that we will be able to attract, recruit, hire and train skilled employees, including employees on the production line, to operate our Model S manufacturing facility in Fremont, California;

that we will be able to maintain high quality controls as we transition to an in-house manufacturing process; and

that we will not experience any significant delays or disruptions in our supply chain.

If one or more of the foregoing assumptions turns out to be incorrect, our ability to successfully launch the Model S on time and on budget if at all, and our business prospects, operating results and financial condition may be materially and adversely impacted.

We have no experience to date in high volume manufacturing of our electric vehicles. We do not know whether we will be able to develop efficient, automated, low-cost manufacturing capability and processes, and reliable sources of component supply that will enable us to meet the quality, price, engineering, design and production standards, as well as the production volumes required to successfully mass market the Model S. Even if we are successful in developing our high volume manufacturing capability and processes and reliable sources of component supply, we do not know whether we will be able to do so in a manner that avoids significant delays and cost overruns, including as a result of factors beyond our control such as problems with suppliers and vendors, or in time to meet our vehicle commercialization schedules or to satisfy the requirements of customers. To date, we have experienced cost increases from certain of our suppliers in order to meet our quality targets and development timelines. Any failure to develop such manufacturing processes and capabilities within our projected costs and timelines could have a material adverse effect on our business, prospects, operating results and financial condition.

***We may experience significant delays in the design, manufacture, launch and financing of the Model S, including in the build out of our Model S manufacturing facility, which could harm our business and prospects.***

Any delay in the financing, design, manufacture and launch of the Model S, including in the build out of our Model S manufacturing facility in Fremont, California, could materially damage our brand, business, prospects, financial condition and operating results. Automobile manufacturers often experience delays in the design, manufacture and commercial release of new vehicle models. We experienced significant delays in launching the Tesla Roadster. We initially announced that we would begin delivering the Tesla Roadster in June 2007, but due to various design and production delays, we did not physically deliver our first Tesla Roadster until February 2008, and we only achieved higher production of this vehicle in the fourth quarter of 2008. These delays resulted in additional costs and adverse publicity for our business. We may experience similar delays in launching the Model S, and any such delays could be significant.

In addition, final designs for the Model S and plans for the build out of the manufacturing facility are still in process, and various aspects of the Model S component procurement and manufacturing plans have not yet been determined. We are currently evaluating, qualifying and selecting certain remaining suppliers for the planned

## Table of Contents

production of the Model S. However, we may not be able to engage suppliers for the remaining components in a timely manner, at an acceptable price or in the necessary quantities. In addition, we will also need to do extensive testing to ensure that the Model S is in compliance with applicable National Highway Traffic Safety Administration (NHTSA) safety regulations and United States Environmental Protection Agency (EPA) and California Air Resources Board (CARB) emission regulations prior to beginning mass production and delivery of the vehicles. Our plan to begin production of the Model S in mid-2012 is dependent upon the timely availability of funds, upon our finalizing the related design, engineering, component procurement, testing, build out and manufacturing plans in a timely manner and upon our ability to execute these plans within the current timeline.

We completed the purchase of our planned manufacturing facility in Fremont, California in October 2010 and selected it in part because it was recently used for automobile manufacturing, was located within 20 miles of our Palo Alto engineering facility, and we believe its size may allow us to adapt our internal manufacturing plans quickly. We expect that all these factors will support the timely start of production for the Model S. However, because we have only recently acquired this facility and have just begun to implement our manufacturing plans, we may experience unexpected delays in completing the build out of this facility for the production of our Model S.

In January 2010, we entered into a loan facility with the Federal Financing Bank (FFB) that is guaranteed by the DOE (DOE Loan Facility). Our DOE Loan Facility provides for a \$465.0 million loan facility under the DOE's Advanced Technology Vehicles Manufacturing Loan Program (ATVM Program) to help finance the continued development of the Model S, including the planned build out and operation of a manufacturing facility, and to finance the planned build out and operation of our electric powertrain manufacturing facility. We intend to fund the build out of the planned manufacturing facility principally by using existing cash and cash obtained through the DOE Loan Facility. Our ability to draw down these funds under the DOE Loan Facility is conditioned upon several draw conditions. These draw conditions include our achievement of progress milestones relating to the design and development of the Model S and the Model S manufacturing facility as well as financial covenants. If we are unable to draw down the anticipated funds under the DOE Loan Facility on the timeline that we anticipate, our plans for building our Model S and electric powertrain manufacturing plants could be significantly delayed which would materially adversely affect our business, prospects, financial condition and operating results.

***We face significant barriers in our attempt to produce our Model S, and if we cannot successfully overcome those barriers our business will be negatively impacted.***

We face significant barriers as we attempt to produce our first mass produced vehicle, our Model S. We currently have a drivable early prototype of the Model S, but do not have a full production intent prototype, a final design, a built-out manufacturing facility or manufacturing processes. The automobile industry has traditionally been characterized by significant barriers to entry, including large capital requirements, investment costs of designing and manufacturing vehicles, long lead times to bring vehicles to market from the concept and design stage, the need for specialized design and development expertise, regulatory requirements and establishing a brand name and image and the need to establish sales and service locations. As a manufacturer and seller of only electric vehicles, we face a variety of added challenges to entry that a traditional automobile manufacturer would not encounter including additional costs of developing and producing an electric powertrain that has comparable performance to a traditional gasoline engine in terms of range and power, inexperience with servicing electric vehicles, regulations associated with the transport of lithium-ion batteries and unproven high-volume customer demand for fully electric vehicles. In addition, while we are designing the Model S to have the capability to rapidly swap out its battery pack, there are no specialized facilities today to perform such swapping. Also, while we expect to be able to achieve a 300 mile range, our ability to do so will depend on the feasibility and availability of appropriate battery cell technologies and improvements that we are able to achieve in reducing energy consumption. While we may offer this service in the future at our stores, no assurance can be provided that we will do so, or that any other third party will offer such services. We must successfully overcome these barriers as we move from producing the low volume Tesla Roadster to the Model S which we plan to produce at

## Table of Contents

much higher volumes. If we are not able to overcome these barriers, our business, prospects, operating results and financial condition will be negatively impacted and our ability to grow our business will be harmed.

*We have a history of losses and we expect significant increases in our costs and expenses to result in continuing losses for at least the foreseeable future.*

We incurred a net loss of \$48.9 million for the three months ended March 31, 2011 and have accumulated net losses of \$463.9 million from our inception through March 31, 2011. We have had net losses in each quarter since our inception. We believe that we will continue to incur operating and net losses each quarter until at least the time we begin significant deliveries of the Model S, which is not expected to be in production until mid-2012 with higher volume production not occurring until 2013, and may occur later. Even if we are able to successfully develop the Model S, there can be no assurance that it will be commercially successful. If we are to ever achieve profitability it will be dependent upon the successful development and successful commercial introduction and acceptance of automobiles such as the Model S, which may not occur.

We expect the rate at which we will incur losses to increase significantly in future periods from current levels as we:

design, develop and manufacture our Model S and our planned Model X crossover;

design, develop and manufacture components of our electric powertrain;

develop and equip our manufacturing facility to produce our Model S in Fremont, California;

build up inventories of parts and components for our Model S;

develop and equip manufacturing facilities to produce our electric powertrain components;

open new Tesla stores;

expand our design, development, maintenance and repair capabilities;

increase our sales and marketing activities; and

increase our general and administrative functions to support our growing operations.

Because we will incur the costs and expenses from these efforts before we receive any incremental revenues with respect thereto, our losses in future periods will be significantly greater than the losses we would incur if we developed our business more slowly. In addition, we may find that these efforts are more expensive than we currently anticipate or that these efforts may not result in increases in our revenues, which would further increase our losses.

In addition, as of March 31, 2011, we had recorded a full valuation allowance on our United States net deferred tax assets as at this point we believe it is more likely than not that we will not achieve profitability and accordingly be able to use our deferred tax assets in the foreseeable future. Federal and state laws impose substantial restrictions on the utilization of net operating loss and tax credit carry-forwards in the event of an ownership change, as defined in Section 382 of the Internal Revenue Code. Although we do not believe that our IPO constituted, or this offering will constitute, an ownership change resulting in limitations on our ability to use our net operating loss and tax credit carry-forwards, we

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have not yet performed a study to determine whether such limitations exist. If an ownership change is deemed to have occurred as a result of our IPO or this offering, utilization of these assets could be significantly reduced.

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**Table of Contents**

***If we are unable to adequately control the costs associated with operating our business, including our costs of manufacturing, sales and materials, our business, financial condition, operating results and prospects will suffer.***

If we are unable to maintain a sufficiently low level of costs for designing, manufacturing, marketing, selling and distributing and servicing our electric vehicles relative to their selling prices, our operating results, gross margins, business and prospects could be materially and adversely impacted. We have made, and will be required to continue to make, significant investments for the design, manufacture and sales of our electric vehicles. When we first began delivering our Tesla Roadster in early 2008, our marginal costs of producing the Tesla Roadster exceeded our revenue from selling those vehicles. Revenue from the sales of our Tesla Roadster as well as from ZEV credits did not exceed cost of revenues related to our Tesla Roadster, until the second quarter of 2009. There can be no assurances that our costs of producing and delivering the Model S will be less than the revenue we generate from sales at the time of the Model S launch or that we will achieve our expected gross margin on sales of the Model S.

We incur significant costs related to procuring the raw materials required to manufacture our high-performance electric cars, assembling vehicles and compensating our personnel. We will also incur substantial costs in constructing and building out our Model S and powertrain manufacturing facilities, each of which could potentially face cost overruns or delays in construction. Additionally, in the future we may be required to incur substantial marketing costs and expenses to promote our vehicles, including through the use of traditional media such as television, radio and print, even though our marketing expenses to date have been relatively limited. If we are unable to keep our operating costs aligned with the level of revenues we generate, our operating results, business and prospects will be harmed. Many of the factors that impact our operating costs are beyond our control. For example, the costs of our raw materials and components, such as lithium-ion battery cells or carbon fiber and aluminum body panels used in our vehicles, could increase due to shortages as global demand for these products increases. Indeed, if the popularity of electric vehicles exceeds current expectations without significant expansion in battery cell production capacity and advancements in battery cell technology, shortages could occur which would result in increased materials costs to us.

***We are dependent on our suppliers, a significant number of which are single or limited source suppliers, and the inability of these suppliers to continue to deliver, or their refusal to deliver, necessary components of our vehicles at prices and volumes acceptable to us would have a material adverse effect on our business, prospects and operating results.***

The Tesla Roadster uses over 2,000 purchased parts, which we source globally from over 150 suppliers, many of whom are currently single source suppliers for these components. While we obtain components from multiple sources whenever possible, similar to other automobile manufacturers, many of the components used in our vehicles are purchased by us from a single source. We refer to these component suppliers as our single source suppliers. To date we have not qualified alternative sources for most of the single sourced components used in our vehicles and we generally do not maintain long-term agreements with our single source suppliers.

While we believe that we may be able to establish alternate supply relationships and can obtain or engineer replacement components for our single source components, we may be unable to do so in the short term or at all at prices or costs that are favorable to us. In particular, while we believe that we will be able to secure alternate sources of supply for almost all of our single sourced components on a relatively short time frame, qualifying alternate suppliers or developing our own replacements for certain highly customized components of the Tesla Roadster, such as the carbon fiber body panels, which are supplied to us by Sotira 35, a unit of Sora Composites Group, may be time consuming and costly.

In addition, Lotus is the only manufacturer for certain components, such as the chassis of our Tesla Roadster. We therefore refer to it as a sole source supplier. Replacing the components from Lotus that are sole sourced may require us to reengineer our vehicles, which would be time consuming and costly. We do not currently utilize any sole source suppliers other than Lotus.

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**Table of Contents**

This supply chain exposes us to multiple potential sources of delivery failure or component shortages for the Tesla Roadster, our powertrain component sales activities and the Model S. For example, earthquakes similar to the one that occurred in Japan in March 2011 could negatively impact our supply chain. We are currently evaluating, qualifying and selecting our suppliers for the planned production of the Model S and we intend to establish dual suppliers for several key components of the Model S, although we expect that a number of components for the Model S will be single sourced. We have in the past experienced source disruptions in our supply chains, which have caused delays in our production process and we may experience additional delays in the future with respect to the Tesla Roadster, the Model S and any other future vehicle we may produce.

Changes in business conditions, wars, governmental changes and other factors beyond our control or which we do not presently anticipate, could also affect our suppliers' ability to deliver components to us on a timely basis. Furthermore, if we experience significant increased demand, or need to replace our existing suppliers, there can be no assurance that additional supplies of component parts will be available when required on terms that are favorable to us, at all, or that any supplier would allocate sufficient supplies to us in order to meet our requirements or fill our orders in a timely manner. In the past, we have replaced certain suppliers because of their failure to provide components that met our quality control standards. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to delays in vehicle deliveries to our customers, which could hurt our relationships with our customers and also materially adversely affect our business, prospects and operating results.

Changes in our supply chain have resulted in the past, and may result in the future, in increased cost and delay. For example, a change in our supplier for our carbon fiber body panels contributed to the delay in our ability to ramp our production of the Tesla Roadster. A failure by our suppliers to provide the components necessary to manufacture our performance electric vehicles could prevent us from fulfilling customer orders in a timely fashion which could result in negative publicity, damage our brand and have a material adverse effect on our business, prospects, financial condition and operating results. In addition, since we have no fixed pricing arrangements with any of our component suppliers other than Lotus, our component suppliers could increase their prices with little or no notice to us, which could harm our financial condition and operating results if we are unable to pass such price increases along to our customers.

***Increases in costs, disruption of supply or shortage of raw materials, in particular lithium-ion cells, could harm our business.***

We may experience increases in the cost or a sustained interruption in the supply or shortage of raw materials. Any such an increase or supply interruption could materially negatively impact our business, prospects, financial condition and operating results. We use various raw materials in our business including aluminum, steel, nickel, carbon fiber, non-ferrous metals such as copper, as well as cobalt. The prices for these raw materials fluctuate depending on market conditions and global demand for these materials and could adversely affect our business and operating results. For instance, we are exposed to multiple risks relating to price fluctuations for lithium-ion cells. These risks include:

the inability or unwillingness of current battery manufacturers to build or operate battery cell manufacturing plants to supply the numbers of lithium-ion cells required to support the growth of the electric or plug-in hybrid vehicle industry as demand for such cells increases;

disruption in the supply of cells due to quality issues or recalls by the battery cell manufacturers; and

an increase in the cost of raw materials, such as cobalt, used in lithium-ion cells.

Our business is dependent on the continued supply of battery cells for our vehicles and for the battery pack we produce for other automobile manufacturers. While we believe several sources of the battery cell we have selected for the Tesla Roadster are available, we have fully qualified only one supplier for the cells used in the Tesla Roadster. The same is also true for the battery cells used for battery packs that we supply to other OEMs. Any disruption in the supply of battery cells from such vendor could temporarily disrupt production of

## **Table of Contents**

the Tesla Roadster and of the battery packs we produce for other automobile manufacturers until such time as a different supplier is fully qualified. Moreover, battery cell manufacturers may not supply us at reasonable prices or on reasonable terms or may choose to refuse to supply electric vehicle manufacturers to the extent they determine that the vehicles are not sufficiently safe. Furthermore, current fluctuations or shortages in petroleum and other economic conditions may cause us to experience significant increases in freight charges and raw material costs. Substantial increases in the prices for our raw materials or prices charged to us, such as those charged by our battery cell manufacturers, would increase our operating costs, and could reduce our margins if we cannot recoup the increased costs through increased electric vehicle prices. There can be no assurance that we will be able to recoup increasing costs of raw materials by increasing vehicle prices. We have also already announced an estimated price for the base model of our Model S but have not announced the final pricing of the other variants of the Model S. Any attempts to increase the announced or expected prices in response to increased raw material costs could be viewed negatively by our customers, result in cancellations of Model S reservations and could materially adversely affect our brand, image, business, prospects and operating results.

### ***Our future growth is dependent upon consumers' willingness to adopt electric vehicles.***

Our growth is highly dependent upon the adoption by consumers of, and we are subject to an elevated risk of any reduced demand for, alternative fuel vehicles in general and electric vehicles in particular. If the market for electric vehicles does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be harmed. The market for alternative fuel vehicles is relatively new, rapidly evolving, characterized by rapidly changing technologies, price competition, additional competitors, evolving government regulation and industry standards, frequent new vehicle announcements and changing consumer demands and behaviors.

Other factors that may influence the adoption of alternative fuel vehicles, and specifically electric vehicles, include:

perceptions about electric vehicle quality, safety (in particular with respect to lithium-ion battery packs), design, performance and cost, especially if adverse events or accidents occur that are linked to the quality or safety of electric vehicles;

perceptions about vehicle safety in general, in particular safety issues that may be attributed to the use of advanced technology, including vehicle electronics and regenerative braking systems, such as the possible perception that Toyota's recent vehicle recalls may be attributable to these systems;

the limited range over which electric vehicles may be driven on a single battery charge;

the decline of an electric vehicle's range resulting from deterioration over time in the battery's ability to hold a charge;

concerns about electric grid capacity and reliability, which could derail our past and present efforts to promote electric vehicles as a practical solution to vehicles which require gasoline;

the availability of alternative fuel vehicles, including plug-in hybrid electric vehicles;

improvements in the fuel economy of the internal combustion engine;

the availability of service for electric vehicles;

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consumers' desire and ability to purchase a luxury automobile or one that is perceived as exclusive;

the environmental consciousness of consumers;

volatility in the cost of oil and gasoline;

consumers' perceptions of the dependency of the United States on oil from unstable or hostile countries;

government regulations and economic incentives promoting fuel efficiency and alternate forms of energy;

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**Table of Contents**

access to charging stations, standardization of electric vehicle charging systems and consumers' perceptions about convenience and cost to charge an electric vehicle;

the availability of tax and other governmental incentives to purchase and operate electric vehicles or future regulation requiring increased use of nonpolluting vehicles;

perceptions about and the actual cost of alternative fuel; and

macroeconomic factors.

In addition, recent reports have suggested the potential for extreme temperatures to affect the range or performance of electric vehicles. Based on internal testing, we estimate that our Tesla Roadster would have a 5-10% reduction in range when operated in -20°C temperatures. To the extent customers have concerns about such reductions or third party reports which suggest reductions in range greater than our estimates gain widespread acceptance, our ability to market and sell our vehicles, particularly in colder climates, may be adversely impacted.

Additionally, we will become subject to regulations that require us to alter the design of our vehicles, which could negatively impact consumer interest in our vehicles. For example, our electric vehicles make less noise than internal combustion vehicles. Due to concerns about overly quiet vehicles and vision impaired pedestrians, in January 2011, Congress passed and the President signed the Pedestrian Safety Enhancement Act of 2010. The new law requires NHTSA to establish minimum sounds for electric vehicles and hybrid electric vehicles when travelling at low speeds. New standards must be established by mid-2012 for implementation likely by model year 2013.

The influence of any of the factors described above may cause current or potential customers not to purchase our electric vehicles, which would materially adversely affect our business, operating results, financial condition and prospects.

***Our success could be harmed by negative publicity regarding our company or products.***

From time to time, our vehicles are evaluated by third parties. For example, the show Top Gear which airs on the British Broadcasting Corporation did a review of the Tesla Roadster in 2008. Top Gear is one of the most watched automotive shows in the world with an estimated 350 million viewers worldwide and is broadcast in over 100 countries. Since originally airing in the fall of 2008, the episode about the Tesla Roadster has been rebroadcast repeatedly around the world. The review of the Tesla Roadster included a number of significant falsehoods regarding the car's performance, range and safety. Such criticisms create a negative public perception about the Tesla Roadster, and to the extent that these comments are believed by the public, may cause current or potential customers not to purchase our electric vehicles, which would materially adversely affect our business, operating results, financial condition and prospects.

***The range of our electric vehicles on a single charge declines over time which may negatively influence potential customers' decisions whether to purchase our vehicles.***

The range of our electric vehicles on a single charge declines principally as a function of usage, time and charging patterns as well as other factors. For example, a customer's use of their Tesla vehicle as well as the frequency with which they charge the battery of their Tesla vehicle can result in additional deterioration of the battery's ability to hold a charge. We currently expect that our battery pack for the Tesla Roadster will retain approximately 60-65% of its ability to hold its initial charge after approximately 100,000 miles or seven years, which will result in a decrease to the vehicle's initial range. Such battery deterioration and the related decrease in range may negatively influence potential customer decisions whether to purchase our vehicles, which may harm our ability to market and sell our vehicles.

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**Table of Contents**

*We are dependent upon our ability to fully draw down on our loan facility from the United States Department of Energy, which may restrict our ability to conduct our business.*

Our plan for manufacturing the Model S and for developing our electric powertrain facility depends on our ability to fully draw down on our DOE Loan Facility. Our DOE Loan Facility provides for a \$465.0 million loan facility under the DOE's ATVM Program to help finance the continued development of the Model S, including the planned build out and operation of a manufacturing facility, and to finance the build out and operation of our electric powertrain manufacturing facility. We cannot, however, access all of these funds at once, but only through periodic draws through January 2013 as eligible costs are incurred. Through March 31, 2011, we have received loans under our DOE Loan Facility for an aggregate of \$102.5 million. Our ability to draw down these funds under the DOE Loan Facility is conditioned upon several draw conditions. For the Model S manufacturing facility project, the draw conditions include our achievement of progress milestones relating to the design and development of the Model S and the Model S manufacturing facility. Additionally, the DOE Loan Facility requires us to comply with certain operating and financial covenants and places additional restrictions on our ability to operate our business. We have limited experience in managing our business with such restrictions and others that are associated with a significant credit agreement. If we are unable to draw down the anticipated funds under the DOE Loan Facility, or our ability to make such draw downs is delayed, we may need to obtain additional or alternative financing to operate our Model S and electric powertrain manufacturing facilities to the extent our cash on hand is insufficient. Any failure to obtain the remaining DOE funds or secure other alternative funding could materially and adversely affect our business and prospects. Such additional or alternative financing may not be available on attractive terms, if at all, and could be more costly for us to obtain. As a result, our plans for building our Model S and electric powertrain manufacturing plants could be significantly delayed which would materially adversely affect our business, prospects, financial condition and operating results.

Our DOE Loan Facility documents contain customary covenants that include, among others, a requirement that the project be conducted in accordance with the business plan for such project, compliance with all requirements of the ATVM Program, and limitations on our and our subsidiaries' ability to incur indebtedness, incur liens, make investments or loans, enter into mergers or acquisitions, dispose of assets, pay dividends or make distributions on capital stock, prepay indebtedness, pay management, advisory or similar fees to affiliates, enter into certain affiliate transactions, enter into new lines of business and enter into certain restrictive agreements. These restrictions may limit our ability to operate our business and may cause us to take actions or prevent us from taking actions we believe are necessary from a competitive standpoint or that we otherwise believe are necessary to grow our business.

In addition, our DOE Loan Facility requires Mr. Musk and certain of his affiliates, until one year after we complete the project relating to the Model S Facility, to own at least 65% of the Tesla capital stock held by them as of the date of the DOE Loan Facility, and a failure to comply would be an event of default that could result in an acceleration of all obligations under the DOE Loan Facility documents and the exercise of other remedies by the DOE.

*The operation of our vehicles is different from internal combustion engine vehicles and our customers may experience difficulty operating them properly, including difficulty transitioning between different methods of braking.*

We have designed our vehicles to minimize inconvenience and inadvertent driver damage to the powertrain. In certain instances, these protections may cause the vehicle to behave in ways that are unfamiliar to drivers of internal combustion vehicles. For example, we employ regenerative braking to recharge the battery in most modes of vehicle operation. Our customers may become accustomed to using this regenerative braking instead of the wheel brakes to slow the vehicle. However, when the vehicle is at maximum charge, the regenerative braking is not needed and is not employed. Accordingly, our customers may have difficulty shifting between different methods of braking. In addition, we use safety mechanisms to limit motor torque when the powertrain system reaches elevated temperatures. In such instances, the vehicle's acceleration and speed will decrease. Finally, if the driver permits the battery to substantially deplete its charge, the vehicle will progressively limit motor torque

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**Table of Contents**

and speed to preserve the charge that remains. The vehicle will lose speed and ultimately coast to a stop. Despite several warnings about an imminent loss of charge, the ultimate loss of speed may be unexpected. There can be no assurance that our customers will operate the vehicles properly, especially in these situations. Any accidents resulting from such failure to operate our vehicles properly could harm our brand and reputation, result in adverse publicity and product liability claims, and have a material adverse affect on our business, prospects, financial condition and operating results. In addition, if consumers dislike these features, they may choose not to buy additional cars from us which could also harm our business and prospects.

***Developments in alternative technologies or improvements in the internal combustion engine may materially adversely affect the demand for our electric vehicles.***

Significant developments in alternative technologies, such as advanced diesel, ethanol, fuel cells or compressed natural gas, or improvements in the fuel economy of the internal combustion engine, may materially and adversely affect our business and prospects in ways we do not currently anticipate. For example, fuel which is abundant and relatively inexpensive in North America, such as compressed natural gas, may emerge as consumers preferred alternative to petroleum based propulsion. Any failure by us to develop new or enhanced technologies or processes, or to react to changes in existing technologies, could materially delay our development and introduction of new and enhanced electric vehicles, which could result in the loss of competitiveness of our vehicles, decreased revenue and a loss of market share to competitors.

***If we are unable to keep up with advances in electric vehicle technology, we may suffer a decline in our competitive position.***

We may be unable to keep up with changes in electric vehicle technology and, as a result, may suffer a decline in our competitive position. Any failure to keep up with advances in electric vehicle technology would result in a decline in our competitive position which would materially and adversely affect our business, prospects, operating results and financial condition. Our research and development efforts may not be sufficient to adapt to changes in electric vehicle technology. As technologies change, we plan to upgrade or adapt our vehicles and introduce new models in order to continue to provide vehicles with the latest technology, in particular battery cell technology. However, our vehicles may not compete effectively with alternative vehicles if we are not able to source and integrate the latest technology into our vehicles. For example, we do not manufacture battery cells, which makes us dependent upon other suppliers of battery cell technology for our battery packs.

***Our distribution model is different from the predominant current distribution model for automobile manufacturers, which makes evaluating our business, operating results and future prospects difficult.***

Our distribution model is not common in the automobile industry today, particularly in the United States. We plan to continue to sell our performance electric vehicles over the internet and in company-owned Tesla stores. This model of vehicle distribution is relatively new and unproven, especially in the United States, and subjects us to substantial risk as it requires, in the aggregate, a significant expenditure and provides for slower expansion of our distribution and sales systems than may be possible by utilizing a more traditional dealer franchise system. For example, we will not be able to utilize long established sales channels developed through a franchise system to increase our sales volume, which may harm our business, prospects, financial condition and operating results. Moreover, we will be competing with companies with well-established distribution channels.

We have opened 18 Tesla stores in the United States, Europe and Japan, seven of which have been open for less than one year. We have only limited experience distributing and selling our performance vehicles through our Tesla stores. As of March 31, 2011 we had only sold approximately 1,650 Tesla Roadsters to customers, primarily in the United States and Europe. Our success will depend in large part on our ability to effectively develop our own sales channels and marketing strategies. Implementing our business model is subject to numerous significant challenges, including obtaining permits and approvals from local and state authorities, and we may not be successful in addressing these challenges. In April 2011, we opened our newest store at Santana

## **Table of Contents**

Row in San Jose, California. The concept and layout of this store, which is located in a high profile retail mall, is different than what has previously been used in automotive sales. We do not know whether our new store strategy will be successful, if consumers will be willing to purchase vehicles in this manner or if these locations will be deemed to comply with applicable zoning restrictions. As a result, we may incur additional costs in order to improve or change our retail strategy.

You must consider our business and prospects in light of the risks, uncertainties and difficulties we encounter as we implement our business model. For instance, we will need to persuade customers, suppliers and regulators of the validity and sustainability of our business model. We cannot be certain that we will be able to do so, or to successfully address the risks, uncertainties and difficulties that our business strategy faces. Any failure to successfully address any of the risks, uncertainties and difficulties related to our business model would have a material adverse effect on our business and prospects.

***We may face regulatory limitations on our ability to sell vehicles directly or over the internet which could materially and adversely affect our ability to sell our electric vehicles.***

We sell our vehicles from our Tesla stores as well as over the internet. We may not be able to sell our vehicles through this sales model in each state in the United States as many states have laws that may be interpreted to prohibit internet sales by manufacturers to residents of the state or to impose other limitations on this sales model, including laws that prohibit manufacturers from selling vehicles directly to consumers without the use of an independent dealership or without a physical presence in the state. For example, the state of Texas prohibits a manufacturer from being licensed as a dealer or to act in the capacity of a dealer, which would prohibit us from operating a store in the state of Texas and may restrict our ability to sell vehicles to Texas residents over the internet from out of state altogether without altering our sales model. The state of Kansas provides that a manufacturer cannot deliver a vehicle to a Kansas resident except through a dealer licensed to do business in the state of Kansas, which may be interpreted to require us to open a store in the state of Kansas in order to sell vehicles to Kansas residents. In some states where we have opened a gallery, which is a location where potential customers can view our vehicles but is not a full retail location, it is possible that a state regulator could take the position that activities at our gallery constitute an unlicensed motor vehicle dealership and thereby violates applicable manufacturer-dealer laws. For example, the state of Colorado required us to obtain dealer and manufacturer licenses in the state in order to operate our gallery in Colorado. In addition, some states have requirements that service facilities be available with respect to vehicles sold in the state, which may be interpreted to also require that service facilities be available with respect to vehicles sold over the internet to residents of the state thereby limiting our ability to sell vehicles in states where we do not maintain service facilities.

The foregoing examples of state laws governing the sale of motor vehicles are just some of the regulations we will face as we sell our vehicles. In many states, the application of state motor vehicle laws to our specific sales model is largely untested under state motor vehicle industry laws, particularly with respect to sales over the internet, and would be determined by a fact specific analysis of numerous factors, including whether we have a physical presence or employees in the applicable state, whether we advertise or conduct other activities in the applicable state, how the sale transaction is structured, the volume of sales into the state, and whether the state in question prohibits manufacturers from acting as dealers. As a result of the fact specific and untested nature of these issues, and the fact that applying these laws intended for the traditional automobile distribution model to our sales model allows for some interpretation and discretion by the regulators, the manner in which the applicable authorities will apply their state laws to our distribution model is unknown. Such laws, as well as other laws governing the motor vehicle industry, may subject us to potential inquiries and investigations from state motor vehicle regulators who may question whether our sales model complies with applicable state motor vehicle industry laws and who may require us to change our sales model or may prohibit our ability to sell our vehicles to residents in such states. In addition, decisions by regulators permitting us to sell vehicles may be subject to challenges as to whether such decisions comply with applicable state motor vehicle industry laws. Such challenges, if successful, could prohibit our ability to sell our vehicles to residents in such states.

## **Table of Contents**

We are also registered as both a motor vehicle manufacturer and dealer in Canada, Australia, and Japan, and have obtained licenses to sell vehicles in other countries such as Hong Kong and Singapore. Furthermore, while we have performed an analysis of the principal laws in the European Union relating to our distribution model and believe we comply with such laws, we have not performed a complete analysis in all foreign jurisdictions in which we may sell vehicles. Accordingly, there may be laws in jurisdictions we have not yet entered or laws we are unaware of in jurisdictions we have entered that may restrict our vehicle reservation practices or other business practices. Even for those jurisdictions we have analyzed, the laws in this area can be complex, difficult to interpret and may change over time.

Regulatory limitations on our ability to sell vehicles could materially and adversely affect our ability to sell our electric vehicles.

### ***Reservations for Model S sedans are fully refundable to customers.***

As of April 30, 2011, we had unfilled reservations for approximately 4,600 Model S sedans, all of which are subject to cancellation by the customer up until such time that the customer enters into a purchase agreement. Historically, all of our reservations have been refundable and we have had a significant number of customers who submitted reservations for the Tesla Roadster cancel those reservations and we have refunded their deposits.

Given the long lead times that we have historically experienced between customer reservation and delivery on the Tesla Roadster and that we expect to experience on the Model S, there is a heightened risk that customers that have made reservations may not ultimately take delivery on vehicles due to potential changes in customer preferences, competitive developments and other factors. For example, when we delayed the introduction of the original Tesla Roadster in the fall of 2007, we experienced a significant number of customers that cancelled their reservations and requested the return of their reservation payment. If we encounter delays in the introduction of the Model S, we believe that a significant number of our customers could similarly cancel their reservations. As a result, no assurance can be made that reservations will not be cancelled and will ultimately result in the final purchase, delivery, and sale of the vehicle. Such cancellations could harm our financial condition, business, prospects and operating results.

### ***If we are unable to design, develop, market and sell new electric vehicles and services that address additional market opportunities, our business, prospects and operating results will suffer.***

We may not be able to successfully develop new electric vehicles and services, address new market segments or develop a significantly broader customer base. To date, we have focused our business on the sale of high-performance electric vehicles and have targeted relatively affluent consumers. We will need to address additional markets and expand our customer demographic in order to further grow our business. In particular, we intend the Model S to appeal to the customers of premium vehicles, which is a much larger and different demographic from that of the Tesla Roadster. Successfully offering a vehicle in this vehicle class requires delivering a vehicle with a higher standard of fit and finish in the interior and exterior than currently exists in the Tesla Roadster, at a price that is competitive with other premium vehicles. We have not completed the design, component sourcing or manufacturing process for the Model S, so it is difficult to forecast its eventual cost, manufacturability or quality. Therefore, there can be no assurance that we will be able to deliver a vehicle that is ultimately competitive in the premium vehicle market. In 2011, we publicly announced the Model X crossover as the first vehicle we intend to develop by leveraging the Model S platform. We have also previously announced our intent to develop a third generation electric vehicle which we expect to produce at our manufacturing facility in Fremont, California after the introduction of the Model S. However, we have not yet finalized the design, engineering or component sourcing plans for these vehicles and there are no assurances that we will be able to bring these vehicles to market at a lower price point and in higher volumes than our Model S as we currently intend, if at all. Our failure to address additional market opportunities would harm our business, prospects, financial condition and operating results.

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**Table of Contents**

***Any changes to the Federal Trade Commission's electric vehicle range testing procedure or the United States Environmental Protection Agency's energy consumption regulations for electric vehicles could result in a reduction to the advertised range of our vehicles which could negatively impact our sales and harm our business.***

The Federal Trade Commission (FTC) requires us to calculate and display the range of our electric vehicles on a label we affix to the vehicle's window. The FTC specifies that we follow testing requirements set forth by the Society of Automotive Engineers (SAE) which further requires that we test using the EPA's combined city and highway testing cycles. The EPA recently announced that it would develop and establish new energy efficiency testing methodologies for electric vehicles. Based on initial indications from the EPA, we believe it is likely that the EPA will modify its testing cycles in a manner that, when applied to our vehicles, could reduce the advertised range of our vehicles by up to 30% as compared to the combined two-cycle test currently applicable to our vehicles. However, there can be no assurance that the modified EPA testing cycles will not result in a greater reduction. To the extent that the FTC adopts these procedures in place of the current procedures from the SAE, this could impair our ability to advertise the Tesla Roadster as a vehicle that is capable of going in excess of 200 miles. Moreover, such changes could impair our ability to deliver the Model S with the initially advertised range, which could result in the cancellation of a number of the approximately 4,600 reservations that have been placed for the Model S as of April 30, 2011. Any reduction in the advertised range of our vehicles could negatively impact our vehicle sales and harm our business. The EPA's final rule on fuel economy labeling is scheduled for release in the summer of 2011 with an effective date likely to apply to model year 2013, but potentially as soon as model year 2012.

***We have no experience with using common platforms in the design and manufacture of our vehicles.***

If we are unable to effectively leverage the benefits of using an adaptable platform architecture, our business prospects, operating results and financial condition would be adversely affected. We intend to design the Model S with an adaptable platform architecture and common electric powertrain so that we can use the platform of the Model S to create future electric vehicles, including, as examples, a crossover/sport utility vehicle, a van and a cabriolet. In 2011, we publicly announced the Model X crossover as the first vehicle we intend to develop by leveraging the Model S platform. However, we have no experience with using common platforms in the design and manufacture of our vehicles and the design of the Model S is not complete. We may make changes to the design of the Model S that may make it more difficult to use the Model S platform for future electric vehicles. There are no assurances that we will be able to use the Model S platform to bring future vehicle models, including the Model X crossover, to market faster or more inexpensively by leveraging use of this common platform or that there will be sufficient customer demand for the Model X crossover or additional vehicle variants of this platform.

***We may experience significant delays in the design, manufacture, launch and financing of the Model X which could harm our business and prospects.***

We currently intend to introduce our Model X crossover vehicle in the fourth quarter of 2013. Any delay in the financing, design, manufacture and launch of the Model X could materially damage our brand, business, prospects, financial condition and operating results. Automobile manufacturers often experience delays in the design, manufacture and commercial release of new vehicle models. We experienced significant delays in launching the Tesla Roadster, which resulted in additional costs and adverse publicity for our business. We may experience similar delays, cost overruns and adverse publicity in launching the Model X, any of which could be significant. We are in the initial design and development stages and currently do not have a drivable early prototype of the Model X or a Model X manufacturing plan. Furthermore, we have not yet begun to evaluate, qualify or select suppliers for the planned production of the Model X and cannot begin to do so until the design of the Model X is finalized. We may not be able to engage suppliers for the components in a timely manner, at an acceptable price or in the necessary quantities. We will also need to do extensive testing to ensure that the Model X is in compliance with applicable NHTSA safety regulations and EPA and CARB emission regulations prior to beginning mass production and delivery of the vehicles. In addition, we have limited resources and, to

## **Table of Contents**

the extent that such resources are devoted to the manufacture and production of the Model S, we may have difficulty producing and delivering our Model X vehicle in a timely manner. If we are not able to manufacture and deliver our Model X in a timely manner and consistent with our budget and cost projections, our business, prospects, operating results and financial condition will be negatively impacted and our ability to grow our business will be harmed.

*The automotive market is highly competitive, and we may not be successful in competing in this industry. We currently face competition from established competitors and expect to face competition from others in the future.*

The worldwide automotive market, particularly for alternative fuel vehicles, is highly competitive today and we expect it will become even more so in the future. Another automobile manufacturer entered the electric vehicle market at the end of 2010 and we expect additional competitors to enter this market within the next several years and as they do so we expect that we will experience significant competition. With respect to our Tesla Roadster, we currently face strong competition from established automobile manufacturers, including manufacturers of high-performance vehicles, such as Porsche and Ferrari. In addition, upon the launch of our Model S sedan, we will face competition from existing and future automobile manufacturers in the extremely competitive premium sedan market, including Audi, BMW, Lexus and Mercedes.

Many established and new automobile manufacturers have entered or have announced plans to enter the alternative fuel vehicle market. In Japan, Mitsubishi has been selling its electric iMiEV since April 2010. In December 2010, Nissan introduced in the United States the Nissan Leaf, a fully electric vehicle and Ford has announced that it plans to introduce an electric vehicle in 2011. In addition, several manufacturers, including General Motors, Toyota, Ford, and Honda, are each selling hybrid vehicles, and certain of these manufacturers have announced plug-in versions of their hybrid vehicles. For example, in December 2010, General Motors introduced the Chevrolet Volt, which is a plug-in hybrid vehicle that operates purely on electric power for a limited number of miles, at which time an internal combustion engine engages to recharge the battery.

Moreover, it has been reported that BMW, Daimler, Lexus, Audi, Renault and Volkswagen are also developing electric vehicles. Several new start-ups have also announced plans to enter the market for performance electric vehicles, although none of these have yet come to market. Finally, electric vehicles have already been brought to market in China and other foreign countries and we expect a number of those manufacturers to enter the United States market as well.

Most of our current and potential competitors have significantly greater financial, technical, manufacturing, marketing and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products. Virtually all of our competitors have more extensive customer bases and broader customer and industry relationships than we do. In addition, almost all of these companies have longer operating histories and greater name recognition than we do. Our competitors may be in a stronger position to respond quickly to new technologies and may be able to design, develop, market and sell their products more effectively.

Furthermore, certain large manufacturers offer financing and leasing options on their vehicles and also have the ability to market vehicles at a substantial discount, provided that the vehicles are financed through their affiliated financing company. We only began offering a leasing program in February 2010 which is currently only available to qualified Tesla Roadster customers in the United States. We do not currently offer, or plan to offer, any form of direct financing on our vehicles. We have not in the past, and do not currently, offer customary discounts on our vehicles. The lack of our direct financing options and the absence of customary vehicle discounts could put us at a competitive disadvantage.

We expect competition in our industry to intensify in the future in light of increased demand for alternative fuel vehicles, continuing globalization and consolidation in the worldwide automotive industry. Factors affecting

**Table of Contents**

competition include product quality and features, innovation and development time, pricing, reliability, safety, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales and increased inventory, which may result in a further downward price pressure and adversely affect our business, financial condition, operating results and prospects. Our ability to successfully compete in our industry will be fundamental to our future success in existing and new markets and our market share. There can be no assurances that we will be able to compete successfully in our markets. If our competitors introduce new cars or services that compete with or surpass the quality, price or performance of our cars or services, we may be unable to satisfy existing customers or attract new customers at the prices and levels that would allow us to generate attractive rates of return on our investment. Increased competition could result in price reductions and revenue shortfalls, loss of customers and loss of market share, which could harm our business, prospects, financial condition and operating results.

***Demand in the automobile industry is highly volatile.***

Volatility of demand in the automobile industry may materially and adversely affect our business, prospects, operating results and financial condition. The markets in which we currently compete and plan to compete in the future have been subject to considerable volatility in demand in recent periods. For example, according to automotive industry sources, sales of passenger vehicles in North America during the fourth quarter of 2008 were over 30% lower than those during the same period in the prior year. Demand for automobile sales depends to a large extent on general, economic, political and social conditions in a given market and the introduction of new vehicles and technologies. As a new automobile manufacturer and low volume producer, we have less financial resources than more established automobile manufacturers to withstand changes in the market and disruptions in demand. As our business grows, economic conditions and trends in other countries and regions where we sell our electric vehicles will impact our business, prospects and operating results as well. Demand for our electric vehicles may also be affected by factors directly impacting automobile price or the cost of purchasing and operating automobiles such as sales and financing incentives, prices of raw materials and parts and components, cost of fuel and governmental regulations, including tariffs, import regulation and other taxes. Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in further downward price pressure and adversely affect our business, prospects, financial condition and operating results. These effects may have a more pronounced impact on our business given our relatively smaller scale and financial resources as compared to many incumbent automobile manufacturers.

***Difficult economic conditions may affect consumer purchases of luxury items, such as our performance electric vehicles.***

Over the last few years, the deterioration in the global financial markets and continued challenging condition of the macroeconomic environment has negatively impacted consumer spending and we believe has adversely affected the sales of our Tesla Roadster. The automobile industry in particular was severely impacted by the poor economic conditions and several vehicle manufacturing companies, including General Motors and Chrysler, were forced to file for bankruptcy. Sales of new automobiles generally have dropped during this recessionary period. Sales of high-end and luxury consumer products, such as our performance electric vehicles, depend in part on discretionary consumer spending and are even more exposed to adverse changes in general economic conditions. Difficult economic conditions could therefore temporarily reduce the market for vehicles in our price range. Discretionary consumer spending also is affected by other factors, including changes in tax rates and tax credits, interest rates and the availability and terms of consumer credit.

If the current difficult economic conditions continue or worsen, we may experience a decline in the demand for our Tesla Roadster or reservations for our Model S, either of which could materially harm our business, prospects, financial condition and operating results. Accordingly, any events that have a negative effect on the United States economy or on foreign economies or that negatively affect consumer confidence in the economy, including disruptions in credit and stock markets, and actual or perceived economic slowdowns, may harm our business, prospects, financial condition and operating results.

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**Table of Contents**

*Our financial results may vary significantly from period-to-period due to the seasonality of our business and fluctuations in our operating costs.*

Our operating results may vary significantly from period-to-period due to many factors, including seasonal factors that may have an effect on the demand for our electric vehicles. Demand for new cars in the automobile industry in general, and for high-performance sports vehicles such as the Tesla Roadster in particular, typically decline over the winter season, while sales are generally higher as compared to the winter season during the spring and summer months. Sales of the Tesla Roadster have fluctuated on a seasonal basis with increased sales during the spring and summer months in our second and third fiscal quarters relative to our fourth and first fiscal quarters. We note that, in general, automotive sales tend to decline over the winter season and we anticipate that our sales of the Model S, the Model X and other models we introduce may have similar seasonality. However, our limited operating history makes it difficult for us to judge the exact nature or extent of the seasonality of our business. Also, any unusually severe weather conditions in some markets may impact demand for our vehicles. Our operating results could also suffer if we do not achieve revenue consistent with our expectations for this seasonal demand because many of our expenses are based on anticipated levels of annual revenue.

We also expect our period-to-period operating results to vary based on our operating costs which we anticipate will increase significantly in future periods as we, among other things, design, develop and manufacture our Model S, Model X and electric powertrain components, build and equip new manufacturing facilities to produce the Model S and electric powertrain components, open new Tesla stores with maintenance and repair capabilities, incur costs for warranty repairs or product recalls, if any, increase our sales and marketing activities, and increase our general and administrative functions to support our growing operations.

As a result of these factors, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our operating results may not meet expectations of equity research analysts or investors. If this occurs, the trading price of our common stock could fall substantially either suddenly or over time.

***Marketplace confidence in our long-term business prospects is important for building and maintaining our business.***

If we are unable to establish and maintain confidence about our business prospects among consumers and within our industry, then our financial condition, operating results and business prospects may suffer materially. Our vehicles are highly technical products that require maintenance and support. If we were to cease or cut back operations, even years from now, buyers of our vehicles from years earlier might have much more difficulty in maintaining their vehicles and obtaining satisfactory support. As a result, consumers may be less likely to purchase our vehicles now if they are not convinced that our business will succeed or that our operations will continue for many years. Similarly, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with us if they are not convinced that our business will succeed. For example, during the economic downturn of 2008, we had difficulty raising the necessary funding for our operations, and, as a result, in the fourth quarter of 2008 we had to lay off approximately 60 employees and curtail our expansion plans. In addition, during this period a number of customers canceled their previously placed reservations. If we are required to take similar actions in the future, such actions may result in negative perceptions regarding our long-term business prospects.

Accordingly, in order to build and maintain our business, we must maintain confidence among customers, suppliers and other parties in our liquidity and long-term business prospects. In contrast to some more established auto makers, we believe that, in our case, the task of maintaining such confidence may be particularly complicated by factors such as the following:

our limited operating history;

our limited revenues and lack of profitability to date;

**Table of Contents**

unfamiliarity with or uncertainty about the Tesla Roadster and the Model S;

uncertainty about the long-term marketplace acceptance of alternative fuel vehicles generally, or electric vehicles specifically;

the prospect that we will need ongoing infusions of external capital to fund our planned operations;

the size of our expansion plans in comparison to our existing capital base and scope and history of operations; and

the prospect or actual emergence of direct, sustained competitive pressure from more established auto makers, which may be more likely if our initial efforts are perceived to be commercially successful.

Many of these factors are largely outside our control, and any negative perceptions about our long-term business prospects, even if exaggerated or unfounded, would likely harm our business and make it more difficult to raise additional funds when needed.

***We may need to raise additional funds and these funds may not be available to us when we need them. If we cannot raise additional funds when we need them, our operations and prospects could be negatively affected.***

The design, manufacture, sale and servicing of automobiles is a capital intensive business. Since inception through March 31, 2011, we had accumulated net losses of \$463.9 million and had used \$373.9 million of cash in operations and while recognizing only \$292.5 million in revenue. As of March 31, 2011, we had \$100.7 million in cash and cash equivalents, which excludes the \$42.9 million in restricted cash we have remaining in the dedicated account under the provisions of our DOE Loan Facility. We expect that our current sources of liquidity, including cash and cash equivalents, cash held in our DOE account and the remaining amounts available under the DOE Loan Facility, together with our anticipated cash from operating activities and the proceeds of this offering and the concurrent private placement, will be sufficient to fund our operations for the next 24 months based on current expectations. However, if there are delays in the launch of the Model S, if we are unable to draw down the anticipated funds under the DOE Loan Facility for any reason, including our failure to meet operating or financial covenants, or if the costs in building our Model S and powertrain manufacturing facilities exceed our expectations or if we incur any significant unplanned expenses, we may need to raise additional funds through the issuance of equity, equity-related or debt securities or through obtaining credit from government or financial institutions. This capital will be necessary to fund our ongoing operations, continue research, development and design efforts including those for our planned Model X crossover vehicle, establish sales and service centers, improve infrastructure such as expanded battery assembly facilities, and to make the investments in tooling and manufacturing capital required to introduce the Model S. In particular, we have not yet begun to accept customer reservation payments on our Model X crossover, can provide no assurance that customers will be willing to make such payments and accordingly may be reliant on other financing sources to fund the development of this vehicle. We cannot be certain that additional funds will be available to us on favorable terms when required, or at all. If we cannot raise additional funds when we need them, our financial condition, results of operations, business and prospects could be materially adversely affected. For example, during the economic downturn of 2008, we had difficulty raising the necessary funding for our operations and, as a result, in the fourth quarter of 2008 we had to lay off approximately 60 employees and curtail our expansion plans. Additionally, under our DOE Loan Facility, we face restrictions on our ability to incur additional indebtedness, and in the future may need to obtain a waiver from the DOE in order to do so. We may not be able to obtain such waiver from the DOE which may harm our business. Future issuance of equity or equity-related securities will dilute the ownership interest of existing stockholders and our issuance of debt securities could increase the risk or perceived risk of our company.

## **Table of Contents**

***If our vehicles fail to perform as expected, our ability to develop, market and sell our electric vehicles could be harmed.***

Our vehicles may contain defects in design and manufacture that may cause them not to perform as expected or that may require repair. For example, our vehicles use a substantial amount of software code to operate. Software products are inherently complex and often contain defects and errors when first introduced. While we have performed extensive internal testing, we currently have a limited frame of reference by which to evaluate the long-term performance of our Tesla Roadster. We have no frame of reference by which to evaluate our Model S upon which our business prospects depend. There can be no assurance that we will be able to detect and fix any defects in the vehicles prior to their sale to consumers. We experienced product recalls in May 2009 and October 2010, both of which were unrelated to our electric powertrain. In May 2009, we initiated a product recall after we determined that a condition caused by insufficient torquing of the rear inner hub flange bolt existed in some of our Tesla Roadsters, as a result of a missed process during the manufacture of the Tesla Roadster glider, which is the partially assembled Tesla Roadster that does not contain our electric powertrain. In October 2010, we initiated a product recall after the 12 volt, low voltage auxiliary cable in a single vehicle chafed against the edge of a carbon fiber panel in the vehicle causing a short, smoke and possible fire behind the right front headlamp of the vehicle. Although the cost of the most recent recall was not material, we may experience additional recalls in the future, which could adversely affect our brand in our target markets and could adversely affect our business, prospects and results of operations. Our electric vehicles, including the Tesla Roadster and Model S, may not perform consistent with customers' expectations or consistent with other vehicles currently available. For example, our electric vehicles may not have the durability or longevity of current vehicles, and may not be as easy to repair as other vehicles currently on the market. Any product defects or any other failure of our performance electric vehicles to perform as expected could harm our reputation and result in adverse publicity, lost revenue, delivery delays, product recalls, product liability claims, harm to our brand and reputation, and significant warranty and other expenses, and could have a material adverse impact on our business, financial condition, operating results and prospects.

***We have very limited experience servicing our vehicles and we are using a different service model from the one typically used in the industry. If we are unable to address the service requirements of our existing and future customers our business will be materially and adversely affected.***

If we are unable to successfully address the service requirements of our existing and future customers our business and prospects will be materially and adversely affected. In addition, we anticipate the level and quality of the service we provide our Tesla Roadster customers will have a direct impact on the success of the Model S and our future vehicles. If we are unable to satisfactorily service our Tesla Roadster customers, our ability to generate customer loyalty, grow our business and sell additional Tesla Roadsters as well as Model S sedans could be impaired.

We have very limited experience servicing our vehicles. As of March 31, 2011 we had sold only approximately 1,650 Tesla Roadsters to customers, primarily in the United States and Europe. We do not plan to begin production of any Model S vehicles until mid-2012 with higher volume production not occurring until 2013, and do not have any experience servicing these cars as they do not exist currently. Servicing electric vehicles is different than servicing vehicles with internal combustion engines and requires specialized skills, including high voltage training and servicing techniques.

We plan to service our performance electric vehicles through our company-owned Tesla stores and through our mobile service technicians known as the Tesla Rangers. We have opened 18 Tesla stores, most of which are equipped to actively service our performance electric vehicles. However, seven stores have been open for less than one year, and to date we have only limited experience servicing our performance vehicles through our Tesla stores. Going forward, we intend to build separate sales and service locations in several markets, but to date have limited experience with separate sales and service locations within a geographic market. We will need to open additional Tesla stores with service capabilities and standalone service locations, as well as hire and train

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**Table of Contents**

significant numbers of new employees to staff these centers and act as Tesla Rangers, in order to successfully maintain our fleet of delivered performance electric vehicles. We only implemented our Tesla Rangers program in October 2009 and have limited experience in deploying them to service our customers' vehicles. There can be no assurance that these service arrangements or our limited experience servicing our vehicles will adequately address the service requirements of our customers to their satisfaction, or that we will have sufficient resources to meet these service requirement in a timely manner as the volume of vehicles we are able to deliver annually increases.

We do not expect to be able to open Tesla stores in all the geographic areas in which our existing and potential customers may reside. In order to address the service needs of customers that are not in geographical proximity to our service centers, we plan to either transport those vehicles to the nearest Tesla store or service center for servicing or deploy our mobile Tesla Rangers to service the vehicles at the customer's location. These special arrangements may be expensive and we may not be able to recoup the costs of providing these services to our customers. In addition, a number of potential customers may choose not to purchase our vehicles because of the lack of a more widespread service network. If we do not adequately address our customers' service needs, our brand and reputation will be adversely affected, which in turn, could have a material and adverse impact on our business, financial condition, operating results and prospects.

Traditional automobile manufacturers in the United States do not provide maintenance and repair services directly. Consumers must rather service their vehicles through franchised dealerships or through third party maintenance service providers. We do not have any such arrangements with third party service providers and it is unclear when or even whether such third party service providers will be able to acquire the expertise to service our vehicles. At this point, we anticipate that we will be providing substantially all of the service for our vehicles for the foreseeable future. As our vehicles are placed in more locations, we may encounter negative reactions from our consumers who are frustrated that they cannot use local service stations to the same extent as they have with their conventional automobiles and this frustration may result in negative publicity and reduced sales, thereby harming our business and prospects.

In addition, the motor vehicle industry laws in many states require that service facilities be available with respect to vehicles physically sold from locations in the state. Whether these laws would also require that service facilities be available with respect to vehicles sold over the internet to consumers in a state in which we have no physical presence is uncertain. While we believe our Tesla Ranger program and our practice of shipping customers' vehicles to our nearest Tesla store for service would satisfy regulators in these circumstances, without seeking formal regulatory guidance, there are no assurances that regulators will not attempt to require that we provide physical service facilities in their states. Further, certain state franchise laws which prohibit manufacturers from being licensed as a dealer or acting in the capacity of dealer also restrict manufacturers from providing vehicle service. If issues arise in connection with these laws, certain aspects of Tesla's service program would need to be restructured to comply with state law, which may harm our business.

***We may not succeed in continuing to establish, maintain and strengthen the Tesla brand, which would materially and adversely affect customer acceptance of our vehicles and components and our business, revenues and prospects.***

Our business and prospects are heavily dependent on our ability to develop, maintain and strengthen the Tesla brand. Any failure to develop, maintain and strengthen our brand may materially and adversely affect our ability to sell the Tesla Roadster and planned electric vehicles, including the Model S, and sell our electric powertrain components. If we do not continue to establish, maintain and strengthen our brand, we may lose the opportunity to build a critical mass of customers. Promoting and positioning our brand will likely depend significantly on our ability to provide high quality electric cars and maintenance and repair services, and we have very limited experience in these areas. In addition, we expect that our ability to develop, maintain and strengthen the Tesla brand will also depend heavily on the success of our marketing efforts. To date, we have limited experience with marketing activities as we have relied primarily on the internet, word of mouth and attendance at

## **Table of Contents**

industry trade shows to promote our brand. To further promote our brand, we may be required to change our marketing practices, which could result in substantially increased advertising expenses, including the need to use traditional media such as television, radio and print. The automobile industry is intensely competitive, and we may not be successful in building, maintaining and strengthening our brand. Many of our current and potential competitors, particularly automobile manufacturers headquartered in Detroit, Japan and the European Union, have greater name recognition, broader customer relationships and substantially greater marketing resources than we do. If we do not develop and maintain a strong brand, our business, prospects, financial condition and operating results will be materially and adversely impacted.

### ***We are dependent upon our relationship with Lotus for the manufacturing of the Tesla Roadster.***

In July 2005, we entered into a supply agreement with Lotus, which was amended in March 2010, pursuant to which Lotus agreed to assist with the design and manufacture of our Tesla Roadster. Although we complete the final assembly of our Tesla Roadster in our Menlo Park facility for vehicles destined for the United States market, currently we are dependent upon Lotus to complete the initial portion of the assembly process of the Tesla Roadster for us in Hethel, England and we expect this to continue until we discontinue sales of our current generation Tesla Roadster. The partially assembled vehicles manufactured by Lotus do not contain our electric powertrain and are referred to as gliders. We currently intend to manufacture gliders with Lotus for our current generation Tesla Roadster until December 2011. We intend to use these gliders in the manufacturing of the Tesla Roadster to both fulfill orders placed in 2011 as well as new orders placed in 2012 until our supply of gliders is exhausted. Accordingly, we intend to offer a limited number of Tesla Roadsters for sale in the second half of 2011 and in 2012.

Pursuant to the supply agreement with Lotus, we are obligated to purchase 2,400 partially assembled or fully assembled vehicles over the term of the agreement. If we are unable to meet this volume requirement, we are still responsible for payment to Lotus of the lesser of (i) the sum of Lotus' actual incurred costs and an agreed upon profit margin per vehicle up to the minimum volume requirement or (ii) £5,400,000. Our present plans do not call for the purchase of materially more than 2,400 vehicles and gliders from Lotus. Because we are dependent upon our relationship with Lotus for the manufacturing of the Tesla Roadster, our business depends on Lotus continuing to operate as a viable and solvent entity and to continue to produce the Tesla Roadster vehicles and gliders pursuant to our supply agreement. Any delay or discontinuance by Lotus of delivery of the Tesla Roadster vehicles and gliders or failure by Lotus to produce the vehicles and gliders in accordance with quality standards would have a material adverse effect on our business, prospects, operating results and financial condition.

### ***We are currently expanding and improving our information technology systems. If these implementations are not successful, our business and operations could be disrupted and our operating results could be harmed.***

We are currently expanding and improving our information technology systems to assist us in the management of our business. In particular, our production of the Model S will necessitate the improvement, design and development of more expanded supply chain systems to support our operations as well as production and shop floor management. The implementation of new software management platforms and the addition of these platforms at new locations require significant management time, support and cost. Moreover, there are inherent risks associated with developing, improving and expanding our core systems, including supply chain disruptions that may affect our ability to obtain supplies when needed or to deliver vehicles to our Tesla stores and customers. We cannot be sure that these expanded systems will be fully or effectively implemented on a timely basis, if at all. If we do not successfully implement this project, our operations may be disrupted and our operating results could be harmed. In addition, the new systems may not operate as we expect them to, and we may be required to expend significant resources to correct problems or find alternative sources for performing these functions.

## **Table of Contents**

***If our vehicle owners customize our vehicles or change the charging infrastructure with aftermarket products, the vehicle may not operate properly, which could harm our business.***

Automobile enthusiasts may seek to hack our vehicles to modify its performance which could compromise vehicle safety systems. Also, we are aware of customers who have customized their vehicles with after-market parts that may compromise driver safety. For example, some customers have installed seats that elevate the driver such that airbag and other safety systems could be compromised. Other customers have changed wheels and tires, while others have installed large speaker systems that may impact the electrical systems of the vehicle. We have not tested, nor do we endorse, such changes or products. In addition, customer use of improper external cabling or unsafe charging outlets can expose our customer to injury from high voltage electricity. Such unauthorized modifications could reduce the safety of our vehicles and any injuries resulting from such modifications could result in adverse publicity which would negatively affect our brand and harm our business, prospects, financial condition and operating results.

***The success of our business depends on attracting and retaining a large number of customers. If we are unable to do so, we will not be able to achieve profitability.***

Our success depends on attracting a large number of potential customers to purchase our electric vehicles. As of March 31, 2011 we had sold approximately 1,650 Tesla Roadsters to customers, almost all of which were sold in the United States and Europe, and, as of April 30, 2011, had accepted reservations for approximately 4,600 Model S sedans. If our existing and prospective customers do not perceive our vehicles and services to be of sufficiently high value and quality, cost competitive and appealing in aesthetics or performance, or if the final production version of the Model S is not sufficiently similar to the drivable design prototype, we may not be able to retain our current customers or attract new customers, and our business and prospects, operating results and financial condition would suffer as a result. In addition, because our performance electric vehicles to date have been sold largely through word of mouth marketing efforts, we may be required to incur significantly higher and more sustained advertising and promotional expenditures than we have previously incurred to attract customers, and use more traditional advertising techniques. In addition, if we engage in traditional advertising, we may face review by consumer protection enforcement agencies and may incur significant expenses to ensure that our advertising claims are fully supported. To date, we have limited experience selling our electric vehicles and we may not be successful in attracting and retaining a large number of customers. For example, a significant number of our stores have been open for less than one year and a portion of our sales team come from backgrounds other than automotive. If for any of these reasons we are not able to attract and maintain customers, our business, prospects, operating results and financial condition would be materially harmed.

***Regulators could review our practice of taking reservation payments and, if the practice is deemed to violate applicable law, we could be required to pay penalties or refund the reservation payments that we have received for vehicles that are not immediately available for delivery, to stop accepting additional reservation payments, to restructure certain aspects of our reservation program, and potentially to suspend or revoke our licenses to manufacture and sell our vehicles.***

We have not yet commenced production of our Model S sedan which we currently plan for mid-2012. For customers interested in reserving the Model S, we require an initial refundable reservation payment of at least \$5,000. As of March 31, 2011, we had collected reservation payments for Model S sedans in an aggregate amount of \$37.3 million. At this time, we do not plan to hold reservation payments separately or in an escrow or trust fund or pay any interest on reservation payments except to the extent applicable state laws require us to do so. We generally use these funds for working capital and other general corporate purposes.

California laws, and potentially the laws of other states, restrict the ability of licensed auto dealers to advertise or take deposits for vehicles before the vehicles are available to the dealer from the manufacturer. In November 2007, we became aware that the New Motor Vehicle Board of the California Department of Transportation has considered whether our reservation policies and advertising comply with the California Vehicle Code. To date, we have not received any communications on this topic from the New Motor Vehicle

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**Table of Contents**

Board or the Department of Motor Vehicles (DMV), which has the power to enforce these laws. There can be no assurance that the DMV will not take the position that our vehicle reservation or advertising practices violate the law. We expect that if the DMV determines that we may have violated the law, it would initially discuss its concerns with us and request voluntary compliance. If we are ultimately found to be in violation of California law, we might be precluded from taking reservation payments, and the DMV could take other actions against us, including levying fines and requiring us to refund reservation payments. Resolution of any inquiry may also involve restructuring certain aspects of the reservation program. In addition, California is currently the only jurisdiction in which we have licenses to both manufacture and sell our vehicles so any limitation imposed on our operations in California may be particularly damaging to our business. The DMV also has the power to suspend licenses to manufacture and sell vehicles in California, following a hearing on the merits, which it has typically exercised in cases of significant or repeat violations and/or a refusal to comply with DMV directions.

Certain states may have specific laws which apply to reservation payments accepted by dealers, or manufacturers selling directly to consumers, or both. For example, the state of Washington requires that reservation payments or other payments received from residents in the state of Washington must be placed in a segregated account until delivery of the vehicle, which account must be unencumbered by any liens from creditors of the dealer and may not be used by the dealer. Consequently, we established a segregated account for reservation payments in the state of Washington in January 2010. There can be no assurance that other state or foreign jurisdictions will not require similar segregation of reservation payments received from customers. Our inability to access these funds for working capital purposes could harm our liquidity.

Furthermore, while we have performed an analysis of the principal laws in the European Union relating to our distribution model and believe we comply with such laws, we have not performed a complete analysis in all foreign jurisdictions in which we may sell vehicles. Accordingly, there may be laws in jurisdictions we have not yet entered or laws we are unaware of in jurisdictions we have entered that may restrict our vehicle reservation practices or other business practices. Even for those jurisdictions we have analyzed, the laws in this area can be complex, difficult to interpret and may change over time. If our vehicle reservation or advertising practices or other business practices were found to violate the laws of a jurisdiction, we may face exposure under those laws and our business and prospects would be adversely affected. For example, if we are required to return reservation payment amounts, we may need to raise additional funds to make such payments. There can be no assurance that such funding would be available on a timely basis on commercially reasonable terms, if at all. If a court were to find that our reservation agreement or advertising does not comply with state laws, we may face exposure under those laws which may include exposure under consumer protection statutes such as those that deal with unfair competition and false advertising. Moreover, reductions in our cash as a result of redemptions or an inability to take reservation payments could also make it more difficult for us to obtain additional financing. The prospect of reductions in cash, even if unrealized, may also make it more difficult to obtain financing.

***Our plan to expand our network of Tesla stores will require significant cash investments and management resources and may not meet our expectations with respect to additional sales of our electric vehicles. In addition, we may not be able to open stores in certain states.***

Our plan to expand our network of Tesla stores will require significant cash investments and management resources and may not meet our expectations with respect to additional sales of our electric vehicles. This planned global expansion of Tesla stores may not have the desired effect of increasing sales and expanding our brand presence to the degree we are anticipating. Furthermore there can be no assurances that we will be able to construct additional storefronts on the budget or timeline we have established. We will also need to ensure we are in compliance with any regulatory requirements applicable to the sale of our vehicles in those jurisdictions, which could take considerable time and expense. If we experience any delays in expanding our network of Tesla stores, this could lead to a decrease in sales of our vehicles and could negatively impact our business, prospects, financial condition and operating results. We have opened 18 Tesla stores in major metropolitan areas throughout the United States, Europe and Japan. We plan to open additional stores during the remainder of 2011, with a goal of establishing approximately 50 stores globally within the next several years in connection with the Model S rollout. However, we may not be able to expand our network at such rate and our planned expansion of our

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## **Table of Contents**

network of Tesla stores will require significant cash investment and management resources, as well as efficiency in the execution of establishing these storefronts and in hiring and training the necessary employees to effectively sell our vehicles.

Furthermore, certain states and foreign jurisdictions may have permit requirements, franchise dealer laws or similar laws or regulations that may preclude or restrict our ability to open stores or sell vehicles out of such states and jurisdictions. Any such prohibition or restriction may lead to decreased sales in such jurisdictions, which could harm our business, prospects and operating results.

*We recently began to offer a leasing alternative to customers, which exposes us to risks commonly associated with the prolonged ownership of vehicles and the extension of consumer credit.*

We began offering a leasing alternative to customers of our Tesla Roadster in the United States market in February 2010 through our wholly owned subsidiary Tesla Motors Leasing, Inc. During the latter half of 2010, we began offering a leasing alternative for the Tesla Roadster in Canada through our Canadian subsidiary. Under our program, we currently permit qualifying customers to lease the Tesla Roadster for 36 months, after which time they have the option of either returning the vehicle to us or purchasing it for a predetermined residual value. We retain responsibility for the timely collection of payments from our customers, and are therefore exposed to the possibility of loss from a customer's failure to make payments according to contract terms.

As we retain ownership of the vehicle and customers have the option of returning the vehicle to us after the lease is complete, we also are exposed to the risk that the vehicle's residual value may be lower than our estimates and the volume of vehicles returned to us may be higher than our estimates. Currently, there is only a very limited secondary market for our electric vehicles in particular, and electric vehicles in general, on which to base our estimates, and such a secondary market may not develop in the future. Our credit losses could exceed our expectations or our residual value and return volume estimates could prove to be adversely incorrect, either of which could harm our financial condition and operating results.

*We face risks associated with our international operations, including unfavorable regulatory, political, tax and labor conditions, which could harm our business.*

We face risks associated with our international operations, including possible unfavorable regulatory, political, tax and labor conditions, which could harm our business. We currently have international operations and subsidiaries in Australia, Canada, Denmark, France, Germany, Hong Kong, Italy, Japan, Monaco, Singapore, Switzerland and the United Kingdom that are subject to the legal, political, regulatory and social requirements and economic conditions in these jurisdictions. Additionally, as part of our growth strategy, we intend to expand our sales, maintenance and repair services internationally. However, we have limited experience to date selling and servicing our vehicles internationally and such expansion would require us to make significant expenditures, including the hiring of local employees and establishing facilities, in advance of generating any revenue. We are subject to a number of risks associated with international business activities that may increase our costs, impact our ability to sell our electric vehicles and require significant management attention. These risks include:

conforming our vehicles to various international regulatory requirements where our vehicles are sold, or homologation;

difficulty in staffing and managing foreign operations;

difficulties attracting customers in new jurisdictions;

foreign government taxes, regulations and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon us in the United States, and foreign tax and other laws limiting our ability to repatriate funds to the United States;

fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake;



**Table of Contents**

our ability to enforce our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as do the United States, Japan and European countries, which increases the risk of unauthorized, and uncompensated, use of our technology;

United States and foreign government trade restrictions, tariffs and price or exchange controls;

foreign labor laws, regulations and restrictions;

preferences of foreign nations for domestically produced vehicles;

changes in diplomatic and trade relationships;

political instability, natural disasters, war or events of terrorism; and

the strength of international economies.

We also face the risk that costs denominated in foreign currencies will increase if such foreign currencies strengthen quickly and significantly against the dollar. A portion of our costs and expenses for the three months ended March 31, 2011 were denominated in foreign currencies such as the British pound and the euro. This is primarily due to the contract with Lotus in the United Kingdom to assemble the Tesla Roadster vehicles and gliders and other parts sourced in Europe. In addition, our international sales and marketing operations incur expenses denominated in foreign currencies, principally in the British pound, the euro and the Japanese yen. If the value of the United States dollar depreciates significantly against these currencies, our costs as measured in United States dollars will correspondingly increase and our operating results will be adversely affected. In addition, our battery cell purchases from Asian suppliers are subject to currency risk. Although our present contracts are United States dollar based, if the United States dollar depreciates significantly against the local currency it could cause our Asian suppliers to significantly raise their prices, which could harm our financial results.

If we fail to successfully address these risks, our business, prospects, operating results and financial condition could be materially harmed.

***The unavailability, reduction or elimination of government and economic incentives could have a material adverse effect on our business, financial condition, operating results and prospects.***

Any reduction, elimination or discriminatory application of government subsidies and economic incentives because of policy changes, the reduced need for such subsidies and incentives due to the perceived success of the electric vehicle, fiscal tightening or other reasons may result in the diminished competitiveness of the alternative fuel vehicle industry generally or our electric vehicles in particular. This could materially and adversely affect the growth of the alternative fuel automobile markets and our business, prospects, financial condition and operating results.

Our growth depends in part on the availability and amounts of government subsidies and economic incentives for alternative fuel vehicles generally and performance electric vehicles specifically. For example, in December 2009, we finalized an arrangement with the California Alternative Energy and Advanced Transportation Financing Authority that will result in an exemption from California state sales and use taxes for up to \$320 million of manufacturing equipment. To the extent all of this equipment is purchased and would otherwise be subject to California state sales and use tax, we believe this incentive would result in tax savings by us of up to approximately \$31 million over a three year period starting in December 2009. This exemption is only available for equipment that would otherwise be subject to California sales and use taxes and that would be used only for the following three purposes: to establish our production facility for the Model S sedan, to upgrade our Palo Alto powertrain production facility, and to expand our current Tesla Roadster assembly operations at our Menlo Park facility. If we fail to meet these conditions, we would be unable to take full advantage of this tax incentive and our financial position could be harmed.

In addition, certain regulations and laws that encourage sales of electric cars through tax credits or other subsidies could be reduced, eliminated or applied in a way that creates an adverse effect against our vehicles,



**Table of Contents**

either currently or at any time in the future. For example, while the federal and state governments have from time to time enacted tax credits and other incentives for the purchase of alternative fuel cars, our competitors have more experience and greater resources in working with legislators than we do, and so there is no guarantee that our vehicles would be eligible for tax credits or other incentives provided to alternative fuel vehicles in the future. This would put our vehicles at a competitive disadvantage. As another example, government disincentives have been enacted in Europe for gas-powered vehicles, which discourage the use of such vehicles and allow us to set a higher sales price for the Tesla Roadster in Europe. In the event that such disincentives are reduced or eliminated, sales of electric vehicles, including our Tesla Roadster, could be adversely affected. Furthermore, low volume manufacturers are exempt from certain regulatory requirements in the United States and the European Union. This provides us with an advantage over high volume manufacturers that must comply with such regulations. Once we reach a certain threshold number of sales in each of the United States and the European Union, we will no longer be able to take advantage of such exemptions in the respective jurisdictions, which could lead us to incur additional design and manufacturing expense. We do not anticipate that we will be able to take advantage of these exemptions with respect to the Model S which we plan to produce at significantly higher volumes than the Tesla Roadster.

***If we are unable to grow our sales of electric vehicle components to original equipment manufacturers our financial results may suffer. In addition, if Daimler proceeds with its plans to produce all of its lithium-ion batteries by 2012 as part of a joint venture with Deutsche Accumotive GmbH & Co. KG, we are likely to lose a significant customer of our powertrain business.***

We may have trouble attracting and retaining powertrain customers which could adversely affect our business prospects and results. Daimler and its affiliates and Toyota are currently the only customers of our electric powertrain sales and development services. In May 2009, we formalized a development agreement with Daimler as a result of which we performed specified research and development services. In addition, we have been selected by Daimler to supply it with up to 2,100 battery packs and chargers to support a trial of the Smart fortwo electric drive. We began shipping the first of these battery packs and chargers in November 2009. In the first quarter of 2010, Daimler engaged us to assist with the development and production of a battery pack and charger for a pilot fleet of its A-Class electric vehicles to be introduced in Europe during 2011 and we entered into a formal agreement for this arrangement in May 2010. There is no guarantee that we will be able to secure future business with Daimler or its affiliates as it has indicated its intent to produce all of its lithium-ion batteries by 2012 as part of a joint venture with Deutsche Accumotive GmbH & Co. KG and has announced it has entered into a joint venture with BYD Auto to collaborate on the development of an electric car under a jointly owned new brand for the Chinese market. If Daimler goes through with its production plans with Deutsche Accumotive GmbH & Co. KG, we are likely to lose this portion of our powertrain sales. Recently, Daimler has indicated that there may be an opportunity for us to continue supplying electric powertrain components, including battery packs, in 2012 and beyond, but we have not entered into any agreements with Daimler for these arrangements and we may never do so. In October 2010, we and Toyota entered into an agreement to develop a validated electric powertrain for the Toyota RAV4. However, we may not be able to enter into additional agreements with Toyota in the future. We have no significant development or sales agreements in place to drive our electric powertrain revenues after 2011. Even if we do develop such relationships, there is no assurance that we can adequately pursue such opportunities simultaneously with the execution of our plans for our vehicles.

***Our relationship with Daimler is subject to various risks which could adversely affect our business and future prospects.***

Daimler has agreed to purchase components of our electric powertrain to support a trial of the Smart fortwo electric drive and a pilot fleet of its A-Class electric vehicles in Europe. However, our relationship with Daimler poses various risks to us including:

potential delays in launching the Model S if we lose Daimler's automotive support and are unable to find an alternative in a timely manner;

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**Table of Contents**

potential loss of access to various parts that we are incorporating into our Model S design; and

potential loss of business and adverse publicity to our brand image if there are defects or other problems discovered with our electric powertrain components that Daimler has incorporated into their vehicles.

The occurrence of any of the foregoing could adversely affect our business, prospects, financial condition and operating results.

In addition, our exclusivity and intellectual property agreement, or EIP Agreement, with Daimler North America Corporation (DNAC), an affiliate of Daimler provides that, if a Daimler competitor offers to enter into a competitive strategic transaction with us, we are required to give DNAC notice of such offer and DNAC will have a specified period of time in which to notify us whether it wishes to enter into such transaction with us on the same terms as offered by the third party. Because we will be able to enter into such a transaction with a third party only if DNAC declines to do so, this may decrease the likelihood that we will receive offers from third parties to enter into strategic arrangements in the future.

***We may not be able to identify adequate strategic relationship opportunities, or form strategic relationships, in the future.***

Strategic business relationships will be an important factor in the growth and success of our business. For example, our strategic relationship with Daimler has provided us with various benefits and we have entered into an agreement to develop a validated electric powertrain for the Toyota RAV4 with Toyota. However, there are no assurances that we will be able to identify or secure suitable business relationship opportunities in the future or our competitors may capitalize on such opportunities before we do. Our strategic relationship with Daimler involved Blackstar, an affiliate of Daimler, making a significant equity investment in us as well as a representative from Daimler, Dr. Herbert Kohler, joining our Board. In addition, Toyota made a significant equity investment in us concurrent with the closing of our IPO in July 2010. We may not be able to offer similar benefits to other companies that we would like to establish and maintain strategic relationships with which could impair our ability to establish such relationships. Moreover, identifying such opportunities could demand substantial management time and resources, and negotiating and financing relationships involves significant costs and uncertainties. If we are unable to successfully source and execute on strategic relationship opportunities in the future, our overall growth could be impaired, and our business, prospects and operating results could be materially adversely affected.

***If we fail to manage future growth effectively, we may not be able to market and sell our vehicles successfully.***

Any failure to manage our growth effectively could materially and adversely affect our business, prospects, operating results and financial condition. We have recently expanded our operations significantly, increasing our total number of employees from 268 as of December 31, 2007 to 1,010 as of March 31, 2011 and further significant expansion will be required, especially in connection with the planned establishment of our Model S manufacturing facility, our electric powertrain manufacturing facility, the expansion of our network of Tesla stores and service centers, our mobile Tesla Rangers program and requirements of being a public company. Our future operating results depend to a large extent on our ability to manage this expansion and growth successfully. Risks that we face in undertaking this expansion include:

training new personnel;

forecasting production and revenue;

controlling expenses and investments in anticipation of expanded operations;

establishing or expanding design, manufacturing, sales and service facilities;

implementing and enhancing administrative infrastructure, systems and processes;

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**Table of Contents**

addressing new markets; and

expanding international operations.

We intend to continue to hire a significant number of additional personnel, including design and manufacturing personnel and service technicians for our performance electric vehicles. Because our high-performance vehicles are based on a different technology platform than traditional internal combustion engines, individuals with sufficient training in performance electric vehicles may not be available to hire, and we will need to expend significant time and expense training the employees we do hire. Competition for individuals with experience designing, manufacturing and servicing electric vehicles is intense, and we may not be able to attract, assimilate, train or retain additional highly qualified personnel in the future. The failure to attract, integrate, train, motivate and retain these additional employees could seriously harm our business and prospects.

***If we are unable to attract and retain key employees and hire qualified management, technical and vehicle engineering personnel, our ability to compete could be harmed.***

The loss of the services of any of our key employees could disrupt our operations, delay the development and introduction of our vehicles and services, and negatively impact our business, prospects and operating results. In particular, we are highly dependent on the services of Elon Musk, our Chief Executive Officer, Product Architect and Chairman of our Board of Directors, and JB Straubel, our Chief Technical Officer. None of our key employees is bound by an employment agreement for any specific term. There can be no assurance that we will be able to successfully attract and retain senior leadership necessary to grow our business. Our future success depends upon our ability to attract and retain our executive officers and other key technology, sales, marketing and support personnel and any failure to do so could adversely impact our business, prospects, financial condition and operating results. We have in the past and may in the future experience difficulty in retaining members of our senior management team. In addition, we do not have key person life insurance policies covering any of our officers or other key employees. There is increasing competition for talented individuals with the specialized knowledge of electric vehicles and this competition affects both our ability to retain key employees and hire new ones.

***We are highly dependent on the services of Elon Musk, our Chief Executive Officer.***

We are highly dependent on the services of Elon Musk, our Chief Executive Officer, Product Architect, Chairman of our Board of Directors and largest stockholder. Although Mr. Musk spends significant time with Tesla and is highly active in our management, he does not devote his full time and attention to Tesla. Mr. Musk also currently serves as Chief Executive Officer and Chief Technical Officer of Space Exploration Technologies, a developer and manufacturer of space launch vehicles, and Chairman of SolarCity, a solar equipment installation company.

In addition, our financing agreements with Blackstar contain certain covenants relating to Mr. Musk's employment as our Chief Executive Officer. These covenants provide that if Mr. Musk is not serving as our Chief Executive Officer at any time until the later of December 31, 2012 or the launch of the Model S, Mr. Musk shall promptly propose a successor Chief Executive Officer and Dr. Kohler, or his successor, must consent to any appointment of such person by our Board of Directors. If at any time during the period from January 1, 2011 through December 31, 2012, Mr. Musk is not serving as either our Chief Executive Officer or Chairman of our Board of Directors for reasons other than his death or disability, and Dr. Kohler, or his successor, has not consented to the appointment of a new Chief Executive Officer or if during such period Mr. Musk renders services to, or invests in, any other automotive OEM other than us, Daimler has the right to terminate any or all of its strategic collaboration agreements with us. If this were to occur, our business would be harmed.

Furthermore, our DOE Loan Facility provides that we will be in default under the facility in the event Mr. Musk and certain of his affiliates fail to own, at any time prior to one year after we complete the project relating to the Model S, at least 65% of the capital stock held by Mr. Musk and such affiliates as of the date of the DOE Loan Facility. Mr. Musk's shares of our capital stock are held directly by his personal trust.

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**Table of Contents**

***Many members of our management team are new to the company or to the automobile industry, and execution of our business plan and development strategy could be seriously harmed if integration of our management team into our company is not successful.***

Our business could be seriously harmed if integration of our management team into our company is not successful. We expect that it will take time for our new management team to integrate into our company and it is too early to predict whether this integration will be successful. We have recently experienced significant changes in our management team and expect to continue to experience significant growth in our management team. Our senior management team has only limited experience working together as a group. Specifically, three of the six members of our senior management team have joined us within the last two years. For example, Gilbert Passin, our Vice President of Manufacturing, joined us in January 2010, George Blankenship, our Vice President of Sales and Customer Experience, joined us in July 2010, and Eric Whitaker, our General Counsel, joined us in October 2010. This lack of long-term experience working together may impact the team's ability to collectively quickly and efficiently respond to problems and effectively manage our business. Although we are taking steps to add senior management personnel that have significant automotive experience, many of the members of our current senior management team have limited or no prior experience in the automobile or electric vehicle industries.

***We are subject to various environmental and safety laws and regulations that could impose substantial costs upon us and cause delays in building our manufacturing facilities.***

As an automobile manufacturer, we and our operations, both in the United States and abroad, are subject to national, state, provincial and/or local environmental, health and safety laws and regulations, including laws relating to the use, handling, storage, disposal and human exposure to hazardous materials. Environmental and health and safety laws and regulations can be complex, and we expect that our business and operations will be affected by future amendments to such laws or other new environmental and health and safety laws which may require us to change our operations, potentially resulting in a material adverse effect on our business. These laws can give rise to liability for administrative oversight costs, cleanup costs, property damage, bodily injury and fines and penalties. Capital and operating expenses needed to comply with environmental, health and safety laws and regulations can be significant, and violations may result in substantial fines and penalties, third party damages, suspension of production or a cessation of our operations.

Contamination at properties formerly owned or operated by us, as well as at properties we will own and operate, and properties to which hazardous substances were sent by us, may result in liability for us under environmental laws and regulations, including, but not limited to the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), which can impose liability for the full amount of remediation-related costs without regard to fault, for the investigation and cleanup of contaminated soil and ground water, for building contamination and impacts to human health and for damages to natural resources. The costs of complying with environmental laws and regulations and any claims concerning noncompliance, or liability with respect to contamination in the future, could have a material adverse effect on our financial condition or operating results. We may face unexpected delays in obtaining the necessary permits and approvals required by environmental laws in connection with our planned manufacturing facilities that could require significant time and financial resources and delay our ability to operate these facilities, which would adversely impact our business prospects and operating results.

New United Motor Manufacturing, Inc. (NUMMI) has previously identified environmental conditions at our Fremont facility which affect soil and groundwater, and has undertaken efforts to address these conditions. Although we have been advised by NUMMI that it has documented and managed the environmental issues at the Fremont site, we cannot currently determine with certainty the total potential costs to remediate pre-existing contamination, and we may be exposed to material liability as a result of the existence of any environmental contamination at the Fremont site.

As the owner of the Fremont site, we may be responsible under federal and state laws and regulations for the entire investigation and remediation of any environmental contamination at the Fremont site, whether it occurred

## **Table of Contents**

before or after the date we purchase the property. We have reached an agreement with NUMMI under which, over a ten year period, we will pay the first \$15.0 million of any costs of any governmentally-required remediation activities for contamination that existed prior to the closing of the purchase for any known or unknown environmental conditions (Remediation Activities), and NUMMI has agreed to pay the next \$15.0 million for such Remediation Activities. Our agreement provides, in part, that NUMMI will pay up to the first \$15.0 million on our behalf if such expenses are incurred in the first four years of our agreement, subject to our reimbursement of such costs on the fourth anniversary date of the closing.

On the ten-year anniversary of the closing or whenever \$30.0 million has been spent on the Remediation Activities, whichever comes first, NUMMI's liability to us with respect to Remediation Activities ceases, and we are responsible for any and all environmental conditions at the Fremont site. At that point in time, we have agreed to indemnify, defend, and hold harmless NUMMI from all liability, including attorney fees, or any costs or penalties it may incur arising out of or in connection with any claim relating to environmental conditions and we have released NUMMI for any known or unknown claims except for NUMMI's obligations for representations and warranties under the agreement. As of March 31, 2011, we have accrued \$5.3 million related to these environmental liabilities.

There are no assurances that NUMMI will perform its obligations under our agreement and NUMMI's failure to perform would require us to undertake these obligations at a potentially significant cost and risk to our ability to build, equip, and operate our Model S facility at the Fremont site. Any Remediation Activities or other environmental conditions at the Fremont site could harm our operations and the future use and value of the Fremont site and could delay our production plans for the Model S.

*We may not be able to obtain, or to agree on acceptable terms and conditions for, all or a significant portion of the government grants, loans and other incentives for which we have applied and may in the future apply. As a result, our business and prospects may be adversely affected.*

We have applied for federal and state grants, loans and tax incentives under government programs designed to stimulate the economy and support the production of electric vehicles and related technologies. We anticipate that in the future there will be new opportunities for us to apply for grants, loans and other incentives from the United States, state and foreign governments. Our ability to obtain funds or incentives from government sources is subject to the availability of funds under applicable government programs and approval of our applications to participate in such programs. The application process for these funds and other incentives is and will be highly competitive. We cannot assure you that we will be successful in obtaining any of these additional grants, loans and other incentives. If we are not successful in obtaining any of these additional incentives and we are unable to find alternative sources of funding to meet our planned capital needs, our business and prospects could be materially adversely affected.

*Our business may be adversely affected by union activities.*

Although none of our employees are currently represented by a labor union, it is common throughout the automobile industry generally for many employees at automobile companies to belong to a union, which can result in higher employee costs and increased risk of work stoppages. As we expand our business to include full in-house manufacturing of our vehicles, as is planned for the Model S, there can be no assurances that our employees will not join or form a labor union or that we will not be required to become a union signatory. We recently purchased an existing automobile production facility in Fremont, California from NUMMI. Prior employees of NUMMI were union members and our future work force at this facility may be inclined to vote in favor of forming a labor union. We are also directly or indirectly dependent upon companies with unionized work forces, such as parts suppliers and trucking and freight companies, and work stoppages or strikes organized by such unions could have a material adverse impact on our business, financial condition or operating results. For example, certain employees at the sea freight companies through which we ship our Tesla Roadster gliders to the United States after assembly in England may be represented by unions, as may be employees at certain of our

## Table of Contents

suppliers. If a work stoppage occurs, it could delay the manufacture and sale of our performance electric vehicles and have a material adverse effect on our business, prospects, operating results or financial condition.

***We are subject to substantial regulation, which is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and operating results.***

Our performance electric vehicles, the sale of motor vehicles in general and the electronic components used in our vehicles are subject to substantial regulation under international, federal, state, and local laws. We have incurred, and expect to incur in the future, significant costs in complying with these regulations. For example, the Clean Air Act requires that we obtain a Certificate of Conformity issued by the EPA and a California Executive Order issued by the CARB with respect to emissions for our vehicles. We received a Certificate of Conformity for sales of our Tesla Roadsters in 2008 and 2010, but did not receive a Certificate of Conformity for sales of the Tesla Roadster in 2009 until December 21, 2009. In January 2010, we and the EPA entered into an Administrative Settlement Agreement and Audit Policy Determination in which we agreed to pay a civil administrative penalty in the sum of \$275,000 for failing to obtain a Certificate of Conformity for sales of our vehicles in 2009 prior to December 21, 2009.

Regulations related to the electric vehicle industry and alternative energy are currently evolving and we face risks associated with changes to these regulations such as:

the imposition of a carbon tax or the introduction of a cap-and-trade system on electric utilities could increase the cost of electricity;

the increase of subsidies for corn and ethanol production could reduce the operating cost of vehicles that use ethanol or a combination of ethanol and gasoline;

changes to the regulations governing the assembly and transportation of lithium-ion batteries, such as the UN Recommendations of the Safe Transport of Dangerous Goods Model Regulations or regulations adopted by the U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA) could increase the cost of lithium-ion batteries;

the amendment or rescission of the federal law and regulations mandating increased fuel economy in the United States, referred to as the Corporate Average Fuel Economy (CAFE) standards could reduce new business opportunities for our powertrain sales and development activities;

amendment or rescission of federal greenhouse gas tailpipe emission regulations administered by EPA under the authority of the Clean Air Act could reduce new business opportunities for our powertrain sales and development activities;

increased sensitivity by regulators to the needs of established automobile manufacturers with large employment bases, high fixed costs and business models based on the internal combustion engine could lead them to pass regulations that could reduce the compliance costs of such established manufacturers or mitigate the effects of government efforts to promote alternative fuel vehicles; and

changes to regulations governing exporting of our products could increase our costs incurred to deliver products outside the United States or force us to charge a higher price for our vehicles in such jurisdictions.

In addition, as the automotive industry moves towards greater use of electronics for vehicle systems, NHTSA and other regulatory bodies may in the future increase regulation for these electronic systems.

To the extent the laws change, some or all of our vehicles may not comply with applicable international, federal, state or local laws, which would have an adverse effect on our business. Compliance with changing regulations could be burdensome, time consuming, and expensive. To

the extent compliance with new regulations is cost prohibitive, our business, prospects, financial condition and operating results will be adversely affected.

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**Table of Contents**

***We retain certain personal information about our customers and may be subject to various privacy and consumer protection laws.***

We use our vehicles' electronic systems to log information about each vehicle's use in order to aid us in vehicle diagnostics, repair and maintenance, as well as to help us collect data regarding our customers' charge time, battery usage, mileage and efficiency habits. Our customers may object to the use of this data, which may harm our business. Possession and use of our customers' personal information in conducting our business may subject us to federal and/or state legislative and regulatory burdens in the United States and foreign jurisdictions that could require notification of data breach, restrict our use of such personal information and hinder our ability to acquire new customers or market to existing customers. For example, we are subject to local data protection laws in Europe. We may incur significant expenses to comply with privacy, consumer protection and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. If third parties improperly obtain and use the personal information of our customers, we may be required to expend significant resources to resolve these problems. A major breach of our network security and systems could have serious negative consequences for our businesses and future prospects, including possible fines, penalties and damages, reduced customer demand for our vehicles, and harm to our reputation and brand.

***Our vehicles make use of lithium-ion battery cells, which on rare occasions have been observed to catch fire or vent smoke and flame.***

The battery pack in the Tesla Roadster makes use of lithium-ion cells, which have been used for years in laptops and cell phones. We also currently intend to make use of lithium-ion cells in the battery pack for the Model S and any future vehicles we may produce. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials. Highly publicized incidents of laptop computers and cell phones bursting into flames have focused consumer attention on the safety of these cells. The events have also raised questions about the suitability of these lithium-ion cells for automotive applications. To address these questions and concerns, a number of cell manufacturers are pursuing alternative lithium-ion battery cell chemistries to improve safety. We have designed our battery pack to passively contain any single cell's release of energy without spreading to neighboring cells and we are not aware of any such incident in our customers' vehicles. We have tested the batteries and subjected them to damaging treatments such as baking, overcharging, crushing or puncturing to assess our battery pack's response to deliberate and sometimes destructive abuse. However, we have delivered only a limited number of Tesla Roadsters to customers and have limited field experience with our vehicles. Accordingly, there can be no assurance that a field failure of our battery packs will not occur, which could damage the vehicle or lead to personal injury or death and may subject us to lawsuits. In addition, we store a significant number of lithium-ion cells at our manufacturing facility. Any mishandling of battery cells may cause disruption to the operation of our facilities. While we have implemented safety procedures related to the handling of the cells, there can be no assurance that a safety issue or fire related to the cells would not disrupt our operations. Such damage or injury would likely lead to adverse publicity and potentially a safety recall. Moreover, any failure of a competitor's electric vehicle, especially those that use a high volume of commodity cells similar to the Tesla Roadster, may cause indirect adverse publicity for us. Such adverse publicity would negatively affect our brand and harm our business, prospects, financial condition and operating results.

***We may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.***

We may become subject to product liability claims, which could harm our business, prospects, operating results and financial condition. The automobile industry experiences significant product liability claims and we face inherent risk of exposure to claims in the event our vehicles do not perform as expected or malfunction resulting in personal injury or death. Our risks in this area are particularly pronounced given the limited number of vehicles delivered to date and limited field experience of those vehicles. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product liability claim could generate substantial negative publicity about our vehicles and business and inhibit or prevent commercialization.

## **Table of Contents**

of other future vehicle candidates which would have material adverse effect on our brand, business, prospects and operating results. We self insure against the risk of product liability claims. Any lawsuit seeking significant monetary damages may have a material adverse effect on our reputation, business and financial condition. We may not be able to secure additional product liability insurance coverage on commercially acceptable terms or at reasonable costs when needed, particularly if we do face liability for our products and are forced to make a claim under our policy.

In connection with the development and sale of our Model S, we will need to comply with various additional safety regulations and requirements that were not applicable to the sales of our Tesla Roadsters, with which it may be expensive or difficult to comply. For example, we will need to pass certain frontal impact tests for the Model S, which are required for sales exceeding certain annual volumes outside the United States. We performed such a test on the Tesla Roadster based on European Union testing standards in connection with sales exceeding certain volume thresholds in Australia and Japan, and two criteria were not met in the test. We may experience difficulties in meeting all the criteria for this test or similar tests for our Model S, which may delay our ability to sell the Model S in high volumes in certain jurisdictions.

### ***We may be compelled to undertake product recalls, which could adversely affect our brand image and financial performance.***

Any product recall in the future may result in adverse publicity, damage our brand and adversely affect our business, prospects, operating results and financial condition. We previously experienced product recalls in May 2009 and October 2010, both of which were unrelated to our electric powertrain. In April 2009, we determined that a condition caused by insufficient torquing of the rear inner hub flange bolt existed in some of our Tesla Roadsters, as a result of a missed process during manufacture of the Tesla Roadster glider. In October 2010, we initiated a product recall after the 12 volt, low voltage auxiliary cable in a single vehicle chafed against the edge of a carbon fiber panel in the vehicle causing a short, smoke and possible fire behind the right front headlamp of the vehicle. The cost of fixing this most recent recall is not material. In the future, we may at various times, voluntarily or involuntarily, initiate a recall if any of our vehicles or electric powertrain components prove to be defective or noncompliant with applicable federal motor vehicle safety standards. Such recalls, voluntary or involuntary, involve significant expense and diversion of management attention and other resources, which could adversely affect our brand image in our target markets and could adversely affect our business, prospects, financial condition and results of operations.

### ***Our warranty reserves may be insufficient to cover future warranty claims which could adversely affect our financial performance.***

If our warranty reserves are inadequate to cover future warranty claims on our vehicles, our business, prospects, financial condition and operating results could be materially and adversely affected. We provide a three year or 36,000 miles New Vehicle Limited Warranty with every Tesla Roadster, which we extended to four years or 50,000 miles for the purchasers of our 2008 Tesla Roadster. In addition, customers have the opportunity to purchase an Extended Service Plan for the period after the end of the New Vehicle Limited Warranty to cover additional services for an additional three years or 36,000 miles, whichever comes first. The New Vehicle Limited Warranty is similar to other vehicle manufacturers' warranty programs and is intended to cover all parts and labor to repair defects in material or workmanship in the body, chassis, suspension, interior, electronic systems, battery, powertrain and brake system. We record and adjust warranty reserves based on changes in estimated costs and actual warranty costs. However, because we only began delivering our first Tesla Roadster in early 2008, we have extremely limited operating experience with our vehicles, and therefore little experience with warranty claims for these vehicles or with estimating warranty reserves. Since we began initiating sales of our vehicles, we have continued to increase our warranty reserves based on our actual warranty claim experience and we may be required to undertake further such increases in the future. As of March 31, 2011, we had warranty reserves of \$5.8 million. We could in the future become subject to a significant and unexpected warranty expense. There can be no assurances that our existing warranty reserves will be sufficient to cover all claims or

## **Table of Contents**

that our limited experience with warranty claims will adequately address the needs of our customers to their satisfaction.

***We may need to defend ourselves against patent or trademark infringement claims, which may be time-consuming and would cause us to incur substantial costs.***

Companies, organizations or individuals, including our competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop or sell our vehicles or components, which could make it more difficult for us to operate our business. From time to time, we may receive inquiries from holders of patents or trademarks inquiring whether we infringe their proprietary rights. Companies holding patents or other intellectual property rights relating to battery packs, electric motors or electronic power management systems may bring suits alleging infringement of such rights or otherwise asserting their rights and seeking licenses. In addition, if we are determined to have infringed upon a third party's intellectual property rights, we may be required to do one or more of the following:

cease selling, incorporating or using vehicles that incorporate the challenged intellectual property;

pay substantial damages;

obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or

redesign our vehicles.

In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources and management attention.

We also license patents and other intellectual property from third parties, and we may face claims that our use of this in-licensed technology infringes the rights of others. In that case, we may seek indemnification from our licensors under our license contracts with them. However, our rights to indemnification may be unavailable or insufficient to cover our costs and losses, depending on our use of the technology, whether we choose to retain control over conduct of the litigation, and other factors.

***Our business will be adversely affected if we are unable to protect our intellectual property rights from unauthorized use or infringement by third parties.***

Any failure to protect our proprietary rights adequately could result in our competitors offering similar products, potentially resulting in the loss of some of our competitive advantage and a decrease in our revenue which would adversely affect our business, prospects, financial condition and operating results. Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents, patent applications, trade secrets, including know-how, employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. We have also received from third parties patent licenses related to manufacturing our vehicles.

The protection provided by the patent laws is and will be important to our future opportunities. However, such patents and agreements and various other measures we take to protect our intellectual property from use by others may not be effective for various reasons, including the following:

our pending patent applications may not result in the issuance of patents;

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our patents, if issued, may not be broad enough to protect our proprietary rights;

the patents we have been granted may be challenged, invalidated or circumvented because of the pre-existence of similar patented or unpatented intellectual property rights or for other reasons;

## **Table of Contents**

the costs associated with enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement impracticable;

current and future competitors may independently develop similar technology, duplicate our vehicles or design new vehicles in a way that circumvents our patents; and

our in-licensed patents may be invalidated or the holders of these patents may seek to breach our license arrangements.

Existing trademark and trade secret laws and confidentiality agreements afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States, and policing the unauthorized use of our intellectual property is difficult.

***Our patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours.***

We cannot be certain that we are the first creator of inventions covered by pending patent applications or the first to file patent applications on these inventions, nor can we be certain that our pending patent applications will result in issued patents or that any of our issued patents will afford protection against a competitor. In addition, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States, and thus we cannot be certain that foreign patent applications related to issued U.S. patents will be issued. Furthermore, if these patent applications issue, some foreign countries provide significantly less effective patent enforcement than in the United States.

The status of patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. As a result, we cannot be certain that the patent applications that we file will result in patents being issued, or that our patents and any patents that may be issued to us in the near future will afford protection against competitors with similar technology. In addition, patents issued to us may be infringed upon or designed around by others and others may obtain patents that we need to license or design around, either of which would increase costs and may adversely affect our business, prospects, financial condition and operating results.

***Three of our trademark applications in the European Union remain subject to six outstanding opposition proceedings.***

We currently sell and market our vehicles in the European Union under the Tesla trademark. We have three trademark applications in the European Union for the Tesla trademark. These are subject to an outstanding opposition proceeding brought by a prior owner of trademarks consisting of the word Tesla. If we cannot resolve these remaining oppositions and thereby secure registered rights in the European Union, this will reduce our ability to challenge third party users of the Tesla trademark and dilute the value of the mark as our exclusive brand name in the European Union. In addition, there is a risk that the remaining prior rights owner could in the future take action to challenge our use of the Tesla mark in the European Union. This would have a severe impact on our position in the European Union and may inhibit our ability to use the Tesla mark in the European Union. If we were prevented from using the Tesla trademark in the European Union, we would need to expend significant additional financial and marketing resources on establishing an alternative brand identity in these markets.

***We may be subject to claims arising from an airplane crash in which three of our employees died.***

In February 2010, three of our employees died in a crash of an airplane owned and piloted by one of our employees. The plane crashed in a neighborhood in East Palo Alto, California. The plane also clipped an electrical tower, causing a power loss and business interruption in parts of Palo Alto, including Stanford University. The cause of the accident is under investigation by the National Transportation Safety Board.

## **Table of Contents**

In November 2010, a case was filed against us relating to the crash in California Superior Court. In that case, plaintiffs allege claims for negligence, negligent infliction of emotional distress, trespass, and violations of federal and state aviation laws and regulations against all defendants, and seek compensation for real property damage and loss of use, as well as personal property and emotional distress/bodily injury claims. In December 2010, the plaintiffs settled claims for real property damage but retained their claims for emotional distress, bodily injury and personal property damage. We believe that these remaining claims are covered by insurance.

As a result of the accident, other claims, including but not limited to those arising from loss of or damage to personal property, business interruption losses or damage to the electrical tower and surrounding area, may be asserted against various parties including us. The time and attention of our management may also be diverted in defending such claims. We may also incur costs both in defending against any claims and for any judgments if such claims are adversely determined.

***Our facilities or operations could be damaged or adversely affected as a result of disasters or unpredictable events.***

Our corporate headquarters and planned manufacturing facilities are located in California, a region known for seismic activity. If major disasters such as earthquakes, fires, floods, hurricanes, wars, terrorist attacks, computer viruses, pandemics or other events occur, or our information system or communications network breaks down or operates improperly, our facilities may be seriously damaged, or we may have to stop or delay production and shipment of our products. In addition, our lease for our Palo Alto facility permits the landlord to terminate the lease following a casualty event if the needed repairs are in excess of certain thresholds and we do not agree to pay for any uninsured amounts. We may incur expenses relating to such damages, which could have a material adverse impact on our business, operating results and financial condition.

***If our suppliers fail to use ethical business practices and comply with applicable laws and regulations, our brand image could be harmed due to negative publicity.***

Our core values, which include developing the highest quality electric vehicles while operating with integrity, are an important component of our brand image, which makes our reputation particularly sensitive to allegations of unethical business practices. We do not control our independent suppliers or their business practices. Accordingly, we cannot guarantee their compliance with ethical business practices, such as environmental responsibility, fair wage practices, and compliance with child labor laws, among others. A lack of demonstrated compliance could lead us to seek alternative suppliers, which could increase our costs and result in delayed delivery of our products, product shortages or other disruptions of our operations.

Violation of labor or other laws by our suppliers or the divergence of an independent supplier's labor or other practices from those generally accepted as ethical in the United States or other markets in which we do business could also attract negative publicity for us and our brand. This could diminish the value of our brand image and reduce demand for our performance electric vehicles if, as a result of such violation, we were to attract negative publicity. If we, or other manufacturers in our industry, encounter similar problems in the future, it could harm our brand image, business, prospects, financial condition and operating results.

***We are obligated to develop and maintain proper and effective internal control over financial reporting. We may not complete our analysis of our internal control over financial reporting in a timely manner, or these internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.***

We will be required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the year ending December 31, 2011. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our independent registered public accounting firm has issued an attestation report on effectiveness of our internal controls over financial reporting.

## **Table of Contents**

We are in the process of compiling the system and process documentation necessary to perform the evaluation needed to comply with Section 404. Our independent registered public accounting firm identified two material weaknesses in our internal control over financial reporting for the year ended December 31, 2007 which have been remediated, and they or we may identify other material weaknesses in the future. We may not be able to remediate future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on the price of our common stock.

### **Risks Related to the Ownership of our Common Stock**

*Concentration of ownership among our existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.*

Upon completion of this offering and the concurrent private placement, our executive officers, directors and their affiliates will beneficially own, in the aggregate, approximately 48.2% of our outstanding shares of common stock, and if the underwriter's option to purchase additional shares is exercised in full, such persons and their affiliates will beneficially own, in the aggregate, approximately 47.9% of our outstanding shares of common stock. In particular, Elon Musk, our Chief Executive Officer, Product Architect and Chairman of our Board of Directors, beneficially owned approximately 29.1% of our outstanding shares of common stock as of April 30, 2011 (and will own approximately 28.4% of our outstanding shares of our common stock as the result of the offering of our common stock and concurrent private placement or 28.2% if the underwriter's option to purchase additional shares is exercised in full). As a result, these stockholders will be able to exercise a significant level of control over all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these stockholders.

*The trading price of our common stock is likely to continue to be volatile.*

Our shares of common stock began trading on the Nasdaq Global Select Market on June 29, 2010 and therefore, the trading history for our common stock has been limited. In addition, the trading price of our common stock has been highly volatile and could continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. For example, after opening at \$17.00 per share at the IPO, our common stock has experienced an intra-day trading high of \$36.42 per share and a low of \$14.98 per share through June 1, 2011.

In addition, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of companies' stock, including ours, regardless of actual operating performance. These fluctuations may be even more pronounced in the trading market for our stock during the period following this offering. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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**Table of Contents**

***A substantial majority of our total outstanding shares are held by insiders and may be sold on a stock exchange in the near future. The large number of shares eligible for public sale or subject to rights requiring us to register them for public sale could depress the market price of our common stock.***

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market in the future, and the perception that these sales could occur may also depress the market price of our common stock. As of March 31, 2011, after giving effect to this offering and the concurrent private placement, we had 102,840,840 shares of common stock outstanding. Of these shares, all 15,295,000 shares sold in the IPO and all 5,300,000 shares of common stock sold in this offering, plus any shares sold in this offering upon exercise of the underwriter's option to purchase additional shares, will be freely tradable in the public market without restriction or further registration under the Securities Act, unless these shares are held by affiliates, as that term is defined in Rule 144 under the Securities Act.

All 38,131,153 shares to be beneficially owned after this offering and the concurrent private placement by Elon Musk, our Chief Executive Officer, Product Architect and Chairman of the Board of Directors, and Blackstar, will be subject to lock-up agreements that restrict transfer of our shares for 90 days after the date of this prospectus (subject to extension in certain circumstances). See Shares Eligible for Future Sale Lock-Up Agreements.

The remaining shares of common stock, as well as the shares sold in the concurrent private placement, will be restricted securities, as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below.

Certain stockholders are entitled, under contracts providing for registration rights, to require us to register shares of our common stock owned by them for public sale in the United States, subject to the restrictions of Rule 144.

In addition, as of March 31, 2011, we have registered approximately 24,166,301 shares previously issued or reserved for future issuance under our equity compensation plans and agreements, of which 14,654,270 were related to outstanding option awards. Subject to the satisfaction of applicable vesting provisions, to Rule 144 volume limitations, manner of sale, notice and public information requirements applicable to our affiliates and, as applicable, the lock-up agreements signed in connection with this offering, the shares of common stock issued upon exercise of outstanding options will be available for immediate resale in the United States in the open market.

Sales of our common stock as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause our stock price to fall and make it more difficult for you to sell shares of our common stock.

***Mr. Musk has borrowed funds from an affiliate of our underwriter and pledged shares of our common stock to secure this borrowing. The forced sale of these shares pursuant to a margin call could cause our stock price to decline and negatively impact our business.***

In addition, Goldman Sachs Bank USA, an affiliate of Goldman, Sachs & Co., has made a loan in the amount of \$35 million to Elon Musk and the Elon Musk Revocable Trust dated July 22, 2003, or the Trust. Interest on the loan accrues at market rates. Goldman Sachs Bank USA received customary fees and expense reimbursements in connection with this loan. Goldman Sachs Bank USA has agreed to make additional extensions of credit in an aggregate amount of \$50 million to Elon Musk and the Trust. Mr. Musk will use a portion of the proceeds of such loans to purchase shares in the concurrent private placement. Interest on the loans will accrue at market rates. Goldman Sachs Bank USA will receive customary fees and expense reimbursements in connection with these loans. As a regulated entity, Goldman Sachs Bank USA makes decisions regarding making and managing its loans independent of Goldman, Sachs & Co. Mr. Musk and Goldman have a long-standing relationship of almost a decade. We are not a party to these loans, which are full recourse against Mr. Musk and the Trust and are secured by a pledge of a portion of the Tesla common stock currently owned by

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**Table of Contents**

Mr. Musk and the Trust and other shares of capital stock of unrelated entities owned by Mr. Musk and the Trust. The terms of these loans were negotiated directly between Mr. Musk and Goldman Sachs Bank USA.

If the price of our common stock declines, Mr. Musk may be forced by Goldman Sachs Bank USA to provide additional collateral for the loans or to sell shares of Tesla common stock in order to remain within the margin limitations imposed under the terms of his loans. The loans between Goldman Sachs Bank USA and Mr. Musk and the Trust prohibit the non-pledged shares currently owned by Mr. Musk and the Trust from being pledged to secure other loans. In addition, our DOE Loan Facility requires Mr. Musk and certain of his affiliates, until one year after we complete the project relating to the Model S Facility, to own at least 65% of the Tesla capital stock held by them as of the date of the DOE Loan Facility, and a failure to comply would be an event of default that could result in an acceleration of all obligations under the DOE Loan Facility documents and the exercise of other remedies by the DOE. These factors may limit Mr. Musk's ability to either pledge additional shares of Tesla common stock or sell shares of Tesla common stock as a means to avoid or satisfy a margin call with respect to his pledged Tesla common stock in the event of a decline in our stock price that is large enough to trigger a margin call. Any sales of common stock following a margin call that is not satisfied may cause the price of our common stock to decline further.

*Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.*

Our certificate of incorporation, bylaws and Delaware law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

creating a classified board of directors whose members serve staggered three-year terms;

authorizing blank check preferred stock, which could be issued by the board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;

limiting the liability of, and providing indemnification to, our directors and officers;

limiting the ability of our stockholders to call and bring business before special meetings;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;

controlling the procedures for the conduct and scheduling of board and stockholder meetings; and

providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock.

Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

*Our current agreements with Blackstar, an affiliate of Daimler, contain certain restrictions that decrease the likelihood that potential acquirors would make a bid to acquire us.*

Our financing agreements with Blackstar, an affiliate of Daimler, include certain restrictions that decrease the likelihood that potential acquirors would make a bid to acquire us, including giving Blackstar a right of notice on any acquisition proposal we receive for which we determine to engage in further discussions with a potential acquiror or otherwise pursue. Blackstar then has a right, within a specified time period, to submit a competing

**Table of Contents**

acquisition proposal. In addition, Elon Musk, our Chief Executive Officer, Product Architect, Chairman and largest stockholder, has agreed that he will not transfer any shares of our capital stock beneficially owned by him to any automobile original equipment manufacturer, other than Daimler, without Blackstar's consent. Mr. Musk has further agreed not to vote any shares of our capital stock beneficially owned by him in favor of a deemed liquidation transaction to which any automobile original equipment manufacturer, other than Daimler, is a party without Blackstar's consent. These provisions could delay or prevent hostile takeovers and changes in control of us, which could cause our stock price or trading volume to fall.

***If securities or industry analysts publishing research or reports about us, our business or our market change their recommendations regarding our stock adversely or cease to publish research or reports about us, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***We do not expect to declare any dividends in the foreseeable future.***

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

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**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

This prospectus, including the sections entitled Prospectus Summary, Risk Factors, Use of Proceeds, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Business contains forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations and financial position; business strategy and plans and our objectives for future operations; statements relating to the progress Tesla is making with respect to the development, testing, performance, attributes and launch schedule of the Model S as well as statements regarding annual unit volume of Model S, the Model S rollout and mile range expectations; the development, pricing and volume expectations of the Model X crossover vehicle, including development of a prototype; the ability of Tesla to produce vehicles at the Tesla Factory in Fremont, California as well as the plans and schedule for the Tesla Factory and the equipment there; engineering progress; new stores, sales and service locations; and the orders, schedule and benefits from Tesla's development programs with Daimler, Toyota and Panasonic, are forward-looking statements. The words believe, may, will, estimate, continue to anticipate, intend, expect and similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Risk Factors. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

You should read this prospectus and the documents that we have filed with the SEC as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

**Table of Contents**

**MARKET, INDUSTRY AND OTHER DATA**

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity and market size, is based on information from various sources, on assumptions that we have made that are based on those data and other similar sources and on our knowledge of the markets for our services. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. We have not independently verified any third party information and cannot assure you of its accuracy or completeness, but we believe such third party information is accurate. While we believe the market position, market opportunity and market size information included in this prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate is necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in Risk Factors and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

**Table of Contents**

**USE OF PROCEEDS**

We estimate that our net proceeds from the sale of the shares of common stock in this offering and the sale of shares in the concurrent private placement will be approximately \$205.2 million, assuming an offering price of \$28.52 per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we must pay. Each \$1.00 increase or decrease in the assumed offering price of \$28.52 per share, would increase or decrease, as applicable, net proceeds from this offering and the concurrent private placement by approximately \$7.2 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriter's option to purchase additional shares in this offering is exercised in full, we estimate that our net proceeds will be approximately \$229.4 million.

We intend to use a portion of the net proceeds from this offering and the concurrent private placement to fund the development of our Model X crossover vehicle. We may also use a portion of the net proceeds from this offering and the concurrent private placement for working capital and other general corporate purposes, including any unfunded amounts we need to pay to complete the production of the Model S, any additional insourcing investments and any remaining amounts that we have agreed to spend under our DOE Loan Facility. Under our DOE Loan Facility, we have agreed to spend up to a total of \$33 million plus any cost overruns we may encounter in developing our Model S and our Model S manufacturing facility as well as any cost overruns we encounter in developing our powertrain facility.

We currently anticipate that our total capital expenditures for the remaining three quarters of 2011 and all of 2012, including for the Model S and Model X, will be in the range of \$330 million to \$370 million. We anticipate that most of the capital expenditures on the Model S will be funded by the DOE Loan Facility. Our aggregate capital expenditures will also include funding the expansion of our Tesla stores. We may also use a portion of the net proceeds to potentially expand our current business through acquisitions of complementary businesses, products or technologies. However, we do not have agreements or commitments for any specific acquisitions at this time. We may find it necessary or advisable to use the net proceeds for other purposes, and subject to our obligations under our DOE Loan Facility, we will have broad discretion in the application of the net proceeds.

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

**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock has been traded on the Nasdaq Global Select Market under the symbol TSLA since June 29, 2010. Prior to that time there was no public market for our stock. The following table sets forth for the indicated periods the high and low sales prices per share for our common stock on the Nasdaq Global Select Market.

	<b>High</b>	<b>Low</b>
<b><i>Year Ended December 31, 2010:</i></b>		
<i>Second Quarter (from June 29, 2010)</i>	\$ 30.42	\$ 17.54
<i>Third Quarter</i>	\$ 25.92	\$ 14.98
<i>Fourth Quarter</i>	\$ 36.42	\$ 20.00
<b><i>Year Ending December 31, 2011:</i></b>		
<i>First Quarter</i>	\$ 28.71	\$ 21.11
<i>Second Quarter (through June 1, 2011)</i>	\$ 30.28	\$ 24.20

The last reported sale price for our common stock on the Nasdaq Global Select Market was \$28.52 per share on June 1, 2011. We estimate that there were approximately 359 holders of record of our common stock as of June 1, 2011.

**Table of Contents**

**DIVIDEND POLICY**

We have never declared or paid cash dividends on our common or convertible preferred stock. We currently do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws and compliance with certain covenants under our loan facility with the United States Department of Energy, which restrict or limit our ability to pay dividends, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization as of March 31, 2011:

on an actual basis;

on an as adjusted basis to give effect to (i) the sale of 5,300,000 shares of common stock in this offering at the assumed offering price of \$28.52 per share, which is the closing price of our common stock on June 1, 2011, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us; and (ii) the sale of 1,986,000 shares of common stock to be purchased directly by Elon Musk and Blackstar at such price in the concurrent private placement.

You should read this table together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>As of March 31, 2011</b>	
	<b>Actual</b>	<b>As Adjusted(1)</b>
	<b>(Unaudited)</b>	
	<b>(in thousands, except share and per share data)</b>	
Cash and cash equivalents	\$ 100,655	\$ 305,852
Restricted cash	\$ 47,877	\$ 47,877
Common stock warrant liability	\$ 7,509	\$ 7,509
Capital lease obligations, less current portion	421	421
Long-term debt	102,484	102,484
Stockholders' equity:		
Preferred stock, par value \$0.001; 221,903,982 shares authorized, no shares issued and outstanding, actual; no shares issued and outstanding, as adjusted		
Common stock, par value \$0.001; 2,000,000,000 shares authorized; 95,554,840 shares issued and outstanding, actual; 102,840,840 shares issued and outstanding, as adjusted	96	103
Additional paid-in capital	631,564	836,754
Accumulated deficit	(463,922)	(463,922)
<b>Total stockholders' equity</b>	<b>167,738</b>	<b>372,935</b>
<b>Total capitalization</b>	<b>\$ 278,152</b>	<b>\$ 483,349</b>

- (1) Each \$1.00 increase or decrease in the assumed offering price of \$28.52 per share would increase or decrease, as applicable, our as adjusted cash and cash equivalents, additional paid-in capital, total stockholders' equity and total capitalization by approximately \$7.2 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The table above does not give effect to \$22.4 million in additional funds borrowed under our DOE Loan Facility in April and May 2011.

The number of shares of common stock set forth in the table above excludes:

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14,654,270 shares of common stock issuable upon the exercise of options outstanding at March 31, 2011 at a weighted average exercise price of \$10.76 per share;

483,100 shares of common stock issuable upon the exercise of options granted after March 31, 2011 at a weighted average exercise price of \$26.58 per share;

**Table of Contents**

3,085,011 shares of common stock issuable upon the exercise of a warrant granted to the DOE in connection with the closing of our DOE Loan Facility on January 20, 2010, at an exercise price of \$7.54 per share and 5,100 shares of common stock issuable upon the exercise of a warrant granted to the DOE on May 21, 2010, at an exercise price of \$8.94 per share (if we prepay our DOE Loan Facility in full or in part, the total amount of shares exercisable under these warrants will be proportionately reduced); and

13,918,481 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 11,415,533 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, and 2,502,948 shares of common stock reserved for issuance under our 2010 Employee Stock Purchase Plan, and shares that become available under the 2010 Equity Incentive Plan and 2010 Employee Stock Purchase Plan, pursuant to provisions thereof that automatically increase the share reserves under the plans each year, as more fully described in Management Employee Benefit Plans.

The above capitalization information assumes:

no exercise by the underwriter of its right to purchase up to an additional 795,000 shares of common stock from us; and

no purchase by Blackstar Investco LLC, an affiliate of Daimler AG, pursuant to its commitment to purchase up to 67,475 shares of our common stock if the underwriter exercises its right to purchase up to an additional 795,000 shares of common stock from us in this offering.

**Table of Contents****DILUTION**

As of March 31, 2011, we had a net tangible book value of approximately \$167.7 million or \$1.76 per share of common stock, based upon 95,554,840 shares of common stock outstanding on such date. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding.

Dilution in net tangible book value per share to new investors in this offering represents the difference between the amount per share paid by purchasers of 7,286,000 shares of common stock in this offering and the net tangible book value per share of common stock immediately after the completion of this offering and the concurrent private placement. After giving effect to the sale of the shares of common stock offered by us in this offering and the concurrent private placement at the assumed offering price of \$28.52 per share, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us, our net tangible book value as of March 31, 2011 would have been \$372.9 million, or \$3.63 per share of common stock. This represents an immediate increase in net tangible book value of \$1.87 per share to existing stockholders and an immediate dilution of \$24.89 per share to new investors in our common stock. The following table illustrates this dilution on a per share basis.

Assumed offering price per share	\$ 28.52
Net tangible book value per share as of March 31, 2011, before giving effect to this offering and the concurrent private placement	\$ 1.76
Increase in net tangible book value per share attributed to new investors purchasing shares in this offering and the concurrent private placement	1.87
Net tangible book value per share after giving effect to this offering and the concurrent private placement	3.63
Dilution per share to new investors in this offering and the concurrent private placement	\$ 24.89

A \$1.00 increase or decrease in the assumed offering price of \$28.52 per share would increase or decrease, respectively, our as adjusted net tangible book value after this offering and concurrent private placement by \$0.07 per share and the dilution in as adjusted net tangible book value to new investors by \$0.93 per share, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

As of March 31, 2011, there were options outstanding to purchase a total of 14,654,270 shares of common stock at a weighted average exercise price of \$10.76 per share. To the extent outstanding options are exercised, there will be further dilution to new investors. For a description of our equity plans, see the section titled Management Employee Benefit Plans.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The consolidated statements of operations data for the fiscal years ended December 31, 2008, 2009 and 2010 and balance sheet data as of December 31, 2009 and 2010 are derived from our audited consolidated financial statements that are included elsewhere in this prospectus. The consolidated statements of operations data for the fiscal years ended December 31, 2006 and 2007 and balance sheet data as of December 31, 2006, 2007 and 2008, are derived from audited consolidated financial statements not included in this prospectus. The consolidated statements of operations data for the three months ended March 31, 2010 and 2011 and balance sheet data as of March 31, 2011 are derived from our unaudited consolidated financial statements that are included elsewhere in this prospectus. The unaudited consolidated financial statements were prepared on a basis consistent with our audited consolidated financial statements and include, in the opinion of management, all adjustments necessary for the fair statement of the financial information contained in those statements. The historical results presented below are not necessarily indicative of financial results to be achieved in future periods.

In June 2010, we identified an error related to the understatement in stock-based compensation expense subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2009. This error had the effect of understating selling, general and administrative expenses and net loss for the year ended December 31, 2009 by \$2.7 million. The error did not have an effect on the valuation of the stock options. As stock-based compensation expense is a non-cash item, there was no impact on net cash used in operating activities for the year ended December 31, 2009. We determined that the impact of this error was not material and corrected the error by recording additional stock-based compensation expense of \$2.4 million during the three months ended June 30, 2010. See Note 1 to our consolidated financial statements included elsewhere in this prospectus.

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	Years Ended December 31,					Three Months Ended	
	2006	2007	2008	2009	2010	2010	2011
	(in thousands, except share and per share data)						
<b>Consolidated Statements of Operations Data:</b>							
Revenues:							
Automotive sales	\$	\$ 73	\$ 14,742	\$ 111,943	\$ 97,078	\$ 20,585	\$ 33,628
Development services					19,666	227	15,402
Total revenues		73	14,742	111,943	116,744	20,812	49,030
Cost of revenues(1):							
Automotive sales		9	15,883	102,408	79,982	16,858	26,961
Development services					6,031	102	4,041
Total cost of revenues		9	15,883	102,408	86,013	16,960	31,002
Gross profit (loss)		64	(1,141)	9,535	30,731	3,852	18,028
Operating expenses(1):							
Research and development (net of development compensation of \$23,249 for the year ended December 31, 2009)							
	24,995	62,753	53,714	19,282	92,996	13,265	41,162
Selling, general and administrative	5,436	17,244	23,649	42,150	84,573	16,585	24,212
Total operating expenses	30,431	79,997	77,363	61,432	177,569	29,850	65,374
Loss from operations	(30,431)	79,933	(78,504)	(51,897)	(146,838)	(25,998)	(47,346)
Interest income	938	1,749	529	159	258	48	40
Interest expense	(423)		(3,747)	(2,531)	(992)	(230)	
Other income (expense), net(2)	59	137	(963)	(1,445)	(6,583)	(3,221)	(1,485)
Loss before income taxes	(29,857)	(78,047)	(82,685)	(55,714)	(154,155)	(29,401)	(48,791)
Provision for income taxes	100	110	97	26	173	118	150
Net loss	\$ (29,957)	\$ (78,157)	\$ (82,782)	\$ (55,740)	\$ (154,328)	\$ (29,519)	\$ (48,941)
	\$ (10.18)	\$ (22.69)	\$ (12.46)	\$ (7.94)	\$ (3.04)	\$ (4.04)	\$ (0.51)

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Net loss per share of common stock, basic and diluted(3)

Shares used in computing net loss per share of common stock, basic and diluted(3)	2,941,411	3,443,806	6,646,387	7,021,963	50,718,302	7,301,940	95,187,345
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**Table of Contents**

- (1) Includes stock-based compensation expense as follows:

	Years Ended December 31,					Three Months Ended March 31,	
	2006	2007	2008	2009	2010	2010	2011
Cost of revenues	\$	\$	\$ 26	\$ 61	\$ 243	\$ 42	\$ 154
Research and development	17	95	125	376	4,139	281	2,299
Selling, general and administrative	6	103	286	997	16,774	3,064	3,473
Total	\$ 23	\$ 198	\$ 437	\$ 1,434	\$ 21,156	\$ 3,387	\$ 5,926

- (2) In January 2010, we issued a warrant to the DOE in connection with the closing of the DOE Loan Facility to purchase shares of our Series E convertible preferred stock. This convertible preferred stock warrant became a warrant to purchase shares of our common stock upon the closing of our IPO. Beginning on December 15, 2018 and until December 14, 2022, the shares subject to purchase under the warrant will become exercisable in quarterly amounts depending on the average outstanding balance of the DOE Loan Facility during the prior quarter. Since the number of shares of common stock ultimately issuable under the warrant will vary, this warrant will be carried at its estimated fair value with changes in the fair value of this common stock warrant liability reflected in other income (expense), net, until its expiration or vesting. Potential shares of common stock issuable upon exercise of the DOE warrant will be excluded from the calculation of diluted net loss per share of common stock until at least such time as we generate a net profit in a given period.
- (3) Our basic net loss per share of common stock is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period. The diluted net loss per share of common stock is computed by dividing the net loss by the weighted-average number of shares of common stock, excluding common stock subject to repurchase, and, if dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of stock options to purchase shares of our common stock and warrants to purchase shares of our convertible preferred stock (using the treasury stock method) and the conversion of our convertible preferred stock and convertible notes payable (using the if-converted method). For purposes of these calculations, potential shares of common stock have been excluded from the calculation of diluted net loss per share of common stock as their effect is antidilutive since we generated a net loss in each period.

	As of December 31,					As of
	2006	2007	2008	2009	2010	March 31, 2011
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 35,401	\$ 17,211	\$ 9,277	\$ 69,627	\$ 99,558	\$ 100,655
Property, plant and equipment, net	7,512	11,998	18,793	23,535	114,636	143,372
Working capital (deficit)	8,458	(28,988)	(56,508)	43,070	150,321	113,930
Total assets	44,466	34,837	51,699	130,424	386,082	407,289
Common stock warrant liability					6,088	7,509
Convertible preferred stock warrant liability	227	191	2,074	1,734		
Capital lease obligations, less current portion		18	888	800	496	421
Long-term debt					71,828	102,484
Convertible preferred stock	60,173	101,178	101,178	319,225		
Total stockholders' equity (deficit)	(43,923)	(117,846)	(199,714)	(253,523)	207,048	167,738

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**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*The following discussion of our financial condition and results of operations should be read together with the consolidated financial statements and related notes that are included elsewhere in this prospectus. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" or in other parts of this prospectus.*

**Overview**

We design, develop, manufacture and sell high-performance fully electric vehicles and advanced electric vehicle powertrain components. We own our sales and service network, and market and sell our vehicles directly to consumers via the phone and internet, in-person at our corporate events and through our network of Tesla stores. We were incorporated in Delaware in 2003, opened our first store in Los Angeles, California in May 2008, and introduced our first vehicle, the Tesla Roadster, in early 2008. In July 2009, we introduced a new Roadster model, the Tesla Roadster 2, and its higher performance option package Roadster Sport, as well as launched the Tesla Roadster in Europe. On July 1, 2010, we introduced the Roadster 2.5, with new styling and an upgraded interior. We are designing our second vehicle, the Model S, for a significantly broader customer base than the Tesla Roadster and plan to manufacture the Model S in higher volumes than our current volumes for the Tesla Roadster.

During the three months ended March 31, 2011, we experienced strong automotive sales and development services revenues. Total revenues for the three months ended March 31, 2011 were \$49.0 million, an increase of 136% over total revenues of \$20.8 million for the three months ended March 31, 2010. Automotive sales revenues increased 63% from the three months ended March 31, 2010, driven by significantly higher deliveries of battery packs and chargers to Daimler AG (Daimler), as well as higher sales of the Tesla Roadster. In 2010, we were selected by Daimler to initially supply it with up to 1,000 battery packs and chargers to support a trial of the Smart fortwo electric drive and we began supplying these battery packs and chargers during the fourth quarter of 2009. During the first quarter of 2011, Daimler increased its total orders under this program by another 300 units to 2,100 battery packs and chargers. The three months ended March 31, 2011 also represented our first full quarter of deliveries of battery packs and chargers for Daimler's A-Class EV program. Production for both the Smart fortwo and A-Class EV programs is expected to continue through 2011.

We continued to support sales of the Tesla Roadster with increased sales and marketing activities and have opened 18 Tesla stores in the United States, Europe and Japan. In April 2011, we opened our newest store at Santana Row in San Jose, California. The concept and layout of this store, which is located in a high profile retail mall, is different than what has previously been used in automotive sales. The opening of our Santana Row store launches what we believe to be a new retail experience designed to engage and inform potential customers about electric vehicles in general and the advantages of the Tesla experience in particular. At the store, Tesla customers can learn about electric vehicles, explore Tesla's innovations and configure their cars through hands on interactive touchscreens.

Development services revenue increased to \$15.4 million for the three months ended March 31, 2011 driven primarily by our development activities for the Toyota Motor Corporation (Toyota) RAV4 EV program. We continued to progress as planned, with the completion of initial milestones and deliveries of samples and prototype vehicles to Toyota. Pursuant to our agreements with Toyota, we expect to recognize approximately \$45 million in additional revenues for the remaining development services which we currently expect to complete in the fourth quarter of 2011 or the first quarter of 2012. Toyota anticipates bringing the RAV4 EV to market in the United States in 2012, and we are negotiating with Toyota to finalize a separate agreement to supply production parts for that project; however, no agreement has yet been executed and there are no assurances that we will be able to enter into any such agreement.

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## **Table of Contents**

During the three months ended March 31, 2011, we substantially completed the construction of our Model S alpha prototypes and continued to put those prototypes through numerous rounds of testing. Detailed testing of systems integration, performance and safety, including cold weather brakes testing, has provided us with significant reliability and systems integration data and we expect that our iterative alpha testing will continue to influence our final part designs. Preparations for the beta build in our Fremont facility later this year are underway and we are working closely with suppliers to design, develop and test components that will meet our anticipated production design specifications. As a result of expenses related to the Model S alpha prototype build, increased production and engineering headcount, significant engineering, design and testing work being undertaken at several of our suppliers to support Model S readiness, along with our other research and development activities, research and development expenses increased to \$41.2 million for the three months ended March 31, 2011 from \$13.3 million for the three months ended March 31, 2010. We anticipate research and development expenses to continue to increase as we incur additional costs to develop the Model S and to operate our Model S manufacturing facility prior to the start of Model S production as well as begin to incur significant expenses in connection with the development of our Model X crossover vehicle.

Alongside Model S engineering and manufacturing engineering development, we also experienced significant activity at our Fremont manufacturing facility, where we intend to produce our Model S and future vehicles, including our Model X crossover vehicle. Significant construction is in progress to prepare each shop for the upcoming deliveries of additional manufacturing equipment. Equipment in plastics and stamping has been run in manual operation modes and further automation installation will continue throughout the summer. As a result of investments being made in our Fremont manufacturing facility and assets, along with our Palo Alto, California corporate headquarters and powertrain facility, capital expenditures increased to \$20.5 million for the three months ended March 31, 2011, compared to \$8.5 million for the three months ended March 31, 2010. We anticipate that this trend will continue. Capital expenditures for the remaining three quarters of 2011 and all of 2012, including for the Model S and Model X, will be in the range of \$330 million to \$370 million.

Our Model S, Model X and powertrain development activities, as well as our capital investments in manufacturing infrastructure, continued to be supported by draw-downs under our Department of Energy Loan Facility (DOE Loan Facility) and other sources of cash, including cash from the sales of the Tesla Roadster, cash from the provision of development services and sales of powertrain components, cash received from refundable reservation payments for our Model S and cash received in our IPO and expected to be received in this offering and concurrent private placement. During the three months ended March 31, 2011, we received \$30.7 million in draw-downs under the DOE Loan Facility bringing our total long-term debt under the facility to \$102.5 million. As we continue to progress on our Model S and powertrain activities, we expect to continue making draw-downs under the DOE Loan Facility.

As of March 31, 2011, we had \$506.1 million in principal sources of liquidity available from our cash and cash equivalents, cash held in our dedicated DOE account and the remaining amounts available under the DOE Loan Facility. This includes our cash and cash equivalents in the amount of \$100.7 million which included investments in money market funds, cash of \$42.9 million deposited in a dedicated DOE account in accordance with the requirements of our DOE Loan Facility, and \$362.5 million available under the DOE Loan Facility.

## **Management Discussion Regarding Opportunities, Challenges and Risks**

Our principal focus for the remainder of 2011 continues to be on the disciplined development of the Model S so that we can achieve our plan of customer deliveries beginning in mid-2012, as well as the continued growth of revenues through sales of the Tesla Roadster, and powertrain component sales and development services activities with our strategic partners.

We expect 2011 sales of the Tesla Roadster to grow over 2010. We have a supply agreement with Lotus to purchase 2,400 Tesla Roadster vehicles or gliders, and through March 31, 2011, we have delivered approximately 1,650 vehicles to customers. Our present plans do not call for the purchase of materially more than 2,400 gliders from Lotus. We currently intend to manufacture the majority of our gliders with Lotus for our

**Table of Contents**

current generation Tesla Roadster until December 2011, and we intend to use these gliders in the manufacturing of the Tesla Roadster to both fulfill orders placed in 2011 as well as new orders placed in 2012 until our supply of gliders is exhausted. Accordingly, we intend to offer a limited number of Tesla Roadsters for sale in 2012. We currently anticipate that sales of the Tesla Roadster in North America will end by the end of 2011 or shortly thereafter.

As we have a limited number of the Tesla Roadster left for sale, we anticipate our automotive sales may decline, potentially significantly, just prior to the launch of our Model S. The launch of our Model S could be delayed for a number of reasons and any such delays may be significant and would extend the period in which we would generate limited revenues from sales of our electric vehicles.

To the extent we wish to sell additional Tesla Roadsters with the Lotus gliders beyond the number of vehicles we have contracted for, we will need to negotiate a new or amended supply agreement with Lotus but may be unable to do so on terms and conditions favorable to us, if at all.

As a result of our electric powertrain supply and development services activities with our strategic partners, we will have significant deliveries and milestones to achieve in 2011. Along with the supply of battery packs and chargers for Daimler's Smart fortwo EV and A-Class programs, we will also have important development milestones and prototypes to deliver to Toyota as part of our Toyota RAV4 EV agreements. Although our current agreements with Daimler and Toyota provide us with increased revenue potential in 2011 from powertrain-related activities, we do not yet have finalized agreements with Daimler or Toyota for significant sales or services beyond 2011.

We anticipate that we will place greater sales emphasis on the generation of Model S reservations during the second half of 2011 as we work towards the launch of our Model S in mid-2012. Ensuring that our engineering, operations and manufacturing engineering teams execute on all significant activities will be critical to a timely launch of customer deliveries of our Model S beginning in mid-2012. Our progress towards our beta prototype activities as well as readiness of our manufacturing capabilities will influence our ability to achieve the manufacturing cost per unit that we are currently projecting.

In 2011, we publicly announced the Model X crossover as the first vehicle derivative we intend to develop by leveraging the Model S platform. We intend to develop a prototype of the Model X crossover by the end of 2011 followed by the anticipated commercial introduction of this vehicle in the fourth quarter of 2013. We are designing the Model X to incorporate the functionality of a minivan with the consumer appeal of a sports utility vehicle. The acceleration of the development of future vehicles may require us to raise additional funds through the issuance of equity, equity-related or debt securities or through obtaining credit. We cannot be certain that additional funds will be available to us on favorable terms when required, or at all.

Our operating expenses are expected to increase in 2011 as we continue to execute on the Model S program, systematically and strategically expand our sales and marketing activities globally to support the launch of the Model S, as well as to maintain and support the overall activities of a growing public company. As we continue to make significant investments in research and development and our infrastructure to launch the Model S as well as incur costs for the development of the Model X, we expect to continue generating a net loss despite anticipated year-over-year growth in revenues. We have recently expanded our operations significantly, increasing our total number of employees from 268 as of December 31, 2007 to 1,010 as of March 31, 2011.

Capital spending for the Model S program is anticipated to be at its highest level in 2011, as we plan to purchase much of the tooling and manufacturing equipment required for production. We currently anticipate that our total capital expenditures for the remaining three quarters of 2011 and all of 2012, including for the Model S and Model X, will be in the range of \$330 million to \$370 million. We anticipate that most of the capital expenditures on the Model S will be funded by the DOE Loan Facility. With this level of capital spending, we

## **Table of Contents**

can execute on our strategic decision to increase in-sourcing, primarily in stampings and plastics. We have also elected to invest incrementally in new technologies, primarily in our paint and body shops, to produce vehicles at high quality and at an affordable cost.

Furthermore, we are investing in additional plant automation which should provide us with the flexibility to expand capacity to produce up to 20,000 units at our Fremont facility on just one shift. Additionally, plant automation will allow us to accommodate either higher Model S production or the efficient introduction of future models. As significant capital investment is required to bring our Fremont facility and Model S manufacturing assets to a state of production readiness, all depreciation of our capital expenditures related to the Fremont facility will begin with the start of Model S production.

### **Unadjusted Error in 2009**

In June 2010, we identified an error related to the understatement in stock-based compensation expense subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2009.

In the fourth quarter of 2009, we granted certain stock options for which a portion of the grant was immediately vested. We erroneously accounted for the expense on a straight-line basis over the term of the award, while expense recognition should always be at least commensurate with the number of awards vesting during the period. As a result, selling, general and administrative expenses and net loss for the year ended December 31, 2009 were understated by \$2.7 million. The error did not have an effect on the valuation of the stock options. As stock-based compensation expense is a non-cash item, there was no impact on net cash used in operating activities for the year ended December 31, 2009.

To correct this error, we recorded additional stock-based compensation of \$2.4 million during the three months ended June 30, 2010. We considered the impact of the error on reported operating expenses and trends in operating results and determined that the impact of the error was not material to previously reported financial information as well as those related to the three months ended June 30, 2010. We also evaluated this control deficiency in the context of our internal control over financial reporting and based on the magnitude, nature and extent of the error, determined that such deficiency would be considered a significant deficiency. A significant deficiency is a deficiency or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness, yet important enough to merit attention by those responsible for the oversight of the company's financial reporting.

### **Basis of Presentation**

#### ***Revenues***

##### *Automotive Sales*

We recognize automotive sales revenue from sales of the Tesla Roadster, including vehicle options and accessories, vehicle service and sales of zero emission vehicle (ZEV) credits. We did not recognize any revenue from sales of the Tesla Roadster, vehicle options, accessories or destination charges until the quarter ended December 31, 2008. Through the first half of 2009, most of our revenues were generated through sales in the United States. Our international sales commenced with the launch of the Tesla Roadster in Europe in July 2009, and in 2010, we began selling in Asia. We had no revenues from sales outside of the United States prior to the third quarter of 2009 and revenue from sales outside of the United States represented 19% of our total automotive sales revenue for the year ended December 31, 2009, primarily representing international sales in the last six months of 2009. For the year ended December 31, 2010 and the three months ended March 31, 2011, international sales represented 56% and 74% of our total automotive sales revenue, respectively. These international sales percentages include our total powertrain component and related sales, which are comprised almost entirely of sales to Daimler. As we continue to expand into new markets, we expect our international revenues to increase in aggregate dollar amounts and to remain relatively consistent as a percentage of total revenues in future periods. We manage our business as a single geographic segment.

## **Table of Contents**

Starting in July 2006, we began taking reservations and collecting reservation payments from customers who wished to purchase a Tesla Roadster and we received a significant number of reservations prior to initiation of volume production of the Tesla Roadster in October 2008. Since that time, we have fulfilled a significant number of these reservations and a significant level of the automotive sales we recognized during the year ended December 31, 2009 came from fulfilling reservations placed prior to 2009. Beginning with the quarter ended December 31, 2009, sales of the Tesla Roadster began more closely approximating the level of orders placed during that quarter, after considering the amount of time between a customer order and our delivery of the vehicle. Based on our current time to delivery, the majority of sales recognized during a given quarter are from fulfilling reservations placed during that quarter and the quarter immediately prior. Further, we expect sales of our vehicles to fluctuate on a seasonal basis, as demand for new cars in the automobile industry in general, and for high-performance sports vehicles such as the Tesla Roadster in particular, typically decline over the winter season.

As of December 31, 2008, we had deferred \$3.6 million in revenue related to certain vehicles that had been delivered but as to which we had unfulfilled obligations related to powertrain upgrades. Although these vehicles performed to a level adequate for most driving conditions, we had promised our customers an upgrade of the powertrain. As a result, we deferred all revenue recognition of these Tesla Roadsters that we had delivered in 2008 until they were retrofitted with the new powertrain. We performed these upgrades and accordingly recognized the revenue for these vehicles beginning in the quarter ended December 31, 2008 and concluding in the quarter ended September 30, 2009.

As of December 31, 2010 and March 31, 2011, we had deferred \$2.6 million and \$2.2 million, respectively, in revenue primarily related to our extended warranty and battery replacement programs.

We currently produce the Tesla Roadster gliders, which are partially assembled vehicles that do not contain our electric powertrain, with Lotus in Hethel, England. We currently intend to manufacture gliders with Lotus for our current generation Tesla Roadster until December 2011. We intend to use these gliders in the manufacturing of the Tesla Roadster to both fulfill orders placed in 2011 as well as new orders placed in 2012 until our supply of gliders is exhausted. Accordingly, we intend to offer a limited number of Tesla Roadsters for sale in 2012. We currently anticipate that sales of the Tesla Roadster in North America will end by the end of 2011 or shortly thereafter. As a result, we anticipate that we will generate limited revenue from selling electric vehicles in 2012 until the launch of the Model S. The launch of our Model S could be delayed for a number of reasons and any such delays may be significant and would extend the period in which we would generate limited revenues from sales of our electric vehicles.

In February 2010, we began offering a leasing program to qualified customers in the United States for the Tesla Roadster. Through our wholly owned subsidiary, Tesla Motors Leasing, Inc., qualifying customers are permitted to lease the Tesla Roadster for 36 months, after which time they have the option of either returning the vehicle to us or purchasing it for a pre-determined residual value. During the latter half of 2010, we began offering a leasing alternative in Canada through our Canadian subsidiary. We account for these leasing transactions as operating leases and accordingly, we recognize leasing revenues on a straight-line basis over the term of the individual leases. Lease revenues are recorded in automotive sales and through March 31, 2011, have not been significant.

Under California's Low-Emission Vehicle Regulations, and similar laws in other states, vehicle manufacturers are required to ensure that a portion of the vehicles delivered for sale in that state during each model year are zero emission vehicles. Currently, the states of California, Connecticut, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Rhode Island and Vermont have such laws in effect. These laws provide that a manufacturer of zero emission vehicles may earn credits, referred to as ZEV credits, and may sell excess credits to other manufacturers who apply such credits to comply with these regulatory requirements. As a manufacturer solely of zero emission vehicles, we have earned ZEV credits on vehicles sold in such states, and we expect to continue to earn these credits in the future.

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**Table of Contents**

We enter into contracts with third parties to sell ZEV credits generated from the sale of our Tesla Roadsters. We did not recognize revenue from sales of ZEV credits until June 2008. For the years ended December 31, 2008, 2009 and 2010, we earned revenue from the sale of ZEV credits of \$3.5 million, \$8.2 million and \$2.8 million, respectively, and for the three months ended March 31, 2011, we earned revenue from the sale of ZEV credits of \$0.6 million. We expect that revenue earned from the sale of ZEV credits will comprise a lower percentage of our total revenues for 2011 than was the case in 2010.

We have entered into contracts for the sale of ZEV credits with two separate automotive manufacturers. Our current agreement with American Honda Co., Inc. (Honda) provides for the sale of ZEV credits that we earn from the sale of vehicles that we manufacture through December 31, 2011. As of March 31, 2011, we had sold credits for 521 vehicles related to this agreement and Honda has an obligation to purchase credits for up to 135 additional vehicles that we will manufacture prior to the expiration of the agreement. To the extent we have additional ZEV credits available for sale, we may enter into new agreements with automotive manufacturers to sell such credits, although we have no such agreements in place at this time. We previously had an agreement with a different purchaser for ZEV credits related to vehicles sold in the year ended December 31, 2008, some of which ZEV credits were recognized in the year ended December 31, 2009.

Our ZEV credit sales will depend on the status of future regulation in states in which we sell our vehicles and our ability to maintain a contract or portfolio of contracts that allow us to continue to sell ZEV credits. To the extent that we have a contract in place for selling the credits, we expect sales of ZEV credits to generally correlate with our vehicle sales, although there is a processing time lag of generally less than four to five weeks between the recognition of revenue from the sale of a vehicle and the recognition of revenue from the sale of the ZEV credits earned on that vehicle.

We also recognize automotive sales revenue from the sale of electric vehicle powertrain components to other manufacturers. We were selected by Daimler to initially supply it with up to 1,000 battery packs and chargers to support a trial of the Smart fortwo electric drive. Daimler has since increased its total order and during the first quarter of 2011, Daimler increased its total orders under this program to 2,100 battery packs and chargers. We began shipping the first of these battery packs and chargers in November 2009. In 2010, we completed the development of a battery pack and charger for Daimler's A-Class EV program. The three months ended March 31, 2011 represented our first full quarter of deliveries of battery packs and chargers for Daimler's A-Class program. Production for both the Daimler Smart fortwo and A-Class EV programs is expected to continue through 2011. We have no development or sales agreements in place to drive our electric powertrain revenues after 2011.

While revenue related to servicing vehicles has been insignificant to date, we expect such revenues to increase in future periods as we sell more vehicles and as vehicle warranties begin to expire.

*Development Services*

We recognize revenue from development services arrangements where we develop electric vehicle powertrain components for other automobile manufacturers, including the design and development of battery packs and chargers to meet a customer's specifications. Beginning in the quarter ended March 31, 2010, we started entering into such contracts with the expectation that our development services would constitute a viable revenue-generating activity. Revenue is recognized as the performance requirements of each development arrangement are met and collection is reasonably assured. Where development arrangements include substantive at-risk milestones, we recognize revenue based upon the achievement of the contractually-defined milestones. Amounts collected in advance of meeting all of the revenue recognition criteria are not recognized in the consolidated statement of operations and are instead recorded as deferred revenue on the consolidated balance sheet. We expect our deferred revenues may fluctuate in future periods based on the timing of cash receipts as compared to the timing of meeting revenue recognition criteria. Costs of development services are expensed as

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**Table of Contents**

incurred. Costs of development services incurred in periods prior to the finalization of an agreement are recorded as research and development expenses; once an agreement is finalized, these costs are recorded in cost of revenues.

Prior to 2010, compensation that we had received from our first development arrangement with Daimler for battery packs and chargers for its Smart fortwo program, which is discussed under Management's Discussion and Analysis of Financial Condition and Results of Operations Basis of Presentation Research and Development Expenses, was recorded as an offset to research and development expenses. This early arrangement was motivated primarily by the opportunity to engage Daimler and at the same time, jointly progress our own research and development activities with the associated development compensation.

In the three months ended March 31, 2010, we completed the development and delivery of modular battery packs for electric delivery vans for Freightliner Custom Chassis Corporation (Freightliner), an affiliate of Daimler, and recognized revenue related to these development services. Freightliner plans to use these electric vans in a limited number of customer trials.

During the three months ended March 31, 2010, Daimler engaged us to assist with the development and production of a battery pack and charger for a pilot fleet of its A-Class electric vehicles to be introduced in Europe during 2011. We began providing development services for this program during the three months ended March 31, 2010 and had received an aggregate of \$5.5 million in payments; however, as we had not executed a final agreement related to this program as of March 31, 2010, we deferred the \$5.5 million of payments that had been received from Daimler until execution of a final agreement in May 2010. As of December 31, 2010, all development work related to the development agreement had been completed, and we had recognized the full \$14.4 million under the development agreement. No further development services revenue was recorded during the three months ended March 31, 2011.

In July 2010, we and Toyota entered into a Phase 0 agreement to initiate development of an electric powertrain for the Toyota RAV4. Under this early phase development agreement, prototypes would be made by us by combining the Toyota RAV4 model with a Tesla electric powertrain. We began producing and delivering prototypes to Toyota during the three months ended September 30, 2010. Pursuant to the agreement, Toyota will pay us up to \$9 million for the anticipated development services to be provided by us and during the year ended December 31, 2010 and the three months ended March 31, 2011, we recognized \$1.0 million and \$1.2 million, respectively, in development services revenue under that agreement.

In October 2010, we entered into a Phase 1 contract services agreement with Toyota for the development of a validated powertrain system, including a battery, power electronics module, motor, gearbox and associated software, which will be integrated into an electric vehicle version of the Toyota RAV4. Pursuant to the agreement, Toyota will pay us up to \$60.0 million for the successful completion of certain development milestones and the delivery of prototype samples, including a \$5.0 million upfront payment that we received upon the execution of the agreement and are amortizing over the expected term of the agreement. During the year ended December 31, 2010 and three months ended March 31, 2011, we completed certain milestones and along with the amortization of our upfront payment, we recognized \$3.3 million and \$14.0 million, respectively, in development services revenue. As of March 31, 2011, we had deferred \$3.0 million of the upfront payment in deferred revenues.

We intend to grow our development services revenue over time by establishing additional commercial arrangements with Daimler, Toyota and other automobile manufacturers. Additionally, we expect our development services revenue may fluctuate in future periods based on the timing of cash receipts as compared to the timing of meeting revenue recognition criteria.

***Cost of Revenues and Gross Profit (Loss)***

Cost of revenues includes cost of automotive sales as well as cost of development services. Cost of automotive sales includes direct parts, material and labor costs, manufacturing overhead, including amortized tooling costs, royalty fees, shipping and logistic costs and reserves for estimated warranty expenses. Cost of

## **Table of Contents**

automotive sales also includes adjustments to warranty expense and charges to write down the carrying value of our inventory when it exceeds its estimated net realizable value and to provide for obsolete and on-hand inventory in excess of forecasted demand. We also recognize charges through cost of automotive sales to provide for non-cancellable purchase orders for inventory deemed to be obsolete or in excess of net realizable value. Costs related to the sales of powertrain components, which we began to deliver to Daimler during the three months ended December 31, 2009, are included within cost of automotive sales.

In February 2010, we began offering a leasing program to qualified customers in the United States for the Tesla Roadster. Through our wholly owned subsidiary, Tesla Motors Leasing, Inc., qualifying customers are permitted to lease the Tesla Roadster for 36 months, after which time they have the option of either returning the vehicle to us or purchasing it for a pre-determined residual value. We account for these leasing transactions as operating leases and accordingly, we record cost of automotive sales equal to the depreciation of the leased vehicles on a straight-line basis over the term of the individual leases. Through March 31, 2011, cost of automotive sales related to leased vehicles has not been significant.

Cost of development services includes engineering support and testing, direct parts, material and labor costs, manufacturing overhead, including amortized tooling costs, shipping and logistic costs and other development expenses that we incur in the performance of our services under development agreements.

We define our gross profit (loss) as our total revenues less our total cost of revenues, and our gross margin as our gross profit (loss) expressed as a percentage of total revenues.

### ***Research and Development Expenses***

Research and development expenses consist primarily of personnel costs for our teams in engineering and research, supply chain, quality, manufacturing engineering and manufacturing test organizations, prototyping expense, contract and professional services and amortized equipment expense. Also included in research and development expenses are development services costs that we incur, if any, prior to the finalization of agreements with our development services customers as reaching a final agreement and revenue recognition is not assured. Development services costs incurred after the finalization of an agreement are recorded in cost of revenues.

We have invested heavily in research and development for the Tesla Roadster and since the commercial launch of the Tesla Roadster, our investment in related research and development has decreased significantly. We have, however, significantly increased our research and development efforts for the Model S, which has resulted in an increase in our research and development expenses in both aggregate dollar amounts and as a percentage of our revenues. We anticipate that this trend will continue on an annual basis as we incur additional costs to develop the Model S and to operate our Model S manufacturing facility in Fremont, California prior to the start of Model S production. In addition, certain expenses we incur as we begin development of our Model X crossover vehicle will be classified as research and development expenses until such time as we commence commercial sales of Model X, which will not occur until the fourth quarter of 2013 at the earliest. Finally, we have also invested in critical components of our electric powertrain technology including the battery system, power electronics module, motor, charging system, software and gearbox. We expense research and development costs as incurred.

Prior to our recognition of any revenue from sales of the Tesla Roadster beginning in the quarter ended December 31, 2008, expenses related to excess and obsolete inventory and certain other manufacturing production costs were charged to research and development expenses. As we began recognizing revenue from the production and sale of the Tesla Roadster, we recorded these costs as cost of sales.

During the year ended December 31, 2008, we entered into an arrangement with Daimler, which was formalized in an agreement in May 2009, for the development of a battery pack and charger for Daimler's Smart

## **Table of Contents**

fortwo electric drive. From inception through December 31, 2009, all of our powertrain development activities were under this development arrangement, and the \$23.2 million compensation received under this arrangement was recognized as an offset against our related research and development expenses.

We began receiving payments under this development arrangement with Daimler in the year ended December 31, 2008 to compensate us for the cost of our development activities in such year. We deferred recognition for these payments received in advance of the execution of the final agreement because a number of significant contractual terms were not in place prior to that time. Upon entering into the final agreement in May 2009, we began recognizing the deferred development compensation as an offset to our research and development expenses in an amount of \$14.5 million on a straight-line basis. This amount was recognized over the expected term of the agreement, beginning in May 2009 and continuing through November 2009. Payments that we received upon the achievement of development milestones subsequent to contract execution in May 2009, were recognized upon achievement and acceptance of the respective milestones. The milestone payments contemplated in the agreement were commensurate with the effort involved to overcome the technological challenges of achieving the milestones. All amounts received under this development agreement were recognized as an offset to our research and development expenses in the consolidated statement of operations. As of December 31, 2009, all development work related to this development agreement had been completed, and we have recognized the full \$23.2 million under the development agreement.

As of March 31, 2011, we had 413 employees working in research and development.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist primarily of personnel and facilities costs related to our Tesla stores, marketing, sales, executive, finance, human resources, information technology and legal organizations, as well as litigation settlements and fees for professional and contract services.

We expect selling, general and administrative expenses to increase both in aggregate dollar amounts and as a percentage of revenue in future periods as we continue to grow and expand our operations and increase our sales and marketing team to handle our expanding customer base and market presence. We also expect an increase in our selling, general and administrative expenses as a result of our planned increase in the number of Tesla stores. As of March 31, 2011, we had opened 17 Tesla stores in North America, Europe and Asia. We plan to open additional stores during 2011, with a goal of establishing approximately 50 stores globally within the next several years.

As of March 31, 2011, we had 317 employees working in selling, general and administrative functions.

### ***Interest Income***

Interest income consists of interest earned on cash balances and short-term investments. We have historically invested our available cash balances primarily in money market funds.

### ***Interest Expense***

Interest expense consists primarily of interest on outstanding long-term debt under our loan facility from the DOE Loan Facility which we began accessing in 2010. Historically, interest expense also consisted of interest related to convertible debt and other borrowings. Although we expect interest expense will increase as we continue to draw down on the DOE Loan Facility to fund our Model S and powertrain activities, we expect to capitalize this interest until we begin production of the Model S.

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**Table of Contents*****Other Income (Expense), Net***

Other income (expense), net consists primarily of the change in the fair value of our common stock warrant liability and transaction gains and losses on our foreign currency-denominated assets and liabilities, and through the completion of our IPO on July 2, 2010, the change in the fair value of our convertible preferred stock warrant liability. We expect our foreign currency transaction gains and losses will vary depending upon movements in the underlying exchange rates. Charges resulting from the change in the fair value of our convertible preferred stock warrant liability were eliminated following the completion of our IPO in July 2010 as the convertible preferred stock warrants were net exercised at that time. In January 2010, we issued a warrant to the DOE in connection with the closing of the DOE Loan Facility to purchase up to 9,255,035 shares of our Series E convertible preferred stock at an exercise price of \$2.51 per share. This preferred stock warrant became a warrant to purchase up to 3,090,111 shares of our common stock upon the closing of our IPO as a result of the automatic conversion of our preferred stock into common stock at such time. Beginning on December 15, 2018 and until December 14, 2022, the shares subject to purchase under the preferred stock warrant will become exercisable in quarterly amounts depending on the average outstanding balance of the DOE Loan Facility during the prior quarter. Since the number of shares of common stock ultimately issuable under the DOE warrant will vary, this warrant will be carried at its estimated fair value with changes in the fair value of this common stock warrant liability reflected in other income (expense), net, until its expiration or vesting.

***Provision for Income Taxes***

We are subject to income taxes in the countries where we sell our products. Historically, we have primarily been subject to taxation in the United States because we have sold the majority of our products to customers in the United States. We anticipate that in the future as we expand our sale of products to customers outside the United States, we would become subject to taxation based on the foreign statutory rates in the countries where these sales took place and our effective tax rate could fluctuate accordingly.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

We believe that based on the available information, it is more likely than not that our deferred tax assets will not be realized, and accordingly we have taken a full valuation allowance against all of our United States deferred tax assets. As of December 31, 2010, we had \$369.1 million of federal and \$278.0 million of California operating loss carry-forwards available to offset future taxable income which expire in varying amounts beginning in 2024 for federal and 2019 for state purposes if unused. Additionally, we had research and development tax credits of \$8.0 million and \$8.1 million for federal and state income tax purposes, respectively. As of March 31, 2011 (unaudited), we had \$422.3 million of federal and \$312.1 million of California operating loss carry-forwards available to offset future taxable income which expire in varying amounts beginning in 2024 for federal and 2019 for state purposes if unused. Additionally, we had research and development tax credits of \$8.9 million and \$9.2 million for federal and state income tax purposes, respectively. If not utilized, the federal research and development carry-forwards will expire in various amounts beginning in 2019. However, the state credits can be carried forward indefinitely.

Federal and state laws impose substantial restrictions on the utilization of net operating loss and tax credit carry-forwards in the event of an ownership change, as defined in Section 382 of the Internal Revenue Code. Prior to our IPO, we performed a study and had determined that no significant limitation would be placed on the utilization of our net operating loss and tax credit carry-forwards as a result of prior ownership changes. We do not believe that our IPO or the current offering would constitute an ownership change resulting in limitations on our ability to use our net operating loss and tax credit carry-forwards; however, we have not yet performed a study subsequent to our IPO to determine whether such limitations exist. If an ownership change is deemed to have occurred as a result of our IPO or this offering, utilization of these assets could be significantly reduced.

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**Table of Contents**

**Critical Accounting Policies and Estimates**

Our consolidated financial statements included elsewhere in this prospectus are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience, as appropriate, and on various other assumptions that we believe to be reasonable under the circumstances. Changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. We evaluate our estimates and assumptions on an ongoing basis. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the following critical accounting policies involve a greater degree of judgment and complexity than our other accounting policies. Accordingly, these are the policies we believe are the most critical to understanding and evaluating our consolidated financial condition and results of operations.

***Revenue Recognition***

We recognize automotive sales revenue from sales of the Tesla Roadster, including vehicle options, accessories and destination charges, vehicle service and sales of zero emission vehicle, or ZEV, credits. We also recognize automotive sales revenue from the sales of electric vehicle powertrain components, such as battery packs and battery chargers, to other manufacturers. We recognize revenue when (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and there are no uncertainties regarding customer acceptance; (iii) fees are fixed or determinable; and (iv) collection is reasonably assured.

Automotive sales consist primarily of revenue earned from the sale of vehicles. Sales or other amounts collected in advance of meeting all of the revenue recognition criteria are not recognized in the consolidated statements of operations and are instead recorded as deferred revenue on our consolidated balance sheets. Prior to February 2010, we did not provide direct financing for the purchase of the Tesla Roadster although a third-party lender has provided financing arrangements to our customers in the United States. Under these arrangements we have been paid in full by the customer at the time of purchase. Starting in February 2010, we began offering a leasing program to qualified customers in the United States.

Automotive sales also consist of revenue earned from the sales of vehicle options, accessories and destination charges. While these sales may take place separately from a vehicle sale, they are often part of one vehicle sale agreement resulting in multiple element arrangements. Contract interpretation is sometimes required to determine the appropriate accounting for recognition of our revenue, including whether the deliverables specified in the multiple element arrangement should be treated as separate units of accounting, and, if so, how the price should be allocated among the elements, when to recognize revenue for each element, and the period over which revenue should be recognized. We are also required to evaluate whether a delivered item has value on a stand-alone basis prior to delivery of the remaining items by determining whether we have made separate sales of such items or whether the undelivered items are essential to the functionality of the delivered items. Further, we assess whether we know the fair value of the undelivered items, determined by reference to stand-alone sales of such items.

To date, we have been able to establish the fair value for each of the deliverables within the multiple element arrangements because we sell each of the vehicles, vehicle accessories and options separately, outside of any multiple element arrangements. As each of these items has stand alone value to the customer, revenue from sales of vehicle accessories and options are recognized when those specific items are delivered to the customer. Increased complexity to our sales agreements or changes in our judgments and estimates regarding application of these revenue recognition guidelines could result in a change in the timing or amount of revenue recognized in future periods.

Effective January 1, 2011, we adopted amended accounting standards issued by the Financial Accounting Standards Board (FASB) for multiple deliverable revenue arrangements on a prospective basis for applicable

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**Table of Contents**

transactions originating or materially modified after January 1, 2011. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. For fiscal 2011 and future periods, when a sales arrangement contains multiple elements, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. To date, we have been able to establish the fair value for each of the deliverables within the multiple element arrangements because we sell each of the vehicles, vehicles accessories and options separately, outside of any multiple element arrangements. Therefore, there were no material differences between total revenue reported and pro forma total revenues that would have been reported during the three months ended March 31, 2011, if the transactions entered into or materially modified after January 1, 2011 were subject to previous accounting guidance.

***Development Services***

Revenue from development services arrangements consist of revenue earned from the development of electric vehicle powertrain components for other automobile manufacturers, including the design and development of battery packs and chargers to meet a customer's specifications. Beginning in the quarter ended March 31, 2010, we started entering into such contracts with the expectation that our development services would constitute a viable revenue-generating activity. Revenue is recognized as a development arrangement is finalized, the performance requirements of each development arrangement are met and collection is reasonably assured. Where development arrangements include substantive at-risk milestones, revenue is recognized based upon the achievement of the contractually-defined milestones. Amounts collected in advance of meeting all of the revenue recognition criteria are not recognized in the consolidated statement of operations and are instead recorded as deferred revenue on the consolidated balance sheet. As of March 31, 2011, we had deferred \$3.0 million in revenue related to development services being performed for Toyota. Increased complexity to our development agreements or changes in our judgments and estimates regarding application of these revenue recognition guidelines could result in a change in the timing or amount of revenue recognized in future periods.

Costs of development services are expensed as incurred. Costs of development services incurred in periods prior to the finalization of an agreement are recorded as research and development expenses; once an agreement is finalized, these costs are recorded in cost of development services.

Prior to 2010, compensation from the Smart fortwo development arrangement with Daimler, which is discussed below under *Development Compensation*, was recorded as an offset to research and development expenses. This early arrangement was motivated primarily by the opportunity to engage Daimler and at the same time, jointly progress our own research and development activities with the associated development compensation.

***Development Compensation***

We began receiving payments under the Smart fortwo development arrangement with Daimler in the year ended December 31, 2008 to compensate us for the cost of our development activities. We deferred recognition for these payments received in advance of the execution of the final agreement because a number of significant contractual terms were not in place prior to that time. Upon entering into the final agreement in May 2009, we began recognizing the deferred development compensation as an offset to our research and development expenses on a straight-line basis. This amount was recognized over the expected life of the agreement, beginning in May 2009 and continuing through November 2009. Payments that we received upon the achievement of development milestones subsequent to contract execution in May 2009 were recognized upon achievement and acceptance of the respective milestones. All amounts received under this development agreement have been recognized as an offset to our research and development expenses in the consolidated statement of operations. All development activities under this agreement were completed as of December 31, 2009.

## **Table of Contents**

### ***Inventory Valuation***

We value our inventories at the lower of cost or market. Cost is computed using standard cost, which approximates actual cost on a first-in, first-out basis. We record inventory write-downs for estimated obsolescence or unmarketable inventories based upon assumptions about future demand forecasts. If our inventory on hand is in excess of our future demand forecast, the excess amounts are written off.

We also review inventory to determine whether its carrying value exceeds the net amount realizable upon the ultimate sale of the inventory. This requires us to determine the estimated selling price of our vehicles less the estimated cost to convert inventory on hand into a finished product.

Once inventory is written-down, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. During the year ended December 31, 2008, we recorded write-downs of \$3.7 million to research and development expenses and \$0.6 million to cost of automotive sales. During the years ended December 31, 2009 and 2010, and the three months ended March 31, 2011, we recorded write-downs of \$1.4 million, \$1.0 million and \$0.4 million, in cost of automotive sales, respectively.

The inventory amounts are based on our current estimates of demand, selling prices and production costs. Should our estimates of future selling prices or production costs change, material changes to these reserves may be required. Further, a small change in our estimates may result in a material charge to our reported financial results.

### ***Warranties***

We accrue warranty reserves at the time a vehicle or powertrain component is delivered to a customer. Warranty reserves include management's best estimate of the projected costs to repair or to replace any items under warranty, based on actual warranty experience as it becomes available and other known factors that may impact our evaluation of historical data. We review our reserves at least quarterly to ensure that our accruals are adequate in meeting expected future warranty obligations, and we will adjust our estimates as needed. Initial warranty data can be limited early in the launch of a new vehicle or powertrain component and accordingly, the adjustments that we record may be material. As of December 31, 2009, 2010 and March 31, 2011, we had \$3.8 million, \$5.4 million and \$5.8 million in warranty reserves, respectively. Adjustments to warranty reserves are recorded in cost of automotive sales.

It is likely that as we sell additional Tesla Roadsters and powertrain components, we will acquire additional information on the projected costs to repair or to replace items under warranty and may need to make additional adjustments. Further, a small change in our warranty estimates may result in a material charge to our reported financial results.

### ***Valuation of Stock-Based Awards, Common Stock and Warrants***

#### ***Stock-Based Compensation***

We use the fair value method of accounting for our stock options granted to employees which requires us to measure the cost of employee services received in exchange for the stock options, based on the grant date fair value of the award. The fair value of the awards is estimated using the Black-Scholes option-pricing model. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period which is generally four years. Stock-based compensation expense is recognized on a straight-line basis, net of forfeitures.

**Table of Contents**

The fair value of each new employee option awarded was estimated on the grant date for the periods below using the Black-Scholes option-pricing model with the following weighted-average assumptions.

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
Risk-free interest rate	2.2%	2.2%	2.0%	2.4%	2.5%
Expected term (in years)	4.6	4.6	5.3	4.6	6.0
Expected volatility	53%	64%	71%	72%	70%
Dividend yield	0%	0%	0%	0%	0%

If in the future we determine that another method for calculating the fair value of our stock options is more reasonable, or if another method for calculating the above input assumptions is prescribed by authoritative guidance, the fair value calculated for our employee stock options could change significantly.

The Black-Scholes option-pricing model requires inputs such as the risk-free interest rate, expected term and expected volatility. Further, the forfeiture rate also affects the amount of aggregate compensation. These inputs are subjective and generally require significant judgment.

The risk-free interest rate that we use is based on the United States Treasury yield in effect at the time of grant for zero coupon United States Treasury notes with maturities approximating each grant's expected life. Given our limited history with employee grants, we use the simplified method in estimating the expected term for our employee grants. The simplified method, as permitted by the SEC, is calculated as the average of the time-to-vesting and the contractual life of the options.

Our expected volatility is derived from the historical volatilities of several unrelated public companies within industries related to our business, including the automotive OEM, automotive retail, automotive parts and battery technology industries, because we have no trading history on our common stock. When making the selections of our peer companies within industries related to our business to be used in the volatility calculation, we also considered the stage of development, size and financial leverage of potential comparable companies. Our historical volatility is weighted based on certain qualitative factors and combined to produce a single volatility factor. We estimate our forfeiture rate based on an analysis of our actual forfeitures and will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior and other factors. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation expense, as the cumulative effect of adjusting the rate for all expense amortization is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in the consolidated financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the stock-based compensation expense recognized in the consolidated financial statements. The effects of forfeiture adjustments during the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011 have not been significant.

As we accumulate additional employee option data over time and as we incorporate market data related to our common stock, we may calculate significantly different volatilities, expected lives and forfeiture rates, which could materially impact the valuation of our stock-based awards and the stock-based compensation expense that we will recognize in future periods. Stock-based compensation expense is recorded in our cost of sales, research and development expenses, and selling, general and administrative expenses.

We recorded stock-based compensation of \$0.4 million, \$1.4 million, \$21.2 million and \$5.9 million during the years ended December 31, 2008, 2009 and 2010, and the three months ended March 31, 2011, respectively. As of March 31, 2011, we had \$48.0 million of unrecognized stock-based compensation costs, net of estimated forfeitures, that is expected to be recognized over a weighted-average period of 2.6 years and of which we expect

**Table of Contents**

to amortize approximately \$15 million during the remainder of the year ending December 31, 2011 based on awards currently outstanding. In future periods, our stock-based compensation expense is expected to increase materially as we issue additional stock-based awards to continue to attract and retain employees and nonemployee directors.

We account for stock options issued to nonemployees also based on their estimated fair value determined using the Black-Scholes option-pricing model. However, the fair value of the equity awards granted to nonemployees is re-measured as the awards vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered.

*Common Stock Valuation*

Upon the completion of our IPO on July 2, 2010, our common stock has been valued by reference to its publicly traded price. Prior to the IPO, we historically granted stock options with exercise prices equal to the fair value of our common stock as determined at the date of grant by our Board of Directors. Because there has been no public market for our common stock, our Board of Directors determined the fair value of our common stock by considering a number of objective and subjective factors, including the following:

our sales of convertible preferred stock to unrelated third parties;

our operating and financial performance;

the lack of liquidity of our capital stock;

trends in our industry;

arm's length, third-party sales of our stock; and

contemporaneous valuations performed by an unrelated third-party.

There is inherent uncertainty in these estimates and if we had made different assumptions than those used, the amount of our stock-based compensation expense, net loss and net loss per share amounts could have been significantly different. The following table summarizes, by grant date, the number of stock options granted since January 1, 2008 through the completion of our IPO on July 2, 2010, and the associated per share exercise price, which equaled the fair value of our common stock for each of these grants.

<b>Grant Date</b>	<b>Number of Options Granted</b>	<b>Exercise Price and Fair Value per Share of Common Stock</b>
June 4, 2008	762,137	\$ 2.70
July 8, 2008	278,308	2.70
September 3, 2008	200,155	2.70
October 29, 2008	205,156	2.70
March 2, 2009	214,813	2.70
April 13, 2009	1,005,837	2.70
April 22, 2009	105,184	2.70
August 4, 2009	323,063	2.94
October 21, 2009	590,638	6.15

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December 4, 2009	7,977,444	6.63
December 16, 2009	58,995	6.63
March 3, 2010	402,660	9.96
April 28, 2010	256,320	13.23
June 12, 2010	1,135,710	14.17

Included in the December 4, 2009 awards were 6,711,972 stock options granted to our Chief Executive Officer comprised of two grants. In recognition of his and our company's achievements and to create incentives for future

**Table of Contents**

success, the Board of Directors approved an option grant representing 4% of our fully-diluted share base prior to such grant as of December 4, 2009, or 3,355,986 stock options, with 1/4th of the shares vesting immediately, and 1/36th of the remaining shares scheduled to vest each month over three years, assuming continued employment through each vesting date. In addition, to create incentives for the attainment of clear performance objectives around a key element of our current business plan the successful launch and commercialization of the Model S the Board of Directors approved additional options totaling an additional 4% of our fully-diluted shares prior to such grant as of December 4, 2009, with a vesting schedule based entirely on the attainment of performance objectives as follows, assuming Mr. Musk's continued service to us through each vesting date:

1/4th of the shares subject to the option are scheduled to vest upon the successful completion of the Model S Engineering Prototype;

1/4th of the shares subject to the option are scheduled to vest upon the successful completion of the Model S Validation Prototype;

1/4th of the shares subject to the option are scheduled to vest upon the completion of the first Model S Production Vehicle; and

1/4th of the shares subject to the option are scheduled to vest upon the completion of the 10,000th Model S Production Vehicle. If Mr. Musk does not meet one or more of the above milestones prior to the fourth anniversary of the date of grant, he will forfeit his right to the unvested portion of the grant.

Included in our June and September 2010 stock option grants were 666,300 and 20,000 stock options granted respectively, to various members of our senior management with a vesting schedule based entirely on the attainment of the same performance objectives as those outlined for Mr. Musk above. As of December 31, 2010, the first performance milestone was achieved.

Prior to our IPO which was completed on July 2, 2010, our Board of Directors performed valuations of our common stock for purposes of granting stock options in a manner consistent with the methods outlined in the American Institute of Certified Public Accountants Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The enterprise value input of our common stock valuations were derived either using fundamental analysis (income and market approaches) or based on a recent round of financing (option pricing approach). The income approach estimates the enterprise value of the company by discounting the expected future cash flows of the company to present value. We have applied discount rates that reflect the risks associated with our cash flow projections and have used venture capital rates of return for companies at a similar stage of development as us, as a proxy for our cost of capital. Our discounted cash flow calculations are sensitive to highly subjective assumptions that we were required to make at each valuation date relating to appropriate discount rates for various components of our business. For example, the discount rates used to value the cash flow projections from the Model S business factored in the low cost debt we expected to raise from the U.S. Department of Energy.

Valuation Date	Range of	
	Discount Rates	
May 15, 2008	30.0	40.0%
December 31, 2008	30.0	40.0%
February 28, 2009	30.0	40.0%
May 11, 2009	16.2	34.8%
August 1, 2009	16.2	34.8%
October 15, 2009	12.4	27.1%
November 27, 2009	12.4	27.1%
February 23, 2010	11.4	20.0%
April 21, 2010	14.4	20.0%
June 9, 2010	14.5	20.0%

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**Table of Contents**

Our projected cash flows have been primarily derived from our Tesla Roadster, Model S and powertrain revenue streams. In more recent valuations, these cash flow projections take into account the fact that we have been selling the Tesla Roadster since 2008, that we began selling powertrain components in the quarter ended December 31, 2009 and our anticipation of Model S production in mid-2012.

Under the market approach, the total enterprise value of the company is estimated by comparing our business to similar businesses whose securities are actively traded in public markets, or businesses that are involved in a public or private transaction. Prior transactions in our stock are also considered as part of the market approach methodology. We have selected revenue valuation multiples derived from trading multiples of public companies that participate in the automotive OEM, automotive retail, automotive parts and battery technology industries. These valuation multiples were then applied to the equivalent financial metric of our business, giving consideration to differences between our company and similar companies for such factors as company size and growth prospects.

For those reports that relied on the fundamental analysis, we prepared a financial forecast to be used in the computation of the enterprise value for both the market approach and the income approach. The financial forecasts took into account our past experience and future expectations. The risks associated with achieving these forecasts were assessed in selecting the appropriate discount rate. As discussed below, there is inherent uncertainty in these estimates. Second, we allocated the resulting equity value among the securities that comprise our capital structure using the Option-Pricing Method. The aggregate value of the common stock derived from the Option-Pricing Method was then divided by the number of common shares outstanding to arrive at the per common share value. For those reports before our IPO that relied on the recent round of financing, we back-solved for the total equity value such that the value of the instrument sold in the recent round as calculated by the option pricing model was consistent with the observed transaction price.

Our Board of Directors considered the valuations derived from the approaches above, the probability and timing of completing an IPO as of those dates, as well as other qualitative factors in arriving at our common stock valuations, including the following:

significant operating losses since inception;

macroeconomic uncertainty in 2008;

the absence of a significant IPO market throughout 2008 and continuing through the second quarter of 2009; and

other market developments that influence forecasted revenue.

Valuations that we have performed require significant use of estimates and assumptions. If different estimates and assumptions had been used, our common stock valuations could be significantly different and related stock-based compensation expense may be materially impacted.

*Warrants*

We have accounted for our freestanding warrants to purchase shares of our convertible preferred stock as liabilities at fair value upon issuance. We have recorded the warrants as a liability because the underlying shares of convertible preferred stock are contingently redeemable and, therefore, may obligate us to transfer assets at some point in the future. The warrants are subject to re-measurement to fair value at each balance sheet date and any change in fair value is recognized as a component of other expense, net on the consolidated statements of operations.

In January 2010, we issued a warrant to the DOE in connection with the closing of the DOE Loan Facility to purchase shares of our Series E convertible preferred stock at an exercise price of \$2.51 per share. This convertible preferred stock warrant became a warrant to purchase shares of our common stock at an exercise price of \$7.54 per share upon the closing of our IPO in July 2010. Beginning on December 15, 2018 and until

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**Table of Contents**

December 14, 2022, the shares subject to purchase under the warrant will become exercisable in quarterly amounts depending on the average outstanding balance of the DOE Loan Facility during the prior quarter. The warrant may be exercised until December 15, 2023. If we prepay the DOE Loan Facility in part or in full, the total amount of shares exercisable under the warrant will be reduced. Since the number of shares of common stock ultimately issuable under the warrant will vary, this warrant will be carried at its estimated fair value with changes in its fair value reflected in other expense, net, until its expiration or vesting. Our ability to prepay the DOE Loan Facility and consequently, the number of shares ultimately issuable under the DOE warrant, was determined to represent an embedded derivative. This embedded derivative is inherently valued and accounted for as part of the warrant.

Since the number of shares ultimately issuable under the DOE warrants will vary depending on the average outstanding balance of the loan during the contractual vesting period, and decisions to prepay would be influenced by our future stock price as well as the interest rates on our loans in relation to market interest rates, we measured the fair value of the DOE warrant using a Monte Carlo simulation approach. The Monte Carlo approach simulates various scenarios and captures the optimal decisions to be made between prepaying the DOE loan and the cancellation of the DOE warrant over the expected term of the DOE Loan Facility of 13 years. For the purposes of the simulation, the optimal decision represents the scenario with the lowest economic cost to us. The total warrant value would then be calculated as the average warrant payoff across all simulated paths discounted to our valuation date.

The significant assumptions that we use in the valuation of the DOE warrant include similar assumptions used in the valuation of otherwise featureless stock warrants at various simulated stock prices, as well as the interest rate differential between the interest rates under our DOE Loan Facility and market interest rates for companies comparable to us. The estimated value of our stock warrant requires us to use a Black-Scholes option-pricing model, which incorporates several assumptions that are subject to significant management judgment as is the case for stock-based compensation discussed above. The differential between the interest rates under our DOE Loan Facility and market interest rates is derived from the credit spread data of several unrelated public companies within industries related to our business. As the average simulated value of our stock warrant increases relative to the credit spread of our comparator companies, the fair value of our DOE warrant decreases since the economic cost of prepaying our outstanding loans under the DOE Loan Facility and replacing the funds with market interest rate debt, would be lower than the economic cost associated with the dilution caused by the vesting of warrants. Similarly, as the credit spread of our comparator companies increases relative to the average simulated value of our stock warrant, the fair value of our DOE warrant increases since the economic cost associated with prepaying our outstanding loans under the DOE Loan Facility and replacing the funds with market interest rate debt is higher than the economic cost associated with the dilution caused by the vesting of warrants, and therefore, we would not prepay our outstanding DOE debt and we would allow a higher number of warrants to vest. Prior to completion of our IPO, the fair value of the DOE warrant was included within the convertible preferred stock warrant liability on the consolidated balance sheet. Upon the completion of our IPO on July 2, 2010, this warrant was reclassified on our consolidated balance sheet from convertible preferred stock warrant liability to common stock warrant liability. The DOE warrant will continue to be recorded at its estimated fair value with changes in the fair value reflected in other expense, net, as the number of common stock ultimately issuable under the warrant is variable until its expiration or vesting. As of December 31, 2010 and March 31, 2011, the fair value of the DOE warrant was \$6.1 million and \$7.5 million, respectively. The relative movements in our stock price as compared to the credit spread of our comparator companies will result in fair value changes being recorded in other expense, net, in future periods which may be significant.

Excluding the warrant issued to the DOE in January 2010, we have estimated the fair value of our convertible preferred stock warrants at the respective balance sheet dates using a Black-Scholes option-pricing model which used several assumptions that are subject to significant management judgment as is the case for stock-based compensation as discussed above. Upon the completion of our IPO in July 2010, these convertible preferred stock warrants outstanding as of June 30, 2010, were net exercised and the related convertible preferred stock warrant liability was settled.

## **Table of Contents**

### ***Income Taxes***

We record our provision for income taxes in our consolidated statements of operations by estimating our taxes in each of the jurisdictions in which we operate. We estimate our actual current tax exposure together with assessing temporary differences arising from differing treatment of items recognized for financial reporting versus tax return purposes. These differences result in deferred tax assets, which are included in our consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in our consolidated statements of operations become deductible expenses under applicable income tax laws, or loss or credit carryforwards are utilized. Valuation allowances are recorded when necessary to reduce deferred tax assets to the amount expected to be realized.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We make these estimates and judgments about our future taxable income that are based on assumptions that are consistent with our future plans. As of March 31, 2011, we had recorded a full valuation allowance on our net deferred tax assets because we expect that it is more likely than not that our deferred tax assets will not be realized in the foreseeable future. Should the actual amounts differ from our estimates, the amount of our valuation allowance could be materially impacted.

Furthermore, significant judgment is required in evaluating our tax positions. In the ordinary course of business, there are many transactions and calculations for which the ultimate tax settlement is uncertain. As a result, we recognize the effect of this uncertainty on our tax attributes, such as net operating losses, based on our estimates of the eventual outcome. These effects are recognized when, despite our belief that our tax return positions are supportable, we believe that it is more likely than not that those positions may not be fully sustained upon review by tax authorities. We are required to file income tax returns in the United States and various foreign jurisdictions, which requires us to interpret the applicable tax laws and regulations in effect in such jurisdictions. Such returns are subject to audit by the various federal, state and foreign taxing authorities, who may disagree with respect to our tax positions. We believe that our accounting consideration is adequate for all open audit years based on our assessment of many factors, including past experience and interpretations of tax law. We review and update our estimates in light of changing facts and circumstances, such as the closing of a tax audit, the lapse of a statute of limitations or a material change in estimate. To the extent that the final tax outcome of these matters differs from our expectations, such differences may impact income tax expense in the period in which such determination is made. The eventual impact on our income tax expense depends in part if we still have a valuation allowance recorded against our deferred tax assets in the period that such determination is made.

**Table of Contents****Results of Operations**

The following table sets forth our historical operating results as of the periods indicated (in thousands, except per share data):

	Year Ended December 31,			Three Months Ended March 31,	
	2008	2009	2010	2010	2011
<b>Consolidated Statements of Operations Data:</b>					
Revenues:					
Automotive sales	\$ 14,742	\$ 111,943	\$ 97,078	\$ 20,585	\$ 33,628
Development services			19,666	227	15,402
<b>Total revenues</b>	<b>14,742</b>	<b>111,943</b>	<b>116,744</b>	<b>20,812</b>	<b>49,030</b>
Cost of revenues:					
Automotive sales	15,883	102,408	79,982	16,858	26,961
Development services			6,031	102	4,041
<b>Total cost of revenues</b>	<b>15,883</b>	<b>102,408</b>	<b>86,013</b>	<b>16,960</b>	<b>31,002</b>
<b>Gross profit (loss)</b>	<b>(1,141)</b>	<b>9,535</b>	<b>30,731</b>	<b>3,852</b>	<b>18,028</b>
Operating expenses:					
Research and development (net of development compensation of \$23,249 for the year ended December 31, 2009)	53,714	19,282	92,996	13,265	41,162
Selling, general and administrative	23,649	42,150	84,573	16,585	24,212
<b>Total operating expenses</b>	<b>77,363</b>	<b>61,432</b>	<b>177,569</b>	<b>29,850</b>	<b>65,374</b>
<b>Loss from operations</b>	<b>(78,504)</b>	<b>(51,897)</b>	<b>(146,838)</b>	<b>(25,998)</b>	<b>(47,346)</b>
Interest income	529	159	258	48	40
Interest expense	(3,747)	(2,531)	(992)	(230)	
Other expense, net	(963)	(1,445)	(6,583)	(3,221)	(1,485)
<b>Loss before income taxes</b>	<b>(82,685)</b>	<b>(55,714)</b>	<b>(154,155)</b>	<b>(29,401)</b>	<b>(48,791)</b>
Provision for income taxes	97	26	173	118	150
<b>Net loss</b>	<b>\$ (82,782)</b>	<b>\$ (55,740)</b>	<b>\$ (154,328)</b>	<b>\$ (29,519)</b>	<b>\$ (48,941)</b>

**Comparison of the Three Months Ended March 31, 2010 and 2011****Revenues***Automotive Sales*

Automotive sales, which include vehicle, options and related sales, and powertrain component and related sales, consisted of the following for the periods presented (in thousands):

	Three Months Ended March 31,	
	2010	2011
Vehicle, options and related sales	\$ 18,095	\$ 20,467

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Powertrain component and related sales	2,490	13,161
	\$ 20,585	\$ 33,628

Automotive sales during the three months ended March 31, 2011 was \$33.6 million, an increase from \$20.6 million during the three months ended March 31, 2010.

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**Table of Contents**

Vehicle, options and related sales represent sales of the Tesla Roadster, including vehicle options, accessories and destination charges, vehicle service and sales of zero emission vehicle credits. Powertrain component and related sales represent the sales of electric vehicle powertrain components, such as battery packs and battery chargers, to other manufacturers. Vehicle, options and related sales during the three months ended March 31, 2011 was \$20.5 million, an increase from \$18.1 million for the three months ended March 31, 2010. The \$2.4 million increase in vehicle, options and related sales was primarily attributable to an increase in the number of Tesla Roadsters that we sold, particularly in Asia, where we began selling the Tesla Roadster in 2010. Powertrain component and related sales for the three months ended March 31, 2011 was \$13.2 million, an increase from \$2.5 million for the three months ended March 31, 2010. The increase of \$10.7 million in powertrain component and related sales was primarily due to significant shipments of batteries and chargers to Daimler. We began delivering battery packs and chargers for the Daimler Smart fortwo program during the fourth quarter of 2009. Additionally, the first quarter of 2011 represented the first full quarter of shipments of batteries and chargers for the Daimler A-Class program.

*Development Services*

Beginning in the first quarter of 2010, we started entering into development services arrangements with the expectation that our development services would constitute a viable revenue-generating activity. We began recognizing development services revenue during the first quarter of 2010 with the development and delivery of modular battery packs for Freightliner, an affiliate of Daimler. During the three months ended March 31, 2010, Daimler engaged us to assist with the development and production of a battery pack and charger for a pilot fleet of its A-Class electric vehicles to be introduced in Europe during 2011. We began providing development services for this program during the three months ended March 31, 2010 and had received an aggregate of \$5.5 million in payments; however, as we had not executed a final agreement related to this program as of March 31, 2010, we deferred the \$5.5 million of payments that had been received from Daimler until a final agreement was subsequently executed in May 2010. We completed our deliverables under these agreements in 2010.

In July 2010, we entered into an agreement with Toyota to initiate development of an electric powertrain for the Toyota RAV4. Under this Phase 0 development agreement, prototypes would be made by us by combining the Toyota RAV4 model with a Tesla electric powertrain. In October 2010, we also entered into a Phase 1 contract services agreement with Toyota for the development of a validated powertrain system, including a battery, power electronics module, motor, gearbox and associated software, which will be integrated into an electric vehicle version of the Toyota RAV4. During the three months ended March 31, 2011, we completed two milestones under the Phase 1 agreement and delivered several samples and prototype vehicles. Development services revenue under these arrangements with Toyota for the three months ended March 31, 2011 was \$15.2 million.

We intend to grow our development services revenue over time by establishing additional commercial arrangements with Daimler, Toyota and other automobile manufacturers. We do not yet have agreements for sales or services beyond 2011.

Additionally, we expect our development services revenue may fluctuate in future periods based on the timing of cash receipts as compared to the timing of meeting revenue recognition criteria.

*Cost of Revenues and Gross Profit (Loss)*

Cost of revenues during the three months ended March 31, 2011 was \$31.0 million, an increase from \$17.0 million during the three months ended March 31, 2010. The increase in cost of automotive sales for the three months ended March 31, 2011 was driven primarily by an increase in the number of vehicles that we sold and the significant shipments of batteries and chargers to Daimler. We began delivering battery packs and chargers for the Daimler Smart fortwo program during the fourth quarter of 2009. Additionally, the first quarter of 2011 represented the first full quarter of shipments of batteries and chargers for the Daimler A-Class program. The increase in cost of development services was driven primarily by our activities for the Toyota RAV4 EV program which began in the second half of 2010.

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**Table of Contents**

Gross profit for the three months ended March 31, 2011 was \$18.0 million, an increase from \$3.9 million for the three months ended March 31, 2010. The increase was driven primarily by the gross profit contributed by our development services revenues which we substantively began to recognize in the second quarter of 2010 and a significant increase in Tesla Roadster sales.

*Research and Development Expenses*

Research and development expenses during the three months ended March 31, 2011 were \$41.2 million, an increase from \$13.3 million during the three months ended March 31, 2010. The \$27.9 million increase in research and development expenses during the three months ended March 31, 2011 consisted primarily of a \$10.6 million increase in professional and outside services costs related to Model S engineering, design and testing activities, a \$7.5 million increase in materials and prototyping expenses primarily to support our Model S alpha build as well as powertrain development activities, a \$5.9 million increase in employee compensation expenses from higher headcount, and a \$2.1 million increase in stock-based compensation expense related to a larger number of outstanding equity awards and a higher common stock valuation applied to new grants made in 2010.

During the three months ended March 31, 2010, Daimler engaged us to assist with the development and production of a battery pack and charger for a pilot fleet of its A-Class electric vehicles to be introduced in Europe during 2011. As of March 31, 2010, a development agreement had yet to be finalized and as such, the related development services costs of \$0.5 million that we incurred during the three months ended March 31, 2010 were expensed in research and development. In May 2010, we finalized the agreement and began recording the costs associated with this program in cost of revenues.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses during the three months ended March 31, 2011 were \$24.2 million, an increase from \$16.6 million during the three months ended March 31, 2010. The \$7.6 million increase in our selling, general and administrative expenses during the three months ended March 31, 2011 consisted primarily of a \$3.8 million increase in employee compensation expenses related to higher sales and marketing headcount to support sales activities worldwide and higher general and administrative headcount to support the expansion of the business, a \$1.4 million increase in costs principally related to increased marketing activities, and a \$0.9 million increase in office, information technology and facilities-related costs to support the growth of our business.

*Interest Expense*

Our interest expense is primarily due to our loans under the DOE Loan Facility which we began accessing in 2010. During the three months ended March 31, 2011, we capitalized \$0.7 million of interest expense to construction in progress. Although interest expense will increase as we continue to draw down on the DOE Loan Facility to fund our Model S and powertrain activities, we expect to capitalize this interest through 2011.

*Other Expense, Net*

Other expense, net, during the three months ended March 31, 2011 was \$1.5 million, a decrease in expense compared to other expense, net, of \$3.2 million during the three months ended March 31, 2010. The decrease in other expense, net, for the three months ended March 31, 2011 was primarily due to the elimination of warrant liabilities, excluding the DOE warrant liability, after the completion of our IPO, partially offset by a higher charge from the fair value change in our DOE warrant liability during the three months ended March 31, 2011 resulting from a higher stock price.

**Table of Contents***Provision for Income Taxes*

Our provision for income taxes during the three months ended March 31, 2011 was \$0.2 million, compared to \$0.1 million during the three months ended March 31, 2010. The increase for the three months ended March 31, 2011 was due primarily to the increase in taxable income in our international jurisdictions.

**Comparison of the Years Ended December 31, 2008, 2009 and 2010***Revenues**Automotive Sales*

Automotive sales consisted of the following for the periods presented (in thousands):

	Year Ended December 31,		
	2008	2009	2010
Vehicle, options and related sales	\$ 14,742	\$ 111,555	\$ 75,459
Powertrain component and related sales		388	21,619
<b>Total automotive sales</b>	<b>\$ 14,742</b>	<b>\$ 111,943</b>	<b>\$ 97,078</b>

Automotive sales during the year ended December 31, 2010 were \$97.1 million, a decrease from \$111.9 million during the year ended December 31, 2009. Automotive sales for the year ended December 31, 2010 consisted of \$75.5 million of vehicle, options and related sales, and \$21.6 million of powertrain component and related sales, compared to \$111.6 million of vehicle, options and related sales and \$0.4 million of powertrain component and related sales for the year ended December 31, 2009. Automotive sales for the year ended December 31, 2008 were \$14.7 million, comprised primarily of sales of the Tesla Roadster which we began to deliver in the fourth quarter of 2008 as well as related zero emission vehicle, or ZEV, credits. Almost all of the revenue recognized during the year ended December 31, 2008, came from fulfilling reservations placed in prior periods.

During the first three quarters of 2009, we continued to fulfill reservations for the Tesla Roadster and we had made a significant effort to increase our production capacity in order to accelerate deliveries to customers who had been on our waitlist for a significant amount of time. As a result, a significant portion of the revenue recognized during the first three quarters of 2009 came from fulfilling reservations placed prior to 2009. Beginning with the fourth quarter of 2009, sales of the Tesla Roadster began more closely approximating the level of orders placed during the quarter. Consequently, the comparison of revenue for the year ended December 31, 2010 versus the year ended December 31, 2009 may not be meaningful. As such, vehicle, options and related sales for the year ended December 31, 2010 were more reflective of current demand as compared to the prior year. Similarly, ZEV credit sales which are included in vehicle, options and related sales, were higher during the year ended December 31, 2009 as the fulfillment of a significant number of reservations allowed us to sell a larger number of ZEV credits. The year over year decrease in vehicle deliveries was partially offset by higher selling prices from an expanded offering of vehicle options to our customers as well as higher average selling prices outside of the United States.

Powertrain component and related sales were comprised primarily of battery packs and chargers that we delivered to supply Daimler's Smart fortwo program. We have been selected by Daimler to supply it with up to 2,100 battery packs and chargers to support a trial of the Smart fortwo electric drive. We began delivering and recognizing revenue for these production battery packs and chargers at the end of 2009.

In February 2010, we began offering a leasing program to qualified customers in the United States for the Tesla Roadster. Through our wholly owned subsidiary, Tesla Motors Leasing, Inc., qualifying customers are permitted to lease the Tesla Roadster for 36 months, after which time they have the option of either returning the vehicle to us or purchasing it for a pre-determined residual value. We account for these leasing transactions as

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**Table of Contents**

operating leases and accordingly, we recognize leasing revenues on a straight-line basis over the term of the individual leases. Lease revenues are recorded in vehicle, options and related sales within automotive sales revenue and for the year ended December 31, 2010, we recognized \$0.8 million. During the year ended December 31, 2010, approximately 14% of the vehicles delivered during the year were under operating leases. As of December 31, 2010, we had deferred revenues of \$1.1 million of down payments which will be recognized over the term of the individual leases.

Prior to 2010, most of our revenues had been generated through sales of our vehicles in the United States and we had no revenues from sales outside of the United States prior to the third quarter of 2009. Our international sales commenced with the launch of the Tesla Roadster in Europe in July 2009 and since then, we have recognized revenue from sales of the Tesla Roadster in additional countries including Canada, Japan and Hong Kong. For the years ended December 31, 2010 and 2009, 55% and 19% of our revenue from vehicle, options and related sales, respectively, were derived outside of the United States. All of our powertrain component and related sales were derived outside of the United States. As we continue to expand into additional new markets, we expect our international automotive sales to increase in aggregate dollar amounts but to remain relatively consistent as a percentage of total revenues.

*Development Services*

Beginning in the first quarter of 2010, we started entering into development services arrangements with the expectation that our development services would constitute a viable revenue-generating activity. We began recognizing development services revenue during the first quarter of 2010 with the development and delivery of modular battery packs for Freightliner Custom Chassis Corporation, or Freightliner, an affiliate of Daimler. These battery packs were to be used in electric delivery vans in a limited number of Freightliner's customer trials. Prior to 2010, compensation that we had received from our first development arrangement with Daimler for battery packs and chargers for its Smart fortwo program was recorded as an offset to research and development expenses. This early arrangement was motivated primarily by the opportunity to engage Daimler and at the same time, jointly progress our own research and development activities with the associated development compensation.

During the first quarter of 2010, Daimler also engaged us to assist with the development and production of a battery pack and charger for a pilot fleet of its A-Class electric vehicles to be introduced in Europe during 2011. We began providing development services for this program during the first quarter of 2010 and had received an aggregate of \$5.5 million in payments; however, as we had not executed a final agreement related to this program as of March 31, 2010, we deferred the \$5.5 million of payments that had been received from Daimler to that point. In May 2010, we executed a final agreement under which Daimler would make additional payments to us for the successful completion of certain development milestones and the delivery of prototype samples. As of December 31, 2010, we had completed our deliverables under this agreement and for the year ended December 31, 2010, we recognized \$14.4 million in development services revenue.

In July 2010, we and Toyota entered into a Phase 0 agreement to initiate development of an electric powertrain for the Toyota RAV4. Under this early phase development agreement, prototypes would be made by us by combining the Toyota RAV4 model with a Tesla electric powertrain. During the year ended December 31, 2010, we began producing and delivering prototypes to Toyota and recognized \$1.0 million in development services revenue.

In October 2010, we entered into a Phase 1 contract services agreement with Toyota for the development of a validated powertrain system, including a battery, power electronics module, motor, gearbox and associated software, which will be integrated into an electric vehicle version of the Toyota RAV4. Pursuant to this agreement, Toyota will pay us up to \$60.0 million for the anticipated development services to be provided by us over the expected term of our performance, including a \$5.0 million upfront payment that we received upon the

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**Table of Contents**

execution of the agreement. During the year ended December 31, 2010, we completed the first milestone and along with the amortization of our upfront payment, we recognized \$3.3 million in development services revenue.

*Cost of Revenues and Gross Profit*

Cost of revenues for the year ended December 31, 2010 was \$86.0 million, a decrease from \$102.4 million for the year ended December 31, 2009. The decrease in cost of revenues was driven primarily by the significant number of vehicles delivered during the first three quarters of 2009 from fulfilling customer reservations placed prior to 2009.

In February 2010, we began offering a leasing program to qualified customers in the United States for the Tesla Roadster. Through our wholly owned subsidiary, Tesla Motors Leasing, Inc., qualifying customers are permitted to lease the Tesla Roadster for 36 months, after which time they have the option of either returning the vehicle to us or purchasing it for a pre-determined residual value. We account for these leasing transactions as operating leases and accordingly, we record cost of automotive sales equal to the depreciation of the leased vehicles on a straight-line basis over the term of the individual leases. Cost of automotive sales related to leased vehicles was \$0.4 million for the year ended December 31, 2010.

The decrease in cost of revenues from automotive sales for the year ended December 31, 2010 was partially offset by the increase in cost of revenues from development services. Cost of development services includes engineering support and testing, direct parts, material and labor costs, manufacturing overhead, including amortized tooling costs, shipping and logistic costs and other development expenses that we incur in the performance of our services under development agreements. During the quarter ended March 31, 2010, Daimler engaged us to assist with the development and production of a battery pack and charger for a pilot fleet of its A-Class electric vehicles to be introduced in Europe during 2011. As of March 31, 2010, a development agreement had yet to be finalized and as such, the related development services costs of \$0.5 million that we incurred during the quarter ended March 31, 2010 were expensed in research and development. In May 2010, we finalized the agreement and began recording the costs related to this program in cost of revenues.

Gross profit for the year ended December 31, 2010 was \$30.7 million, an increase from \$9.5 million for the year ended December 31, 2009. The increase was driven primarily by the gross profit contributed by our development services revenues which we began to recognize in 2010; an expanded offering of vehicle options to our customers; the continued launch of the Tesla Roadster internationally, where in certain markets, we have experienced higher selling prices; and cost improvements associated with the model changeover from the Tesla Roadster to the Tesla Roadster 2 during the second half of 2009. Gross profit for the year ended December 31, 2010 was also favorably impacted by the fact that certain of the A-Class development services revenue that we recognized during the year ended December 31, 2010 did not have any corresponding cost of revenues, since these costs were recorded in research and development expenses prior to us finalizing the development agreement in May 2010.

Cost of revenues of \$102.4 million for the year ended December 31, 2009 increased from \$15.9 million for the year ended December 31, 2008. The significant increase in cost of revenues was due to the increase in Tesla Roadster sales from which we began to recognize revenue during the fourth quarter of 2008; higher warranty expense; and the model changeover from the Tesla Roadster to the Tesla Roadster 2 as well as significant part changes implemented to improve the design and reduce per unit costs, for which we recorded charges to cost of revenues in the amount of \$1.4 million for excess and obsolete inventory during the year ended December 31, 2009.

Gross loss for the year ended December 31, 2008 was \$1.1 million due to the lower average selling prices for our initial vehicles, the high materials and manufacturing costs associated with our first generation Tesla Roadster and limited economies of scale from low vehicle production volumes. Gross profit for the year ended December 31, 2009 of \$9.5 million benefited from higher per unit revenue and reduced manufacturing cost from increased volume and component re-design.

**Table of Contents***Research and Development Expenses*

Research and development expenses for the year ended December 31, 2010 were \$93.0 million, an increase from \$19.3 million for the year ended December 31, 2009. Research and development expenses during the year ended December 31, 2009 included \$23.2 million in Daimler Smart fortwo development compensation which was recorded as an offset to research and development expenses. The \$73.7 million increase in research and development expenses during the year ended December 31, 2010 consisted primarily of a \$25.0 million increase in employee cash and stock-based compensation expenses primarily associated with significantly higher headcount to support our Model S and powertrain development activities, the \$23.2 million Daimler development compensation offset recognized during the year ended December 31, 2009, a \$10.5 million increase in materials and prototyping expenses primarily to support our Model S alpha build as well as powertrain development activities; a \$10.7 million increase in professional and outside services costs related to Model S engineering, design and testing activities; and a \$1.6 million increase in office, information technology and facilities-related costs to support the growth of our business, including our transition to our Palo Alto headquarters.

During the first quarter of 2010, Daimler engaged us to assist with the development and production of a battery pack and charger for a pilot fleet of its A-Class electric vehicles to be introduced in Europe during 2011. As of March 31, 2010, a development agreement had yet to be finalized and as such, the related development services costs of \$0.5 million that we incurred during the quarter ended March 31, 2010 were expensed in research and development. In May 2010, we finalized the agreement and began recording the costs associated with this program in cost of revenues.

Research and development expenses of \$19.3 million for the year ended December 31, 2009 decreased from \$53.7 million for the year ended December 31, 2008. The \$34.4 million decrease in research and development expenses was a result of the \$23.2 million Daimler development compensation offset recognized during the year ended December 31, 2009, a \$13.3 million decrease resulting from the allocation of various manufacturing-related costs to inventory and cost of sales once we transitioned into commercial production, a \$3.2 million decrease in charges related to excess and obsolescence, adverse purchase commitments and materials and tooling expense due both to the classification of production-related costs to cost of sales once we transitioned into commercial production as well as lower outside professional services, partially offset by a \$5.5 million increase in employee compensation expenses associated with higher headcount for the year ended December 31, 2009.

We began receiving payments under the Smart fortwo development arrangement with Daimler in the year ended December 31, 2008 to compensate us for the cost of our development activities. We deferred recognition for these payments received in advance of the execution of the final agreement because a number of significant contractual terms were not in place prior to that time. Upon entering into the final agreement in May 2009, we began recognizing, as an offset to our research and development expenses, the deferred development compensation of \$14.5 million on a straight-line basis. This amount was recognized over the expected life of the agreement, beginning in May 2009 and continuing through November 2009. Payments that we received upon the achievement of development milestones subsequent to contract execution in May 2009 were recognized as an offset to our research and development expenses, upon achievement and acceptance of the respective milestones. We did not recognize any development compensation from Daimler during the year ended December 31, 2008.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses for the year ended December 31, 2010 were \$84.6 million, an increase from \$42.2 million for the year ended December 31, 2009. The \$42.4 million increase in our selling, general and administrative expenses during the year ended December 31, 2010 consisted primarily of a \$15.8 million increase in stock-based compensation expense related to a larger number of outstanding equity awards, expense related to performance-based awards, an increasing common stock valuation applied to new grants made in 2010, and the \$2.4 million correction of additional stock-based compensation expense that should have been recorded during the year ended December 31, 2009; a \$13.4 million increase in employee cash compensation expenses related to higher sales and marketing headcount to support a larger number of stores in

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**Table of Contents**

the United States and Europe and higher general and administrative headcount to support the expansion of the business; a \$7.1 million increase in office, information technology and facilities-related costs to support the growth of our business, including the opening of new stores and service locations and our transition to our Palo Alto headquarters; a \$3.2 million increase in travel and expenses related to our sales and marketing activities; and a \$1.0 million increase in professional services costs related to ongoing trademark and patent work, recruiting, as well as general corporate development activities.

Selling, general and administrative expenses of \$42.2 million for the year ended December 31, 2009 increased from \$23.6 million for the year ended December 31, 2008. The \$18.6 million increase in our selling, general and administrative expenses during the year ended December 31, 2009 consisted primarily of an \$8.4 million increase in employee compensation expenses related to higher sales and marketing headcount to support our opening of additional stores in the United States and Europe, as well as higher general and administrative headcount to support the expansion of the business and our efforts to become a public company; a \$4.7 million increase in office, information technology and facilities costs to support the growth of our business, including the opening of new stores; a \$2.0 million increase in legal services and legal settlements and accounting and other consulting services to support our growth; and a \$1.3 million increase in costs principally related to increased marketing activities.

*Interest Expense*

Interest expense for the year ended December 31, 2010 was \$1.0 million, a decrease from \$2.5 million for the year ended December 31, 2009. Interest expense during the year ended December 31, 2009 was primarily related to our convertible notes which were converted into shares of our Series E convertible preferred stock in May 2009, while interest expense during the year ended December 31, 2010 was primarily due to our loans under the DOE Loan Facility which we began accessing in 2010. During the year ended December 31, 2010, we capitalized \$0.8 million of interest expense to assets under construction.

Interest expense of \$2.5 million for the year ended December 31, 2009 decreased from \$3.7 million for the year ended December 31, 2008. The decrease in interest expense was due to the conversion of our convertible notes into shares of our Series E convertible preferred stock in May 2009.

*Other Expense, Net*

Other expense, net, for the year ended December 31, 2010 was \$6.6 million, an increase in expense compared to other expense, net, of \$1.4 million for the year ended December 31, 2009. The increase in expense for the year ended December 31, 2010 was primarily due to the fair value changes in our warrant liabilities as well as the liability related to common stock warrants to certain of our stockholders which we issued in May 2010, both of which increased significantly in conjunction with the increase in our common stock valuation.

Other expense, net, for the year ended December 31, 2009 increased from \$1.0 million for the year ended December 31, 2008. The increase was primarily a result of a \$1.8 million increase in foreign currency transaction losses associated with a higher level of foreign currency denominated purchases as well as the strengthening of foreign currencies against the U.S. dollar, partially offset by a \$1.6 million decrease in the fair value change of our outstanding convertible preferred stock warrants during the year ended December 31, 2009.

*Provision for Income Taxes*

Our provision for income taxes for the year ended December 31, 2010 was \$0.2 million, an increase from the provision for income taxes of \$26,000 during the year ended December 31, 2009. The increase was due primarily to the launch of the Tesla Roadster in Europe in July 2009 and the ensuing increase in taxable income in our international jurisdictions in subsequent periods. Additionally, during the year ended December 31, 2009, we recognized research and development benefits from our foreign operations which decreased our provision for income taxes.

**Table of Contents**

Our provision for income taxes for the year ended December 31, 2009 decreased from the provision for income taxes of \$0.1 million for the year ended December 31, 2008. The decrease was due primarily to the research and development benefits that we recognized in 2009 from our foreign operations.

**Quarterly Results of Operations**

The following unaudited quarterly consolidated statements of operations for the nine quarters in the period ended March 31, 2011, have been prepared on a basis consistent with our audited consolidated annual financial statements, and include, in the opinion of management, all normal recurring adjustments necessary for the fair presentation of the financial information contained in those statements. The following consolidated quarterly financial data should be read in conjunction with our consolidated annual financial statements and the related notes included elsewhere in this prospectus.

	March 31, 2009	Three Months Ended		December 31, 2009
		June 30, 2009	September 30, 2009	
	(in thousands, except share and per share data)			
<b>Consolidated Statements of Operations Data:</b>				
Revenues:				
Automotive sales	\$ 20,886	\$ 26,945	\$ 45,527	\$ 18,585
Development services				
<b>Total revenues</b>	<b>20,886</b>	<b>26,945</b>	<b>45,527</b>	<b>18,585</b>
Cost of revenues(1):				
Automotive sales	22,932	24,844	37,828	16,804
Development services				
<b>Total cost of revenues</b>	<b>22,932</b>	<b>24,844</b>	<b>37,828</b>	<b>16,804</b>
Gross profit (loss)	(2,046)	2,101	7,699	1,781
Operating expenses(1):				
Research and development (net of development compensation of \$8,509, \$8,661 and \$6,079 for the three months ended June 30, September 30, and December 31, 2009, respectively)	7,941	1,941	1,257	8,143
Selling, general and administrative	6,607	8,247	10,733	16,563
<b>Total operating expenses</b>	<b>14,548</b>	<b>10,188</b>	<b>11,990</b>	<b>24,706</b>
Loss from operations	(16,594)	(8,087)	(4,291)	(22,925)
Interest income	16	29	52	62
Interest expense	(1,402)	(1,086)	(18)	(25)
Other income (expense), net	1,972	(1,715)	(577)	(1,125)
<b>Loss before income taxes</b>	<b>(16,008)</b>	<b>(10,859)</b>	<b>(4,834)</b>	<b>(24,013)</b>
Provision for (benefit from) income taxes	8	8	(219)	229
<b>Net loss</b>	<b>\$ (16,016)</b>	<b>\$ (10,867)</b>	<b>\$ (4,615)</b>	<b>\$ (24,242)</b>
<b>Net loss per share of common stock, basic and diluted</b>	<b>\$ (2.31)</b>	<b>\$ (1.56)</b>	<b>\$ (0.66)</b>	<b>\$ (3.43)</b>
<b>Shares used in computing net loss per share of common stock, basic and diluted</b>	<b>6,924,194</b>	<b>6,965,958</b>	<b>7,014,055</b>	<b>7,065,641</b>