TESLA MOTORS INC
Form S-1/A
June 15, 2010
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As filed with the Securities and Exchange Commission on June 15, 2010

Registration No. 333-164593

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 5

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	3711	91-2197729
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3500 Deer Creek Road

Palo Alto, California 94304

(650) 681-5000

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

Elon Musk

Chief Executive Officer

Tesla Motors, Inc.

3500 Deer Creek Road

Palo Alto, California 94304

(650) 681-5000

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

Copies to:

Larry W. Sonsini	**Kevin P. Kennedy**
David J. Segre	**Simpson Thacher & Bartlett LLP**
Mark B. Baudler	**2550 Hanover Street**
Wilson Sonsini Goodrich & Rosati, P.C.	**Palo Alto, California 94304**
650 Page Mill Road	**(650) 251-5000**
Palo Alto, California 94304	
(650) 493-9300	

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. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) 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	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (1)(2)	Amount of Registration Fee (3)
Common Stock, $0.001 par value	$16.00	$204,240,000.00	$14,562.31

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457 under the Securities Act of 1933, as amended.
(2) Includes the aggregate offering price of additional shares that the underwriters have the option to purchase.
(3) The Registrant previously paid $7,130.00 in connection with the original filing of this Registration Statement, initially filed with the Commission on January 29, 2010.

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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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 15, 2010

11,100,000 Shares

Common Stock

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

Tesla Motors is offering 10,000,000 of the shares to be sold in the offering. The selling stockholders identified in this prospectus are offering an additional 1,100,000 shares. Tesla Motors will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $14.00 and $16.00.

Application has been made for listing on The Nasdaq Global Market under the symbol TSLA .

See the section entitled Risk Factors on page 15 to read about factors you should consider before buying shares of the common stock.

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.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Tesla Motors	$	$
Proceeds, before expenses, to the selling stockholders	$	$

To the extent that the underwriters sell more than 11,100,000 shares of common stock, the underwriters have the option to purchase up to an additional 565,000 shares from Tesla Motors and 1,100,000 shares from the selling stockholders at the initial public offering price less the

underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2010.

Goldman, Sachs & Co. **Morgan Stanley** **J.P. Morgan** **Deutsche Bank Securities**

Prospectus dated , 2010

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You should rely only on the information contained in this prospectus and in any free writing prospectus. We, the underwriters and the selling stockholders have not authorized anyone to provide you with information different from that contained in this prospectus. We, the underwriters and the selling stockholders 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, the selling stockholders, nor any of the underwriters have 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.

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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 a 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 have intentionally departed from the traditional automotive industry model by both exclusively focusing on electric powertrain technology and owning our vehicle sales and service network. We are the first and currently only company to commercially produce a federally-compliant highway-capable electric vehicle, the Tesla Roadster, which combines a market-leading range on a single charge with attractive design, driving performance and zero tailpipe emissions. Introducing the Tesla Roadster required us to develop a proprietary electric powertrain that incorporates four key components an advanced battery pack, power electronics module, high-efficiency motor and extensive control software. We believe our core intellectual property contained within our electric powertrain will form the foundation for our planned future electric vehicles. Since our team combines the innovation and speed to market characteristics of Silicon Valley firms with the experience of leading automotive companies, we believe that we will be able to rapidly and cost effectively introduce additional vehicles, such as our planned Tesla Model S sedan, and stay at the forefront of the electric automobile industry.

We operate in a fundamentally different manner and structure than traditional automobile manufacturers to pursue what we believe is a historic opportunity to create an integrated company which successfully commercializes electric vehicles without compromising on range, performance or styling. In addition to designing and manufacturing our vehicles, we sell and service them through our own sales and service network. This is different from the incumbent automobile companies in the United States who typically franchise their sales and service. We believe our approach will enable us to operate more cost effectively, provide a better experience for our customers and incorporate customer feedback more quickly into our product development and manufacturing processes. We are continuing to expand our distribution network globally and as of June 14, 2010, operated 12 Tesla stores in North America and Europe.

The Tesla Roadster, our first vehicle, showcases our technology and illustrates our leadership in electric vehicle innovation. Introduced in 2008, the Tesla Roadster can accelerate from zero to 60 miles per hour in 3.9 seconds and produces zero tailpipe emissions. The Tesla Roadster has a battery pack capable of storing approximately 53 kilowatt-hours of usable energy, almost double the energy of any other commercially available electric vehicle battery pack. The Tesla Roadster has a range of 236 miles on a single charge, as determined using the United States Environmental Protection Agency s, or EPA s, combined two-cycle city/highway test. Further improvements in the energy efficiency of the Tesla Roadsters that we will begin producing in the next several months will increase the range of these vehicles to 245 miles on a single charge, as determined using the 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 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. To date, our customers have driven their Tesla Roadsters an estimated aggregate of over 4.0 million miles.

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As of March 31, 2010 we had sold 1,063 Tesla Roadsters to customers in 22 countries. In July 2009, less than one year after the date of the commercial introduction of the Tesla Roadster, we introduced a new Roadster model, the Tesla Roadster 2, with improved electric powertrain performance and interior styling and lower production costs. At the same time we introduced the Roadster Sport, which accelerates from zero to 60 miles per hour in 3.7 seconds. We delivered our first right-hand drive model of the Tesla Roadster in January 2010, which we believe further demonstrates our ability to rapidly launch new products. Using a 240 volt, 40 amp outlet that is widely available in many homes in the United States for electric appliances, charging the Tesla Roadster battery pack to full capacity will take approximately 7 hours, which can be reduced to 4.5 hours with a professionally installed 70 amp circuit.

We intend to continue to develop our electric powertrain technology and introduce additional electric vehicles, such as our planned Model S sedan. We are designing the Model S to be a four door, five passenger premium sedan that offers exceptional performance, functionality and attractive styling with zero tailpipe emissions at a compelling cost of ownership. We are designing the Model S to include a third row with two rear-facing child seats, subject to applicable safety regulations and requirements, allowing us to offer a seven passenger sedan. The drivable early prototype of the Model S was revealed to the public in March 2009 and despite a limited marketing effort, as of March 31, 2010, we had received approximately 2,200 customer reservations with a minimum refundable payment of $5,000.

The Model S, which is planned to compete in the premium vehicle market, is intended to have a significantly broader customer base than the Tesla Roadster. We currently intend to begin volume production of the Model S in 2012 with a target annual production of up to approximately 20,000 cars per year. We currently anticipate introducing the base Model S at an effective price of $49,900 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. Even without this tax credit, we believe the Model S will be competitive from a pricing perspective with other premium vehicles.

In order to meet customer range expectations, we are designing the planned 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. The Model S is being designed to be charged at home, but we are also planning to offer the capability to fast charge the vehicle in as little as 45 minutes at commercial charging stations that we anticipate may be available in the future. The Model S battery pack is also being designed with the capability of being rapidly swapped out at specialized commercial battery pack exchange facilities that we anticipate may be available in the future.

We are designing the Model S to have an adaptable platform architecture and common electric powertrain in order to allow us to efficiently create other electric vehicles, which may include, as examples, a crossover/sport utility vehicle, van or a cabriolet. By developing our future vehicles from this common platform, we believe we can reduce their development time and, as a result, reduce the required additional capital investment. Our long-term goal is to offer consumers a full range of electric vehicles, including a product line at a lower price point than the planned Model S. In May 2010, we publicly announced our intent to develop a third generation electric vehicle to be produced at our planned manufacturing facility in Fremont, California. We intend to offer this vehicle at a lower price point and expect to produce it at higher volumes than our planned Model S. We expect that this vehicle will be produced a few years after the introduction of the Model S.

We have developed a purpose-built electric powertrain to deliver the performance objectives of the Tesla Roadster and our planned future vehicles. The battery pack has been designed to use high volume lithium-ion battery cells and allows for flexibility with respect to specific lithium-ion chemistry and battery cell

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manufacturers. This enables us to leverage the significant investments being made globally by the battery industry to improve battery cell performance and lower cost. Harnessing the energy of a large number of lithium-ion battery cells into an electric vehicle required us to develop sophisticated battery cooling, power, safety and management systems. Delivering the instant power and torque of electric technology also required us to develop a proprietary alternating current 3-phase induction motor and its associated power electronics. In addition, we developed extensive software systems to manage the overall efficiency, safety and controls of the Tesla Roadster and our planned future vehicles. These technology innovations have resulted in an extensive intellectual property portfolio. By utilizing a combination of standard components and innovative technology, we believe we have engineered what is currently the lowest cost battery pack when measured as a function of cost per kilowatt-hour.

Our electric powertrain is modular and compact, with fewer moving parts than an internal combustion engine. We believe this will enable us to easily adapt our technology to a variety of vehicle applications. We have developed a relationship with Daimler AG, or Daimler, since March 2008 to apply our technology in a battery pack and charger for Daimler s Smart fortwo electric drive. Blackstar Investco LLC, an affiliate of Daimler, holds more than 5% of our outstanding capital stock. We have been selected by Daimler to supply it with up to 1,000 battery packs and chargers to support a trial of the Smart fortwo electric drive in at least five European cities. Daimler has notified us that it intends to increase its purchase commitment by 50% to 1,500 battery packs and chargers. We began shipping the first of these battery packs and chargers in November 2009 and started to recognize revenue for these sales in the quarter ended December 31, 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. In May 2010, Tesla and Toyota Motor Corporation, or Toyota, announced their intention to cooperate on the development of electric vehicles, and for Tesla to receive Toyota s support with sourcing parts and production and engineering expertise for the Model S. We intend to expand our electric powertrain production facility in Palo Alto, California to develop and market powertrain components to Daimler, Toyota and other automobile manufacturers.

In January 2010, we entered into a $465.0 million long-term loan under the United States Department of Energy s Advanced Technology Vehicles Manufacturing Incentive Program which will be used to finance the development of our planned integrated manufacturing facility for the Model S as well as our electric powertrain production facility. Through June 14, 2010, we had received draw-downs under our loan facility with the DOE for an aggregate of $45.4 million. We also have been granted up to approximately $31 million in tax incentives by the California Alternative Energy and Advanced Transportation Financing Authority. We believe these loans and incentives will help accelerate the time to volume production for both the planned Model S and our electric powertrain business. In addition, we believe these loans and incentives provide us significant long-term financing that should enable us to focus more of our resources on the execution of our business plans.

We were incorporated in 2003 and began selling the Tesla Roadster in 2008. As of May 31, 2010, we had 646 employees worldwide.

Since inception through March 31, 2010, we had generated $147.6 million in revenue. As of March 31, 2010, we had an accumulated deficit of $290.2 million and had experienced net losses of $78.2 million for the year ended December 31, 2007, $82.8 million for the year ended December 31, 2008, $55.7 million for the year ended December 31, 2009, and $29.5 million for the three months ended March 31, 2010.

Recent Developments

In May 2010, we entered into a stock purchase agreement with Toyota pursuant to which Toyota will purchase $50.0 million of our common stock at a price per share equal to the initial public offering price in a private placement to close immediately subsequent to the closing of this offering. In addition, Tesla and Toyota

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announced their intention to cooperate on the development of electric vehicles, and for Tesla to receive Toyota s support with sourcing parts and production and engineering expertise for the Model S. Active discussions are now underway, but we have not entered into any agreements with Toyota for any such arrangements, including any purchase orders. We also entered into an agreement to purchase an existing automobile production facility in Fremont, California from New United Motor Manufacturing, Inc., or NUMMI, which is a joint venture between Toyota and Motors Liquidation Company, the owner of selected assets of General Motors. The purchase totals 207 acres, or approximately 55% of the land at the site, and includes all of the manufacturing facilities located thereon. The purchase price for the land and the facility, excluding whatever manufacturing equipment we may subsequently acquire from NUMMI, is approximately $42 million. We anticipate that this purchase will close within a few months following the completion of this offering. We intend to use this facility for the production of our planned Model S and future vehicles. We are in an early stage of planning for this facility.

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 will correct the error by recording additional stock-based compensation expense of $2.4 million in the three month period ending June 30, 2010. See Note 16 to our consolidated financial statements included elsewhere in this prospectus.

Industry Overview

We believe incumbent automobile manufacturers are at a crossroads and face significant industry-wide challenges. The reliance on the gasoline-powered internal combustion engine as the principal automobile powertrain technology has raised environmental concerns, created dependence among industrialized and developing nations on oil largely imported from foreign nations and exposed consumers to volatile fuel prices. In addition, we believe the legacy investments made by incumbent automobile manufacturers in manufacturing and technology related to the internal combustion engine have to date inhibited rapid innovation in alternative fuel powertrain technologies.

We believe that shifting consumer preferences together with increasing government regulation and incentives will result in significant growth in the market for electric vehicles. We believe many consumers are increasingly willing to consider buying electric-based vehicles due to the environmental, economic and national security consequences of using gasoline-powered vehicles, as demonstrated by the increased sales of hybrid electric vehicles in recent years. We also believe government regulations and incentives are accelerating the growth of the electric vehicle market. Many governments in countries throughout the world are regulating vehicle emissions and fuel economy standards and offering incentives to consumers to purchase more energy efficient vehicles. According to Frost & Sullivan, a business research and consulting firm, the market for electric-based vehicles, which includes electric vehicles, hybrid electric vehicles and plug-in hybrid electric vehicles, is expected to grow to approximately 10.6 million units worldwide, or approximately 14% of new vehicles sold by 2015 from approximately 1.75 million units or 3% of new vehicles sold in 2008.

We believe incumbent automobile manufacturers have faced significant challenges that to date have inhibited their ability to capitalize fully on the electric vehicle opportunity, including:

Dependence on the Internal Combustion Engine. While GM and Toyota have each invested over $1 billion in hybrid and plug-in electric vehicle programs, we believe many incumbent automobile

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manufacturers continue to emphasize investment in internal combustion engine technologies over investment in fully electric technologies because of their need to support their existing revenue base and core competencies.

Limited Electric Powertrain Expertise. To date, many incumbent automobile manufacturers have pursued multiple alternative fuel programs and, in doing so, have outsourced key components of alternative fuel powertrain development. By exploring a diverse range of alternative fuel programs while simultaneously continuing to invest in the internal combustion engine, we believe incumbent automobile manufacturers have inhibited their ability to focus on a specific alternative fuel powertrain technology such as electric powertrains.

Profitability Pressures and Reduced Operating Flexibility. Many incumbent automobile manufacturers have recently faced deteriorating margins and liquidity, which we believe has significantly reduced their operating flexibility and to date has constrained their liquid capital resources.

Expensive New Product Development Process. While certain incumbent automobile manufacturers have already introduced or anticipate introducing plug-in hybrid or fully electric vehicles, new product launches by incumbent automobile manufacturers from development to production have historically required significant capital investments.

Despite the automobile industry s challenges, incumbent automobile manufacturers have attempted over time to respond to shifting consumer desires and government mandates by incorporating elements of electric propulsion into their vehicles by introducing hybrid powertrains. Although hybrid electric vehicles address some of the concerns associated with the historical reliance on the internal combustion engine, we believe they are a transitional technology between internal combustion engine vehicles and fully electric vehicles. The increased complexity and weight of the dual powertrain system inherent in hybrid and plug-in hybrid electric vehicles forces engineering compromises which result in a less energy efficient vehicle and generally limits performance. Consequently, these hybrid vehicles do not realize the full benefits of electric propulsion, and still consume gasoline and produce emissions. While incumbent automobile manufacturers may recognize the benefits of electric propulsion, we believe that due to technology limitations and their relatively limited expertise in battery, software and electric powertrain technologies, incumbent automobile manufacturers have to date been unable to design and offer a commercially successful electric vehicle that offers compelling range, vehicle design and performance at an affordable cost.

Our Solution

We design, develop, manufacture and sell high-performance fully electric vehicles and advanced electric vehicle powertrain components through our highly differentiated business model. We intend to leverage our proprietary electric powertrain system developed for the Tesla Roadster to form the basis for our planned Model S sedan. We believe our combination of engineering and management expertise from Silicon Valley and the automotive industry, together with our operational structure, will help us to rapidly innovate and to cost efficiently introduce new vehicles and technologies. By owning our sales and service network, we believe we can offer a compelling customer experience while achieving operating efficiencies and capturing sales and service revenues that incumbent automobile manufacturers do not receive in the traditional franchised dealer model. We also plan to leverage our electric powertrain technology to develop and sell powertrain components to other manufacturers, such as the battery packs and chargers we have recently begun to sell to Daimler.

We believe our proprietary electric powertrain system will enable us to design and develop zero emission vehicles that overcome the design, styling and performance issues that have historically limited broad consumer adoption of electric vehicles. As a result, we believe customers of our vehicles will enjoy many benefits, including:

Long Range and Recharging Flexibility. The Tesla Roadster has been designed to provide range capabilities significantly in excess of any current and prior generation electric vehicles. We are

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designing our planned Model S to offer a variety of intermediate range options as well as a range option extending beyond that of the Tesla Roadster. 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.

Energy Efficiency and Cost of Ownership. We believe our Tesla Roadster offers and our planned Model S will offer consumers an attractive cost of ownership when compared to similar internal combustion engine or hybrid electric vehicles. By using a single powertrain and customizing the systems within the electric powertrain and the rest of the vehicle, our vehicles are more energy efficient, and therefore less expensive to operate, than currently available hybrid or internal combustion engine vehicles.

High-Performance Without Compromised Design or Functionality. With the Tesla Roadster, we believe we have been able to successfully overcome the design and performance tradeoff issues that encumbered earlier electric vehicle designs. We believe the Tesla Roadster offers our customers an unparalleled driving experience with instantaneous and sustained acceleration through an extended range of speed. We intend to apply such advancements to our future vehicles.

Our Competitive Strengths

We believe the following strengths position us well to capitalize on the expected growth in the electric vehicle market:

Singular Focus and Leadership in Electric Powertrain Technology. We are focused exclusively on developing our electric vehicles and electric powertrain technology to achieve a compelling combination of range and performance in our vehicles. We intend to use our electric powertrain expertise to innovate rapidly and sustain technological and time to market advantages over incumbent automobile manufacturers. In March 2010, we were named one of the top 50 most innovative companies in the world by *Technology Review*, a publication owned by the Massachusetts Institute of Technology.

Combination of Expertise from Silicon Valley and the Traditional Automotive Industry. Our roots in Silicon Valley have enabled us to recruit engineers with strong skills in electrical engineering, software and controls, which we have complemented with significant automotive expertise in vehicle engineering and manufacturing from other members of our team.

Proprietary Systems Integration of Vehicle and Electric Powertrain. We believe that our ability to combine our electric powertrain expertise with our vehicle engineering expertise provides a broad capability in electric vehicle design and systems integration.

Rapid Customer Focused Product Development. We have designed our product development process to rapidly react to data collected from our vehicles and the direct interaction with our customers at our company-owned Tesla stores, which we believe will enable us to rapidly introduce new vehicles and features.

Ownership of Sales and Service Network. We intend for our distribution and service network to offer a compelling customer experience while achieving operating efficiencies and capturing sales and service revenues incumbent automobile manufacturers do not generally receive in the traditional franchised distribution and service network model.

Brand Leadership. We believe the Tesla brand is well recognized in our target market and is associated with high performance, long range electric vehicles, despite limited marketing spending to date. In November 2009, *Advertising Age* selected Tesla as one of America s hottest brands in a special report highlighting the year s 50 top brands.

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Substantial Funding in Place to Accelerate Growth. We believe our $465.0 million loan facility agreement under the United States Department of Energy s Advanced Technology Vehicles Manufacturing Incentive Program provides significant long-term financing that will enable us to focus on executing our business plans.

Capital Efficiency. We believe our rapid product development process, our modular and adaptable powertrain, our plan to design and manufacture multiple product types on a singular platform and our ability to hold lower inventory levels while still meeting customer demand will help reduce the capital required to reach operating efficiencies. This approach is designed with the aim of allowing us to achieve profitability at relatively low volumes and create a viable long-term business. For example, the cumulative capital expenditures and research and development costs for the Tesla Roadster from our inception to the date we delivered our first Tesla Roadster equaled approximately $125 million.

Our Strategy

We intend to be a leading global manufacturer and direct seller of electric vehicles and electric vehicle technologies. Key elements of our strategy include:

Successfully Launch the Model S. We believe the successful launch of the planned Model S is critical to our ability to capitalize on the electric vehicle market opportunity. We are currently executing a plan to finish the design, engineering and component sourcing for the Model S and to build out our planned manufacturing facility in Fremont, California and obtain the equipment to support its production with the goal of commercial introduction of the Model S in 2012.

Use a Common Platform to Introduce New Models. We intend to design the Model S with an adaptable platform architecture and common electric powertrain, to provide us the flexibility to use the Model S platform to cost efficiently launch new electric vehicle models subsequent to the start of production of the Model S.

Develop Integrated Engineering and Manufacturing Capabilities. We intend to develop our planned substantially integrated electric vehicle manufacturing facility in Fremont, California, allowing our vehicle engineering and manufacturing teams to work alongside one another to streamline the feedback loop for rapid product enhancements and quality improvements.

Continue to Focus on Technological Advancement and Cost Improvement. We intend to continue to further develop our proprietary electric powertrain system, specifically its range capabilities, while continuing to reduce its manufacturing cost.

Expand our Company-Owned Sales and Service Network. As of June 14, 2010, we had opened 12 Tesla stores in the United States and Europe, and we plan to open additional stores during 2010, with a goal of establishing approximately 50 Tesla stores globally within the next several years in connection with the planned Model S rollout.

Leverage Industry Advancements in Battery Cells. We intend to leverage the substantial investments being made globally by battery cell manufacturers, as we have designed our powertrain technology to permit flexibility with respect to battery cell chemistry, form factor and vendor.

Build and Leverage Strategic Relationships. We intend to establish and develop strategic relationships with industry leaders to launch our planned electric vehicles and sell our electric vehicle powertrain components.

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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 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;
- 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;
- we anticipate that we will experience an increase in losses and may experience a decrease in automotive sales revenues prior to the launch of the Model S;
- 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; and
- we may experience significant delays in the design, manufacture, launch and financing of the Model S, including in the build out of our planned Model S manufacturing facility.

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. 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. We were incorporated in 2003.

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 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.

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THE OFFERING

Common stock we are offering	10,000,000 shares (or 10,565,000 shares if the underwriters exercise their option to purchase shares from us in full)
Common stock offered by the selling stockholders	1,100,000 shares (or 2,200,000 shares if the underwriters exercise their option to purchase shares from the selling stockholders in full)
Common stock sold by us in the concurrent private placement	Immediately subsequent to the closing of this offering, Toyota Motor Corporation, or Toyota, will purchase from us in a private placement, the number of shares of our common stock equal to $50.0 million, at a price per share equal to the initial public offering price. Based on an assumed initial public offering price of $15.00 per share, which is the midpoint of the range set forth on the cover of this prospectus, this would be 3,333,333 shares. 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 sale of these shares to Toyota will not be registered in this offering and will be subject to a lock-up of 180 days. We refer to the private placement of these shares of common stock as the concurrent private placement.
Common stock to be outstanding after this offering and the concurrent private placement	91,598,096 shares (or 92,163,096 shares if the underwriters exercise their option to purchase shares from us and the selling stockholders in full)
Use of proceeds	We may use a portion of the net proceeds from this offering and the concurrent private placement to fund planned capital expenditures, working capital and other general corporate purposes. Under our loan facility with the United States Department of Energy, which we refer to herein as our DOE Loan Facility, we have agreed to spend up to $33 million plus any cost overruns we may encounter in developing our Model S and our planned Model S manufacturing facility as well as any cost overruns we encounter in developing our powertrain facility. In addition to this obligation, we have agreed to set aside 50% of the net proceeds from this offering and the concurrent private placement to fund a separate, dedicated account under our DOE Loan Facility to fund project costs for our anticipated powertrain and Model S manufacturing facilities that would otherwise have been funded through advances made under the DOE Loan Facility. This will not affect our ability to draw down the full amount of the DOE loans, but will require us to use the dedicated account to fund certain project costs up front, which costs may then be reimbursed by loans under the DOE Loan Facility once the dedicated account is depleted, or as part of the final advance for the applicable project. We currently anticipate making aggregate capital expenditures of between $100 million and $125 million during the year ended December 31, 2010. These capital expenditures will include approximately $42 million to purchase our

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	planned manufacturing facility for the Model S in Fremont, California, exclusive of any manufacturing equipment we may subsequently acquire. Our aggregate capital expenditures will also include funding the expansion of our Tesla stores. See Use of Proceeds.
Directed share program	The underwriters have reserved for sale, at the initial public offering price, up to 888,000 shares of our common stock being offered for sale to business associates, directors, employees and friends and family members of our employees and Tesla customers who have received delivery of a Tesla Roadster from Tesla. We will offer these shares to the extent permitted under applicable regulations in the United States and in the various countries where we have delivered Tesla Roadsters. The number of shares available for sale to the general public in this offering will be reduced to the extent these persons purchase reserved shares. Any reserved shares not purchased will be offered by the underwriters to the general public on the same terms as the other shares.
Proposed Nasdaq Global Market symbol	TSLA

The number of shares of common stock that will be outstanding after this offering and the concurrent private placement is based on 78,264,763 shares outstanding as of March 31, 2010, assuming the automatic conversion of all outstanding shares of our convertible preferred stock into common stock immediately prior to the closing of this offering and the issuance of 422,193 shares of common stock upon the assumed net exercise of warrants that otherwise expire upon the completion of this offering at an assumed initial public offering price of $15.00 per share, and excludes:

- 11,564,743 shares of common stock issuable upon the exercise of options outstanding at March 31, 2010 a weighted average exercise price of $5.71 per share;
- 1,392,030 shares of common stock issuable upon the exercise of options granted after March 31, 2010 at a weighted average exercise price of $14.00 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 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
- 13,759,096 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 10,666,666 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, 1,425,764 shares of common stock reserved for future grant or issuance under our 2003 Equity Incentive Plan as of March 31, 2010, which shares will be added to the shares to be reserved under our 2010 Equity Incentive Plan upon the effectiveness of the 2010 Equity Incentive Plan, and 1,666,666 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 2010 Equity Incentive Plan and the 2010 Employee Stock Purchase Plan will become effective on the date of this offering.

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Unless otherwise indicated, all information in this prospectus assumes:

- the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 70,226,844 shares of common stock effective immediately prior to the closing of this offering;
- the issuance of 322,193 shares of common stock upon the net exercise of outstanding warrants that would otherwise expire upon the completion of this offering at an assumed initial public offering price of $15.00 per share;
- the issuance of 100,000 shares of common stock upon the net exercise of common stock warrants that will automatically occur upon the completion of this offering;
- the issuance of 3,333,333 shares of common stock to Toyota upon the closing of the concurrent private placement based on an assumed initial public offering price of $15.00 per share;
- the filing of our amended and restated certificate of incorporation upon the completion of this offering; and
- no exercise by the underwriters of their right to purchase up to an additional 1,665,000 shares of common stock from us and the selling stockholders.

The information in this prospectus also reflects the 1-for-3 reverse stock split of our outstanding common stock effected in May 2010.

Brad W. Buss, who is a member of our Board of Directors, has indicated his interest in purchasing up to an aggregate of $200,000 of our common stock in the offering from the underwriters, at the initial public offering price.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data for the years ended December 31, 2007, 2008 and 2009 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, 2009 and 2010 and as of March 31, 2010 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 presentation 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.

The following summary consolidated financial data table reflects the 1-for-3 reverse stock split of our outstanding common stock effected in May 2010.

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 will correct the error by recording additional stock-based compensation expense of $2.4 million in the three month period ending June 30, 2010. See Note 16 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.

	Years Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	(in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Automotive sales (including zero emission vehicle credit sales of $3,458, $8,152, $1,275 and $506, for the years ended December 31, 2008 and 2009, and the three months ended March 31, 2009 and 2010, respectively)	$ 73	$ 14,742	$ 111,943	$ 20,886	$ 20,585
Development services					227
Total revenues	73	14,742	111,943	20,886	20,812
Cost of revenues(1):					
Automotive sales	9	15,883	102,408	22,932	16,858
Development services					102
Total cost of revenues	9	15,883	102,408	22,932	16,960
Gross profit (loss)	64	(1,141)	9,535	(2,046)	3,852
Operating expenses(1):					
Research and development (net of development compensation of $23,249 for the year ended December 31, 2009)	62,753	53,714	19,282	7,941	13,265
Selling, general and administrative	17,244	23,649	42,150	6,607	16,585
Total operating expenses	79,997	77,363	61,432	14,548	29,850
Loss from operations	(79,933)	(78,504)	(51,897)	(16,594)	(25,998)
Interest income	1,749	529	159	16	48
Interest expense		(3,747)	(2,531)	(1,402)	(230)
Other income (expense), net(2)	137	(963)	(1,445)	1,972	(3,221)
Loss before income taxes	(78,047)	(82,685)	(55,714)	(16,008)	(29,401)
Provision for income taxes	110	97	26	8	118

Net loss	$ (78,157)	$ (82,782)	$ (55,740)	$ (16,016)	$ (29,519)
Net loss per share of common stock, basic and diluted(3)	$ (22.69)	$ (12.46)	$ (7.94)	$ (2.31)	$ (4.04)
Shares used in computing net loss per share of common stock, basic and diluted(3)	3,443,806	6,646,387	7,021,963	6,924,194	7,301,940
Pro forma net loss per share of common stock, basic and diluted(2)(4) (unaudited)			$ (0.70)		$ (0.35)
Shares used in computing the pro forma net loss per share of common stock, basic and diluted(2)(4) (unaudited)			77,671,000		77,950,977

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

	Years Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
			(in thousands)		
Cost of revenues	$	$ 26	$ 61	$ 12	$ 42
Research and development	95	125	376	40	281
Selling, general and administrative	103	286	997	38	3,064
Total	$ 198	$ 437	$ 1,434	$ 90	$ 3,387

(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 will become a warrant to purchase shares of our common stock upon the closing of this offering. 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.

(4) Pro forma basic and diluted net loss per share of common stock has been computed to give effect to the conversion of the convertible preferred stock into common stock and the 1-for-3 reverse stock split of our outstanding common stock effected in May 2010. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains and losses resulting from remeasurements of the convertible preferred stock warrant liability as it is assumed that these warrants will be exercised immediately prior to a qualifying initial public offering and will no longer require periodic revaluation.

Our consolidated balance sheet data as of March 31, 2010 is presented:

on an actual basis;

on a pro forma basis to give effect to (i) the conversion of all outstanding shares of our convertible preferred stock into 70,226,844 shares of our common stock, (ii) the issuance of 322,193 shares of our common stock upon the assumed net exercise of outstanding warrants that would otherwise expire upon the completion of this offering at an assumed initial public offering price of $15.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, and the conversion of our DOE preferred stock warrant liability into common stock warrant liability, (iii) the additional funds borrowed under our DOE Loan Facility from April 1, 2010 through June 14, 2010 of $15.5 million, (iv) the issuance of 100,000 shares of our common stock upon the net exercise of common stock warrants that will automatically occur upon the completion of this offering and (v) the issuance of a warrant to the DOE on May 21, 2010 for the purchase of 5,100 shares of common stock at an exercise price of $8.94 per share; and

on a pro forma as adjusted basis to give effect to the pro forma adjustments as well as (i) the sale of 10,000,000 shares of common stock by us in this offering at an assumed initial public offering price of $15.00 per share, which is the midpoint of the range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses

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payable by us and (ii) the sale of 3,333,333 shares of common stock to be purchased directly from us by Toyota in the concurrent private placement based on an assumed initial public offering price of $15.00 per share.

	As of March 31, 2010		
	Actual	Pro Forma (Unaudited)	Pro Forma As Adjusted(1)
		(in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 61,546	$ 77,045	$ 169,545
Restricted cash(2)	7,487	7,487	99,987
Property and equipment, net	26,866	26,866	26,866
Working capital	41,497	56,996	241,996
Total assets	145,320	160,819	345,819
Convertible preferred stock warrant liability	10,359		
Common stock warrant liability		6,116	6,116
Capital lease obligations, less current portion	719	719	719
Long-term debt(3)	29,920	45,419	45,419
Convertible preferred stock	319,225		
Total stockholders equity (deficit)	(279,297)	44,179	229,179

(1) Each $1.00 increase or decrease in the assumed initial public offering price of $15.00 per share, the midpoint of the range reflected on the cover page of this prospectus, would increase or decrease, as applicable, our cash and cash equivalents (including restricted cash), working capital, total assets and total stockholders equity (deficit) by approximately $9.3 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.

(2) The restricted cash represents a deposit held in escrow for the purchase of manufacturing equipment, 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. On a pro forma as adjusted basis, the restricted cash also represents the portion of the proceeds from this offering and the concurrent private placement 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.

(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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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and all other information contained in this prospectus, including our consolidated financial statements and the related notes, before investing in our common stock. If any of the following risks materialize, our business, prospects, financial condition and operating results could be materially harmed. In such case, the price of our common stock could decline, and you may lose some or all of your investment.

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, 2010 we had only sold 1,063 production vehicles to customers, almost all of which were sold in the United States and Europe. Our revenues were $14.7 million for the year ended December 31, 2008, $111.9 million for the year ended December 31, 2009 and $20.8 million for the three months ended March 31, 2010. 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 to a lesser extent on products and services related to electric powertrain sales. We intend in the longer term to derive substantial revenues from the sales of our planned Model S sedan electric vehicle which is at an early stage of development and which we do not expect to be in production until 2012. We have no operating history with respect to the Model S electric vehicle and have only recently begun the component procurement process for the Model S, which limits our ability to accurately forecast the cost of the vehicle. In addition, we recently announced that we have entered into an agreement to purchase a manufacturing facility in Fremont, California to produce such vehicles, but we have not yet finalized the design or completed our engineering, manufacturing or component supply plans for the Model S. In addition, to date our powertrain sales, development services revenue and powertrain research and development compensation have been exclusively generated under arrangements with Daimler AG, or Daimler, for the development and sale of a battery pack and a charger for Daimler s Smart fortwo electric drive. Blackstar Investco LLC, or Blackstar, an affiliate of Daimler, holds more than 5% of our outstanding capital stock. Other than our arrangements with Daimler and its affiliates, we have not entered into any development or sales agreement for our electric powertrain business. There are no assurances that we will be able to secure future business with Daimler or its affiliates. In May 2010, Tesla and Toyota Motor Corporation, or Toyota, announced their intention to cooperate on the development of electric vehicles, and 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 arrangements, including any purchase orders, and we may never do so.

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, in the four most recent fiscal quarters ended March 31, 2010, we have 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 $26.0 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.

In addition, our revenues to date have included amounts we receive from selling zero emission vehicle, or ZEV, credits to other automobile manufacturers, pursuant to certain state regulations. We have entered into an agreement with American Honda Co., Inc., or Honda, in 2009 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, 2010, we had sold credits for 368 vehicles under this agreement and Honda has an obligation to purchase additional credits earned from the

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sale of any remaining vehicles that we manufactured in 2009 but sold in 2010 and from the sale of up to 287 additional vehicles manufactured in 2010 and 2011 prior to the expiration of the agreement. For the years ended December 31, 2008 and 2009, and the three months ended March 31, 2010, we recognized revenue from the sale of ZEV credits of $3.5 million, $8.2 million and $0.5 million, respectively. 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 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 $29.5 million for the three months ended March 31, 2010 and have incurred net losses of approximately $290.2 million from our inception through March 31, 2010. 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 occur until 2012, 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 planned Model S;
- design, develop and manufacture components of our electric powertrain;
- develop and equip our planned 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, 2010, 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. In addition, we have not yet determined whether this offering would constitute an ownership change resulting in limitations on our ability

to use our net operating loss and tax credit carry-forwards. If an ownership change is deemed to have occurred as a result of this offering, utilization of these assets could be significantly reduced.

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

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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. 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;
- 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;

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 may become subject to regulations that may 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. We are aware of advocacy groups, such as U.S. National Federation of the Blind, which are lobbying for regulations to require electric vehicle manufacturers to adopt minimum sound standards.

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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.

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. 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 will retain approximately 60-65% of its ability to hold its initial charge after approximately 100,000 miles and 7 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.

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 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

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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.

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 loan facility from the United States Department of Energy, or the DOE, under the DOE s Advanced Technology Vehicles Manufacturing Incentive Program, or ATVM Program. In January 2010, we entered into a loan facility with the Federal Financing Bank, or the FFB, that is guaranteed by the DOE and which we refer to as the 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 planned build out and operation of our electric powertrain manufacturing facility. We cannot, however, access all of these funds at once, but only over a period of up to three years through periodic draws as eligible costs are incurred. Through June 14, 2010, we have received draw-downs under our DOE Loan Facility for an aggregate of $45.4 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 planned Model S manufacturing facility, including an environmental assessment of such facility approved by the DOE and the completion of the processes under the National Environmental Policy Act, or NEPA, and the California Environmental Quality Act, or CEQA. For the electric powertrain manufacturing facility, the draw conditions include our achievement of progress milestones relating to the development of the powertrain manufacturing facility and the successful development of commercial arrangements with third parties for the supply of powertrain components. Additionally, the DOE Loan Facility will require us to comply with certain operating covenants and will place additional restrictions on our ability to operate our business. We are unaccustomed to 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 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.

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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, financials condition and operating results. Moreover, we will be competing with companies with well established distribution channels.

As of June 14, 2010, we had opened 12 Tesla stores in the United States and Europe, 9 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, 2010 we had only sold 1,063 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.

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

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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.

To date, we are registered as both a motor vehicle manufacturer and dealer in California, Colorado, Florida, Illinois and Washington and we are licensed as a motor vehicle dealer in the state of New York. We have not yet sought formal clarification of our ability to sell our vehicles in any other states.

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.

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 substantially all of our revenue from the sale of our Tesla Roadsters and the sale of the related zero emission vehicle credits. We began production of our Tesla Roadster only in 2008, and our second planned vehicle, our Model S, is not expected to be in production until 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 2,200 reservations for the vehicle as of March 31, 2010. To the extent that we are not able to build the production Model S to the expectations created by the early prototype, 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 may 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 in Hethel, England. We currently intend to manufacture gliders with Lotus for our

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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. We do not currently plan to begin selling our next generation Tesla Roadster until at least one year after the launch of the Model S, which is expected to be in production in 2012. 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 sales revenues 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 development or purchase of components in our electric powertrain business. There are no assurances 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 Evonik Industries AG and has announced it has entered into a memorandum of understanding with BYD Auto to collaborate on the development of an electric car under a jointly owned new brand for the Chinese market. 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 May 2010, Tesla and Toyota announced their intention to cooperate on the development of electric vehicles, and for Tesla to receive Toyota s support with sourcing parts and production and engineering expertise for the Model S. Active discussions are now underway, but we have not entered into any agreements with Toyota for any such arrangements, including any purchase orders, and we may never do so.

A large amount of our Tesla Roadster sales revenue in 2009 was due to the fulfillment of orders from reservations taken in prior years.

As of March 31, 2010 we had sold 1,063 Tesla Roadsters to customers, almost all of which were sold in the United States and Europe, of which a large number were reserved by customers in prior years. Of these Tesla Roadsters, we delivered and recognized revenue on 324 in the quarter ended September 30, 2009 as we made a significant effort to increase our production capacity in order to accelerate deliveries to customers. As a result, our revenues in the quarter ended September 30, 2009 were significantly higher than in prior quarters and in subsequent quarters since that time. Additionally, to date some of our Tesla Roadster sales have been made to persons who had pre-existing relationships with our management team or who are affluent individuals with a strong interest in owning a novel product. It may be difficult to attract high numbers of new Tesla Roadster customers who do not have pre-existing relationships with us or who are attracted to buy the Tesla Roadster after its initial novelty phase. We do not expect to have a significant wait list of orders for our Tesla Roadster in the future, and we may not be able to maintain or increase our vehicle sales revenue in future quarters. This may be the case even though we will make significant investments to expand our network of Tesla stores and sales personnel. Furthermore, potential customers may decide to defer purchasing the Tesla Roadster in anticipation of our planned next generation Tesla Roadster or Model S.

We have received only a limited number of current reservations for Tesla Roadsters and Model S sedans, all of which are subject to cancellation.

As of March 31, 2010, we had unfilled reservations for approximately 110 Tesla Roadsters and approximately 2,200 Model S sedans, all of which are subject to cancellation by the customer up until delivery of the vehicle. Historically, all of our reservations have been refundable, subject to a cancellation fee and we have had a significant number of customers who submitted reservations for the Tesla Roadster or the Model S cancel those reservations. We recently changed our reservation policy to require nonrefundable deposits for Tesla Roadsters manufactured to specification, whether such vehicle is for purchase or for lease. We will also occasionally accept refundable reservation payments for the Tesla Roadster if a customer is interested in purchasing a vehicle but not yet prepared to select the vehicle specifications.

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Our customers have historically cancelled, and may cancel, their reservations for many reasons, including the customer s inability to fund the purchase, the customer s decision to forego the purchase during the economic downturn, the customer s lack of confidence in our long-term viability and our ability to deliver the promised vehicle, the customer s concern over the ultimate price of the vehicle, including the price of its options, or the potentially long wait from the time a reservation is made until the time the vehicle is delivered. In addition, 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 fall 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 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 May 2010, we publicly announced our intent to develop a third generation electric vehicle which we expect to produce at our planned manufacturing facility in Fremont, California a few years after the introduction of the Model S. However, we have not yet finalized the design, engineering or component sourcing plans for this vehicle and there are no assurances that we will be able to bring this vehicle to market at a lower price point and in higher volumes than our planned Model S as we currently intend, if at all. Our failure to address additional market opportunities would harm our business, financial condition, operating results and 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.

Our future business depends in large part on our ability to execute on our plans to develop, manufacture, market and sell our planned 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 Cars Limited, or 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 a new painting process and 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.

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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 close on our agreement to purchase our planned Model S manufacturing facility in Fremont, California in the time frame required under the agreement and comply with the forward-looking provisions of our agreement to purchase our planned Model S manufacturing facility in Fremont, California, including the environmental provisions, at a cost and over a period of time consistent with what we presently anticipate;

- 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 DOE;

- that we will 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 we select will be able to accurately manufacture the vehicle within specified design tolerances;

- 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 obtain the necessary permits and approvals, including those under the CEQA and NEPA, as well as air quality permits, to comply with environmental and similar regulations to operate our 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;

- 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 planned 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. 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.

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We may experience significant delays in the design, manufacture, launch and financing of the Model S, including in the build out of our planned 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 planned Model S manufacturing facility, 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 quarter ended December 31, 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 May 2010, we entered into an agreement to purchase an existing automobile production facility in Fremont, California from New United Motor Manufacturing, Inc., or NUMMI, which is a joint venture between Toyota and Motors Liquidation Company, the owner of selected assets of General Motors. We currently intend to manufacture and assemble our Model S in this facility beginning in 2012. Our purchase agreement includes the buildings, improvements and infrastructure systems required to operate the facility but does not include the manufacturing equipment currently located in such facility, which will likely be auctioned off over the next several months. Although we have the right to participate in such auctions, much of the equipment may not be suitable for our needs and therefore we may be required to purchase alternative equipment which may not be available on terms favorable to us. In addition, our agreement to purchase our planned Model S manufacturing facility in Fremont, California provides that if we fail to close our acquisition of the facility by December 31, 2010, the agreement automatically terminates. The termination of this agreement, for any reason, would significantly impede our ability to execute on our projected timeline for the introduction of our Model S and future vehicles.

In addition, final designs for the Model S and plans for the build out of the planned 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 our suppliers for the planned 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 NHTSA safety regulations and EPA regulations prior to beginning mass production and delivery of the vehicles. Our plan to begin production of the Model S in 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 previously examined alternative sites for our planned Model S manufacturing facility and have been developing our manufacturing plans since 2008. We entered into an agreement for the purchase of our planned facility in Fremont, California in May 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 selected this facility and have not begun to implement our manufacturing plans and because we have not yet closed the purchase of the Fremont facility, we may experience unexpected delays in completing the build out of this facility for the production of our planned Model S.

We intend to fund the build out of the planned manufacturing facility principally by using existing cash, cash from this offering, cash from the concurrent private placement 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 planned Model S manufacturing facility, including an environmental assessment of such

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facility approved by the DOE and the completion of the processes under NEPA and CEQA. 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 a manufacturing process. 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 swap out its battery pack, there are no specialized facilities today to perform such swapping. 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 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.

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, or 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, or SAE, which further requires that we test using the United States Environmental Protection Agency s, or 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 2,200 reservations that have been placed for the Model S as of March 31, 2010. Any reduction in the advertised range of our vehicles could negatively impact our vehicle sales and harm our business.

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. 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 to market faster or more inexpensively by leveraging use of this common platform or that there will be sufficient customer demand for additional vehicle variants of this platform.

If we are unable to reduce and 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 reduce and/or 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 zero emission vehicle, or ZEV, credits did not exceed costs of revenues related to our Tesla Roadster, until the quarter ended June 30, 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 ever achieve a positive 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 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.

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. As of March 31, 2010, no other mass produced performance highway capable electric vehicles were being sold in the United States or Europe. However, we expect competitors to enter these markets within the next several years with some entering as early as the end of 2010 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 luxury 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. For example, Nissan has announced that it is developing the Nissan Leaf, a fully electric vehicle, which it plans to bring to market in late 2010. BYD Auto has also announced plans to bring an electric vehicle into the United States market in 2010, and Ford has announced that it plans to introduce an

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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, General Motors has announced that it is developing 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. General Motors announced that it plans to begin selling the Chevrolet Volt in 2010.

Moreover, it has been reported that Daimler, Lexus, Audi, Renault, Mitsubishi, Volkswagen and Subaru 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, 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 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 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 quarter ended December 31, 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

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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 two 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.

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. We expect sales of the Tesla Roadster to fluctuate 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 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 planned Model S 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.

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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 liquidity and long-term business prospects is important for building and maintaining our business.

If we are unable to establish and maintain confidence about our liquidity and 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 quarter ended December 31, 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 liquidity and 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;
- 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 liquidity or 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, 2010, we had incurred net losses of approximately $290.2 million and had used approximately $230.5 million of cash in operations and while recognizing only approximately $147.6 million in revenue. As of March 31, 2010, we had $61.5 million in cash and cash equivalents. We expect that the proceeds of this offering, the concurrent private placement and the DOE Loan Facility, together with our anticipated cash from operating

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activities and cash on hand, will be sufficient to fund our operations for the next 24 months. 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, 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, expand our network of Tesla stores and services centers, improve infrastructure and introduce new vehicles. 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 quarter ended December 31, 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.

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 very limited frame of reference by which to evaluate the performance of our Tesla Roadster in the hands of our customers and currently have no frame of reference by which to evaluate the performance of our Tesla Roadster after several years of customer driving. 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 previously experienced a product recall in May 2009 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. 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 Roadsters 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, 2010 we had sold only 1,063 Tesla Roadsters to customers, primarily in the United States and Europe. We do not plan to begin production of any

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Model S vehicles until 2012, 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. As of June 14, 2010, we had opened 12 Tesla stores that are equipped to actively service our performance electric vehicles, 9 of which have been open for less than one year, and to date we have only limited experience servicing our performance vehicles through our Tesla stores. We will need to open additional Tesla stores with service capabilities, as well as hire and train 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 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 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. 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

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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 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 in the process of transitioning our battery pack assembly and gearbox manufacturing processes for the Tesla Roadster and any difficulties we encounter during this transition could materially and adversely affect our business.

We have recently completed the transition of our motor manufacturing process and are in the process of transitioning our battery pack assembly and gearbox manufacturing processes for the Tesla Roadster in-house and may experience unexpected delays or difficulties in executing this transition. We historically have used facilities in Taiwan to assemble the motors for the Tesla Roadster and facilities in San Carlos, California to assemble the battery pack for the Tesla Roadster. These operations are transitioning to our new facility in Palo Alto, California, and we believe our facility relocation will be complete in 2010. We may experience issues that disrupt the production of these components as we migrate our production processes to our Palo Alto facility. Additionally, our lease agreement for the Menlo Park facility where the powertrain is assembled in the glider of the Tesla Roadster permits the landlord to terminate the lease without cause with six months notice. Any such termination could require us to relocate our Menlo Park operations to another facility although we believe such relocation could be accomplished in a relatively short period of time. Any difficulties we encounter while we transition our manufacturing operations in-house could materially and adversely affect our ability to manufacture and deliver our Tesla Roadsters to customers.

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 to be so 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 number of Tesla Roadsters for sale in 2012. We anticipate that our next generation Tesla Roadster, which we plan to launch at least one year after we begin production of the Model S, will be manufactured in our own facilities.

Pursuant to the supply agreement with Lotus, we are obligated to purchase a minimum of 2,400 partially assembled or fully assembled vehicles over the term of the agreement, which will expire in December 2011. 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. As of March 31, 2010, we had purchased approximately 1,200 vehicles or gliders under this agreement. We do not currently have a supply agreement with Lotus for the supply of Tesla Roadster

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vehicles or gliders beyond the 2,400 minimum referenced above. To the extent we would like to produce more than 2,400 vehicles, 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. In such event, we may be required to contract with another third party to replace Lotus which would entail redesign of the Tesla Roadster chassis, adjustments to our supply chain and establishment of a light manufacturing facility. The expense and time required to complete this transition, and to assure that the vehicles and gliders manufactured at that facility comply with all relevant regulatory requirements, may turn out to be higher than anticipated. Entry into any such contract with another third party might also require us to agree to terms with Lotus on which Lotus would license certain intellectual property rights necessary for the manufacture of the Tesla Roadster to such third party. There can be no assurance that we will be able to find a third party to complete partial manufacture of the Tesla Roadster on terms favorable to us, if at all. In addition, there can be no assurance that we will be able to enter into an intellectual property rights license with Lotus on terms favorable to us, if at all. Additionally, 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 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 from over 150 suppliers, many of whom are currently single source suppliers for these components. Our supply base is located globally, with about 30% of our suppliers located in North America, 40% in Europe and 30% in Asia. 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, and the gearboxes, which are supplied to us by BorgWarner Inc., 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.

This supply chain exposes us to multiple potential sources of delivery failure or component shortages for the Tesla Roadster and the planned Model S. 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.

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

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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, 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. 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 these cells. Any disruption is the supply of battery cells from such vendor could temporarily disrupt production of the Tesla Roadster until such time as a different supplier is fully qualified. Moreover, battery cell manufacturers 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 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 planned Model S but do not anticipate announcing the final pricing of the other variants of the Model S until at least 2011. However, 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.

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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.

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, 2010 we had sold 1,063 Tesla Roadsters to customers, almost all of which were sold in the United States and Europe, and had accepted reservations for approximately 2,200 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, over half of our current sales team has less than one year of experience in marketing and selling our performance electric vehicles. 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.

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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.

To begin building a Tesla Roadster to a customer s specifications, we require the customer to pay a nonrefundable deposit, which is applied towards the purchase price for our vehicles upon delivery of the vehicle. For vehicles purchased directly from our showrooms, no deposit is required. We also occasionally accept refundable reservation payments for the Tesla Roadster if a customer is interested in purchasing a vehicle but not yet prepared to select the vehicle specifications. For customers who have placed a refundable reservation payment with us, the reservation payment becomes a nonrefundable deposit once the customer has selected the vehicle specifications. These reservation payments and deposits are used by us to fund, in part, our working capital requirements and help us to align production with demand. For our 2010 model year Tesla Roadsters manufactured to specification, our current purchase agreement requires the payment of an initial $9,900, 11,500 or £10,000 deposit, depending on the location of the customer. For the Model S, we require an initial refundable reservation payment of at least $5,000. As of March 31, 2010, we had collected reservation payments for undelivered Tesla Roadsters in an aggregate amount of $6.3 million and reservation payments for Model S sedans in an aggregate amount of $19.7 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 Board or the Department of Motor Vehicles, or 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 would 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 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

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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. As of June 14, 2010, we had opened 12 Tesla stores in major metropolitan areas throughout the United States and Europe. We plan to open additional stores during 2010, with a goal of establishing approximately 50 stores globally within the next several years in connection with the planned Model S rollout. We estimate this expansion will cost approximately $5 million during the year ended December 31, 2010 and an additional $5 million to $10 million annually over the next several years thereafter. However, we may not be able to expand our network at such rate and our planned expansion of our 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. Under this program, we currently permit qualifying customers in the United States 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 vehicles 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

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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, Germany, Hong Kong, Italy, Japan, Monaco, Singapore, Switzerland, Taiwan 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;
- 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 year ended December 31, 2009 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. If the value of the United States dollar depreciates significantly against the British pound and the euro, 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

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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 that encourage sales of electric cars could be reduced, eliminated or applied in a way that creates an adverse effect against our vehicles, 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 Evonik Industries AG, we are likely to lose the sole 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 are currently the sole customers of our electric

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powertrain business. 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 1,000 battery packs and chargers to support a trial of the Smart fortwo electric drive in at least five European cities. Daimler has notified us that it intends to increase its purchase commitment by 50% to 1,500 battery packs and chargers. We began shipping the first of these battery packs and chargers in November 2009 and started to recognize revenue for these sales in the quarter ended December 31, 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 Evonik Industries AG and has announced it has entered into a memorandum of understanding 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 Evonik, we are likely to lose the sole customer in our powertrain business. 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 May 2010, Tesla and Toyota announced their intention to cooperate on the development of electric vehicles, and 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 arrangements, including any purchase orders, and we may never do so. Other than our agreements with Daimler, we have no significant development or sales agreements in place to drive our electric powertrain revenues. 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 in at least five European cities. In addition, we are negotiating agreements for Daimler to provide us with access to various parts, automotive support and engineering for the Model S and regarding various other areas of strategic cooperation with Daimler although there are no assurances that we will be able to enter into any such agreements. 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;
- 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, or 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.

There are no assurances we will be able to formalize any joint development activities with Toyota.

In May 2010, Tesla and Toyota announced their intention to cooperate on the future development of electric vehicles, and for Tesla to receive Toyota s support with sourcing parts and production and engineering expertise for the Model S. There are no assurances we will be able to enter into any agreements, including any purchase orders, with Toyota for such joint development projects on terms favorable to us, if at all.

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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 announced an intention to enter into strategic collaboration agreements 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. Toyota will be making a significant equity investment in us upon the closing of this offering and we have entered into an agreement to purchase the site for our planned Model S manufacturing facility in Fremont, California from NUMMI which is a joint venture partially owned by Toyota. 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 646 as of May 31, 2010 and further significant expansion will be required, especially in connection with the planned establishment of our Model S production 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;
- 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

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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. While Mr. Musk has historically provided a significant amount of the funds required for our operations, we have not received any funding from Mr. Musk for the past 12 months and are no longer dependent on the financial resources of Mr. Musk to fund our expected growth given the funds available under DOE Loan Facility and the expected proceeds of this offering and the concurrent private placement with Toyota. We do not believe that Mr. Musk s personal financial situation has any impact on us. 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 Mr. Musk departs as our Chief Executive Officer prior to December 31, 2010, 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, Daimler has the right to terminate any or all of its strategic collaboration agreements with us. Furthermore, 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. Mr. Musk is currently engaged in divorce proceedings and previously entered into a post-nuptial agreement which provides that the holdings of the trust, including Mr. Musk s shares of our capital stock, shall remain solely his property. This post-nuptial agreement has been upheld by the Superior Court of Los Angeles though such decision may be subject to an appeal. However, we do not believe that the divorce proceedings will result in Mr. Musk owning less than 65% of the capital stock held by him as of the date of the DOE Loan Facility, or otherwise result in a material reduction of Mr. Musk s holdings of our capital stock. We do not expect the divorce proceedings to have a material impact on Mr. Musk s ability to serve as our Chief Executive Officer and Chairman. We also do not believe that Mr. Musk would have to liquidate a significant percentage of his holdings in order to satisfy any settlement reached in connection with such proceedings.

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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 five members of our senior management team have joined us within the last two years. For example, Deepak Ahuja, our Chief Financial Officer, joined us in July 2008, and Gilbert Passin, our Vice President of Manufacturing, joined us in January 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 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 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 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, or 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.

Our DOE Loan Facility conditions the availability of the full amount of the loans on meeting certain environmental requirements relating to the sites on which our planned Model S manufacturing facility and our electric powertrain facility are located, including receiving a satisfactory Phase I environmental site assessment, and if required by DOE, a Phase II environmental site assessment, and satisfaction of any additional environmental requirements, including NEPA and CEQA. With respect to our planned electric powertrain facility located in Palo Alto, we have obtained from the DOE a categorical exclusion from NEPA.

In May 2010, we entered into an agreement to purchase an existing automobile manufacturing facility in Fremont, California, or the Fremont Site, from New United Motor Manufacturing, Inc., or NUMMI, a joint venture of Toyota and Motors Liquidation Company, the owner of selected assets of General Motors. Pursuant to the agreement, NUMMI will transfer some of its environmental permits and licenses to us. Since we intend to use

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this site for automobile manufacturing consistent with its prior use, we believe it is possible to obtain timely governmental approvals of this project under NEPA and CEQA. Timely NEPA and CEQA reviews and approvals, however, are not assured, and a substantial delay in obtaining these approvals could limit or delay our ability to draw down the full amount of the loans under our DOE Loan Facility, and could limit or delay our ability to build and operate our Model S facility.

NUMMI has identified contamination at the Fremont Site, including soil and groundwater contamination, and is currently undertaking efforts to remediate groundwater contamination. Although we have been advised by NUMMI that it has documented and managed the environmental issues at the Fremont Site, we have not yet performed an in-depth environmental assessment on this facility, and we cannot determine the potential costs to remediate any pre-existing contamination with any certainty at this time. Given the short time frame provided for diligence in the purchase agreement, we may not complete our environmental diligence, including any required DOE environmental reviews, before the end of the expiration of the due diligence review period, 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 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, or 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.

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 planned 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.

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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 entered into an agreement to purchase 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 have publicly stated that we are neutral as to the formation of a union at this facility. 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 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 California Air Resources Board with respect to emissions for our vehicles. We received a Certificate of Conformity for sales of our Tesla Roadsters in 2008, 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, or PHMSA, could increase the cost of lithium-ion batteries;
- the amendment or rescission of the federal law mandating increased fuel economy in the United States, referred to as the Corporate Average Fuel Economy or CAFE standards could reduce new business opportunities for our powertrain business;
- 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.

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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.

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 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.

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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 of other future vehicle candidates which would have material adverse effect on our brand, business, prospects and operating results. We maintain product liability insurance for all our vehicles with annual limits of approximately $21 million on a claims made basis, but we cannot assure that our insurance will be sufficient to cover all potential product liability claims. Any lawsuit seeking significant monetary damages either in excess of our coverage, or outside of our coverage, 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 planned 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 planned 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.

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. 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. Based on our internal investigation results and in coordination with NHTSA, we initiated a product recall in May 2009. The May 2009 recall resulted in approximately 346 Tesla Roadsters needing to be serviced. 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. Such recalls, voluntary or involuntary, involve significant expense and diversion of management attention and other resources, which would 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 mile 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

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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 increased our warranty reserves based on our actual warranty claim experience over the past 12 months and we may be required to undertake further such increases in the future. As of March 31, 2010, we had warranty reserves of $4.0 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 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. As of June 14, 2010, we had 14 issued patents and 97 pending patent applications with the United States Patent and Trademark Office as well as numerous foreign patent applications in a broad range of areas related to our powertrain. We have also received from third parties patent licenses related to manufacturing our vehicles.

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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;
- 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;
- 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.

Two of our trademark applications in the European Union remain subject to four outstanding opposition proceedings.

We currently sell and market our vehicles in the European Union under the Tesla trademark. We have two trademark applications in the European Union for the Tesla trademark. These are subject to outstanding opposition proceedings brought by two prior owners of trademarks consisting of the word Tesla. If we cannot resolve the 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 these prior rights owners 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.

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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. As a result of the accident, 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. No material claims have been brought against us to date.

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 Deer Creek 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.

In the past material weaknesses in our internal control over financial reporting have been identified. If we fail to remediate any material weaknesses and maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could adversely affect our business, operating results, and financial condition.

In connection with the audit of our consolidated financial statements for the year ended and as of December 31, 2007, our independent registered public accounting firm identified two control deficiencies that represented material weaknesses in our internal control over financial reporting for the year ended and as of December 31, 2007. In connection with the audit of our consolidated financial statements for the years ended December 31, 2008 and 2009, our independent registered public accounting firm did not identify any material weaknesses in our internal control over financial reporting for the year ended and as of December 31, 2008 or 2009. Our failure to implement and maintain effective internal controls in our business could have a material adverse effect on our business, financial condition, results of operations and stock price. A material weakness is a deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses in our internal control over financial reporting as of December 31, 2007, which resulted in audit adjustments, were as follows:

- We did not maintain adequate controls to ensure the accuracy, completeness and safeguarding of spreadsheets used in our financial reporting process. Specifically, we maintained many supporting financial schedules on a manual and non-integrated spreadsheet basis, which increased the risk of compiling inaccurate or incomplete information.

- We did not maintain effective controls over cut-off procedures for expenses. Specifically, we did not have formal cut-off procedures in place to ensure the timely and accurate recording of accruals.

We have taken steps to remediate our material weaknesses. However, there are no assurances that the measures we have taken to remediate these internal control weaknesses were completely effective or that similar

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weaknesses will not recur. Our remediation efforts for the material weaknesses in our internal control over financial reporting in 2007 have included:

- an increased level of spreadsheet maintenance and review, as well as continuing exploration of automation opportunities;
- expanded cross-functional involvement and input into period end expense accruals, as well as process improvements in the procure-to-pay cycle and analytics in establishing certain cost center accruals; and
- increased reporting capabilities from our financial and enterprise resource planning systems to monitor and track financial reporting.

Additionally, as part of our on-going efforts to improve our financial accounting organization and processes, we have hired several senior accounting personnel in the United States.

We plan to continue to assess our internal controls and procedures and intend to take further action as necessary or appropriate to address any other matters we identify.

Because of these material weaknesses, there is heightened risk that a material misstatement of our financial statements relating to the years ended and as of December 31, 2007 was not prevented or detected. While no material weaknesses were identified during the course of our audit for the years ended December 31, 2008 or 2009, we cannot assure you that these or other similar issues will not arise in future periods.

To date, the audit of our consolidated financial statements by our independent registered public accounting firm has included a consideration of internal control over financial reporting as a basis of designing their audit procedures, but not for the purpose of expressing an opinion on the effectiveness of our internal controls over financial reporting. If such an evaluation had been performed or when we are required to perform such an evaluation, additional material weaknesses and other control deficiencies may have been or may be identified. Ensuring that we have adequate internal financial and accounting controls and procedures in place to help produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be evaluated frequently. We will incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies relating to internal controls, which could materially adversely affect our operating results.

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.

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Risks Related to this Offering and Ownership of our Common Stock

We will incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our operating results.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements. These requirements include compliance with Section 404 and other provisions of the Sarbanes- Oxley Act, as well as rules implemented by the Securities and Exchange Commission, or SEC, and The Nasdaq Stock Market. In addition, our management team will also have to adapt to the requirements of being a public company. We expect complying with these rules and regulations will substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

The increased costs associated with operating as a public company will decrease our net income or increase our net loss, and may require us to reduce costs in other areas of our business or increase the prices of our products or services. Additionally, if these requirements divert our management s attention from other business concerns, they could have a material adverse effect on our business, prospects, financial condition and operating results.

As a public company, we also expect that it may be more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

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 57.7% of our outstanding shares of common stock, and if the underwriters over-allotment option is exercised in full, such persons and their affiliates will beneficially own, in the aggregate, approximately 56.6% of our outstanding shares of common stock. In particular, Elon Musk, our Chief Executive Officer, Product Architect and Chairman of our Board of Directors, will beneficially own approximately 29.7% of our outstanding shares of common stock upon completion of this offering and the concurrent private placement, and if the underwriters over-allotment option is exercised in full, Mr. Musk will beneficially own approximately 28.8% of our outstanding shares of common stock. 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.

As a result of becoming a public company, we will be 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 first fiscal year beginning after the effective date of this offering. 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 auditors have issued an attestation report on effectiveness of our internal controls.

We are in the very early stages of the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404. 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

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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 auditors are 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.

An active, liquid and orderly trading market for our common stock may not develop, the price of our stock may be volatile, and you could lose all or part of your investment.

Prior to this offering, there has been no public market for shares of our common stock. The initial public offering price of our common stock will be determined through negotiation with the underwriters. This price will not necessarily reflect the price at which investors in the market will be willing to buy and sell our shares of common stock following this offering. In addition, the trading price of our common stock following this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control.

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 shortly 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.

A total of 80,498,096, or 87.88%, of our total outstanding shares after the offering and the concurrent private placement are restricted from immediate resale, but 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 after this offering, and the perception that these sales could occur may also depress the market price of our common stock. Based on shares outstanding as of March 31, 2010, we will have shares of common stock outstanding after this offering and the concurrent private placement. Of these shares, the common stock sold in this offering will be freely tradable in the United States, except for any shares purchased by our affiliates as defined in Rule 144 under the Securities Act of 1933. The holders of 74,998,661 shares of outstanding common stock have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock during the 180-day period beginning on the date of this prospectus, except with the prior written consent each of Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc. and us. After the expiration of the 180-day restricted period, these shares may be sold in the public market in the United States, subject to prior registration in the United States, if required, or reliance upon an exemption from U.S. registration, including, in the case of shares held by affiliates or control persons, compliance with the volume restrictions of Rule 144. The shares to be sold in the concurrent private placement are subject to the holding period requirements of Rule 144, and are therefore subject to a six month holding requirement before such shares can be sold in a non-registered transaction.

Number of Shares and % of Total Outstanding	**Date Available for Sale into Public Markets**
11,100,000 or 12.12%	Immediately after this offering and the concurrent private placement.
80,156,660 or 87.51%	180 days after the date of this prospectus due to contractual obligations and lock-up agreements. However, the underwriters can waive the provisions of these lock-up agreements and allow these stockholders to sell their shares at any time, provided their respective one-year holding periods under Rule 144 have expired.
341,436 or 0.37%	From time to time after the date 180 days after the date of this prospectus upon expiration of their respective one-year holding periods in the U.S.

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Following the date that is 180 days after the completion of this offering and the completion of the concurrent private placement, stockholders owning an aggregate of 75,899,716 shares will be 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, we intend to file a registration statement to register the approximately 25,257,173 shares previously issued or reserved for future issuance under our equity compensation plans and agreements. Upon effectiveness of that registration statement, subject to the satisfaction of applicable exercise periods and, in certain cases, lock-up agreements with the representatives of the underwriters referred to above, 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.

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

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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.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The anticipated initial public offering price of our common stock is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur immediate dilution of $12.50 in net tangible book value per share from the price you paid. In addition, following this offering and the concurrent private placement, purchasers in this offering will have contributed 28.6% of the total consideration paid by our stockholders to purchase shares of common stock, in exchange for acquiring approximately 10.9% of our total outstanding shares as of March 31, 2010 after giving effect to this offering and the concurrent private placement. The exercise of outstanding stock options and warrants will result in further dilution.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, 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.

Our management will have broad discretion over the use of the proceeds we receive in this offering and the concurrent private placement and might not apply the proceeds in ways that increase the value of your investment.

Our management will have broad discretion over the use of our net proceeds from this offering and the concurrent private placement, and you will be relying on the judgment of our management regarding the application of these proceeds. Our management might not apply our net proceeds in ways that ultimately increase the value of your investment. We expect to use 50% of the net proceeds from this offering and the concurrent private placement, up to a maximum of $100 million, to fund an equity proceeds account as required by our DOE Loan Facility with the remainder being used for general corporate purposes, including working capital and capital expenditures, which may in the future include investments in, or acquisitions of, complementary businesses, services or technologies. These capital expenditures will include approximately $42 million to purchase our planned Model S manufacturing facility in Fremont, California, excluding any manufacturing equipment we may subsequently acquire. Our aggregate capital expenditures will also include funding the expansion of our Tesla stores. Our management might not be able to yield a significant return, if any, on any investment of these net proceeds. You will not have the opportunity to influence our decisions on how to use our net proceeds from this offering.

After the completion of this offering, we do not expect to declare any dividends in the foreseeable future.

After the completion of this offering, 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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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, are forward-looking statements. The words believe, may, will, estimate, continue, 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 reference in this prospectus and 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.

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. 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.

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of 10,000,000 shares of common stock in this offering and the sale of 3,333,333 shares of our common stock in the concurrent private placement will be approximately $185.0 million, assuming an initial public offering price of $15.00 per share, which is the midpoint of the range reflected on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we must pay in connection with this offering. Each $1.00 increase or decrease in the assumed initial public offering price of $15.00 per share, which is the midpoint of the range reflected on the cover page of this prospectus, would increase or decrease, as applicable, our cash and cash equivalents (including restricted cash), working capital, total assets and total stockholders equity (deficit) by approximately $9.3 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 underwriters option to purchase additional shares in this offering is exercised in full, we estimate that our net proceeds will be approximately $192.9 million, assuming an initial public offering price of $15.00 per share, which is the midpoint of the range reflected on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses that we must pay in connection with this offering.

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders, including any shares of common stock sold by the selling stockholders in connection with the underwriters exercise of their option to purchase additional shares of common stock, although we will bear the costs, other than underwriting discounts and commissions, associated with the sale of these shares. The selling stockholders may include certain of our executive officers and members of our board of directors or entities affiliated with or controlled by them.

We may use a portion of the net proceeds from this offering and the concurrent private placement to fund planned capital expenditures, working capital and other general corporate purposes. Such uses may include the $33 million of costs related to the development of our Model S and our planned Model S manufacturing facility plus cost overruns as well as cost overruns we may encounter in developing our powertrain facility, which will not be funded by advances under our loan facility with the United States Department of Energy, or DOE Loan Facility. We expect to use a portion of this offering to fund such amount.

We currently anticipate making aggregate capital expenditures of between $100 million and $125 million during the year ended December 31, 2010. These capital expenditures will include approximately $42 million to purchase our planned Tesla manufacturing facility for the Model S in Fremont, California, excluding any manufacturing equipment we may subsequently acquire. Our aggregate capital expenditures will also include funding the expansion of our Tesla stores. We expect to use a portion of the net proceeds to fund this expansion, which we estimate will cost approximately $5 million during the year ended December 31, 2010 and an additional $5 million to $10 million annually over the next several years thereafter to establish approximately 50 stores globally. 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.

We have agreed to set aside 50% of the net proceeds from this offering and the concurrent private placement, up to a maximum of $100 million, to fund a separate, dedicated account under our DOE Loan Facility. This dedicated account can be used by us to fund any cost overruns for our powertrain and Model S manufacturing facility projects and will also be used as a mechanism to defer advances under the DOE Loan Facility. This will not affect our ability to draw down the full amount of the DOE loans, but will require us to use the dedicated account to fund certain project costs up front, which costs may then be reimbursed by loans under the DOE Loan Facility once the dedicated account is depleted, or as part of the final advance for the applicable project.

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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.

Some of the other principal purposes of this offering are to create a public market for our common stock and increase our visibility in the marketplace. A public market for our common stock will facilitate future access to public equity markets and enhance our ability to use our common stock as a means of attracting and retaining key employees and as consideration for acquisitions or strategic transactions. Depending on the future demand for our products and the pace at which we expand our manufacturing capacity, we may seek to raise additional capital to fund our manufacturing expansion.

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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.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2010:

- on an actual basis;
- on a pro forma basis to give effect to (i) the conversion of all outstanding shares of our convertible preferred stock into 70,226,844 shares of common stock immediately prior to the closing of this offering, (ii) the issuance of 322,193 shares of common stock upon the assumed net exercise of outstanding warrants that would otherwise expire upon the completion of this offering at an assumed initial public offering price of $15.00 per share, and the conversion of our DOE preferred stock warrant liability into common stock warrant liability, (iii) the effectiveness of our amended and restated certificate of incorporation in Delaware immediately prior to the completion of this offering, (iv) the funds borrowed under our loan facility from the United States Department of Energy, or DOE Loan Facility, from April 1, 2010 through June 14, 2010 of $15.5 million, (v) the issuance of 100,000 shares of our common stock upon the net exercise of common stock warrants that will automatically occur upon the completion of this offering and (vi) the issuance of a warrant to the DOE on May 21, 2010 for the purchase of 5,100 shares of common stock at an exercise price of $8.94 per share; and
- on a pro forma as adjusted basis to give effect to the pro forma adjustments and (i) the sale of 10,000,000 shares of common stock by us in this offering at an assumed initial public offering price of $15.00 per share, the midpoint of the range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and (ii) the sale of 3,333,333 shares of common stock to be purchased directly from us by Toyota in the concurrent private placement based on an assumed initial public offering price of $15.00 per share.

The pro forma as adjusted information set forth in the table below is illustrative only and will adjust based on the actual initial public offering price and other terms of this offering determined at pricing.

The following table also reflects the 1-for-3 reverse stock split of our outstanding common stock effected in May 2010.

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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.

	As of March 31, 2010		
	Actual	Pro Forma (Unaudited)	Pro Forma As Adjusted[1]
	(in thousands, except share and per share data)		
Cash and cash equivalents	$ 61,546	$ 77,045	$ 169,545
Restricted cash	$ 7,487	$ 7,487	$ 99,987
Convertible preferred stock warrant liability	$ 10,359	$	$
Common stock warrant liability		6,116	6,116
Capital lease obligations, less current portion	719	719	719
Long-term debt	29,920	45,419	45,419
Convertible preferred stock, par value $0.001; 221,903,982 shares authorized, 208,917,237 shares issued and outstanding, actual; no shares authorized, issued and outstanding pro forma and pro forma as adjusted	319,225		
Stockholders equity (deficit):			
Preferred stock, par value $0.001; no shares authorized, issued and outstanding, actual; 100,000,000 shares authorized, no shares issued and outstanding, pro forma and pro forma as adjusted			
Common stock, par value $0.001; 106,666,667 shares authorized; 7,615,726 shares issued and outstanding, actual; 2,000,000,000 shares authorized pro forma and pro form as adjusted, 78,264,763 shares issued and outstanding, pro forma; 91,598,096 shares issued and outstanding, pro forma as adjusted	8	78	92
Additional paid-in capital	10,868	334,274	519,260
Accumulated deficit	(290,173)	(290,173)	(290,173)
Total stockholders equity (deficit)	(279,297)	44,179	229,179
Total capitalization	$ 80,926	$ 96,433	$ 281,433

(1) Each $1.00 increase or decrease in the assumed initial public offering price of $15.00 per share, the midpoint of the range reflected on the cover page of this prospectus, would increase or decrease, as applicable, our cash and cash equivalents (including restricted cash), total stockholders equity (deficit) and total capitalization by approximately $9.3 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 number of shares of common stock set forth in the table above excludes:

11,564,743 shares of common stock issuable upon the exercise of options outstanding at March 31, 2010 at a weighted average exercise price of $5.71 per share;

1,392,030 shares of common stock issuable upon the exercise of options granted after March 31, 2010 at an exercise price of $14.00 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 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

13,759,096 shares of common stock reserved for future issuance under our stock-based compensation plans, consisting of 10,666,666 shares of common stock reserved for issuance under our 2010 Equity Incentive Plan, 1,425,764 shares of common stock reserved for future grant or issuance under our 2003 Equity Incentive Plan as of March 31, 2010, which shares will be added to the shares to be reserved under our 2010 Equity Incentive Plan upon the effectiveness of the 2010 Equity Incentive Plan, and 1,666,666 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 2010 Equity Incentive Plan and the 2010 Employee Stock Purchase Plan will become effective on the date of this offering.

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DILUTION

As of March 31, 2010, we had a negative net tangible book value of approximately $279.3 million or $36.67 per share of common stock, based upon 7,615,726 shares of common stock outstanding on such date. Our pro forma net tangible book value as of March 31, 2010 was $44.2 million, or $0.56 per share of common stock. Pro forma 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, including (i) shares of common stock issued upon the conversion of all outstanding shares of our convertible preferred stock effective immediately prior to the closing of this offering, (ii) the issuance of shares of common stock upon the assumed net exercise of warrants that would otherwise expire upon the completion of this offering at an assumed initial public offering price of $15.00 per share and (iii) the issuance of 100,000 shares of our common stock upon the net exercise of common stock warrants that will automatically occur upon the completion of this offering. The increase in the net tangible book value per share attributable to the conversion of our convertible preferred stock and the net exercise of the warrants will, accordingly, be $37.24 per share.

Dilution in pro forma net tangible book value per share to new investors in this offering represents the difference between the amount per share paid by purchasers of 10,000,000 shares of common stock in this offering and the pro forma net tangible book value per share of common stock immediately after the completion of this offering. After giving effect to the sale of the shares of common stock offered by us in this offering at an assumed initial public offering price of $15.00 per share, the midpoint of the range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated offering expenses payable by us, and the conversion of our DOE preferred stock warrant liability into common stock warrant liability, and after giving effect to the sale of 3,333,333 shares of common stock to Toyota in the concurrent private placement based on an assumed initial public offering price of $15.00 per share, our pro forma as adjusted net tangible book value as of March 31, 2010 would have been $229.2 million, or $2.50 per share of common stock. This represents an immediate increase in pro forma net tangible book value of $1.94 per share to existing stockholders and an immediate dilution of $12.50 per share to new investors in our common stock. The following table illustrates this dilution on a per share basis after giving effect to the 1-for-3 reverse stock split of our outstanding common stock effected in May 2010.

Assumed initial public offering price per share	$ 15.00
Pro forma net tangible book value per share as of March 31, 2010, before giving effect to this offering	$ 0.56
Increase in pro forma net tangible book value per share attributed to new investors purchasing shares in this offering	1.94
Pro forma as adjusted net tangible book value per share after giving effect to this offering	2.50
Dilution per share to new investors in this offering	$ 12.50

A $1.00 increase or decrease in the assumed initial public offering price of $15.00 per share would increase or decrease our pro forma as adjusted net tangible book value per share after this offering by $0.11 per share and the dilution in pro forma as adjusted net tangible book value to new investors by $0.89 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.

If the underwriters exercise their option to purchase additional shares of our common stock in full, based on an assumed initial public offering price of $15.00 per share, the pro forma as adjusted net tangible book value per share after this offering would be $2.57 per share, and the dilution in pro forma net tangible book value per share to new investors in this offering would be $12.43 per share.

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The following table summarizes, on a pro forma as adjusted basis as of March 31, 2010 and after giving effect to (i) the issuance of 322,193 shares of common stock upon the net exercise of convertible preferred stock warrants that would otherwise expire upon the completion of this offering, (ii) the issuance of 100,000 shares of our common stock upon the net exercise of common stock warrants that will automatically occur upon the completion of this offering and (iii) the offering and the concurrent private placement, in each case based on an assumed initial public offering price of $15.00 per share, the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid:

	Shares Purchased		Total Consideration		
	Number	Percent	Amount (in thousands)	Percent	Average Price Per Share
Existing stockholders	78,264,763	85.4%	$ 324,622	61.9%	$ 4.15
New public investors	10,000,000	10.9	150,000	28.6	15.00
Private Placement investor	3,333,333	3.6	50,000	9.5	15.00
Total	91,598,096	100.0%	$ 524,622	100.0%	

A $1.00 increase or decrease in the assumed initial public offering price of $15.00 per share would increase or decrease, respectively, total consideration paid by new investors and total consideration paid by all stockholders by approximately $10.0 million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same.

If the underwriters exercise their over-allotment option in full, our existing stockholders would own 84.9% and our new public investors would own 11.5% of the total number of shares of our common stock outstanding upon the closing of this offering.

As of March 31, 2010, there were options outstanding to purchase a total of 11,564,743 shares of common stock at a weighted average exercise price of $5.71 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.

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SELECTED CONSOLIDATED FINANCIAL DATA

The consolidated statements of operations data for the fiscal years ended December 31, 2007, 2008 and 2009 and balance sheet data as of December 31, 2008 and 2009 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, 2005 and 2006 and balance sheet data as of December 31, 2005, 2006 and 2007, 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, 2009 and 2010 and balance sheet data as of March 31, 2010 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 presentation 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.

The following selected consolidated financial data table also reflects the 1-for-3 reverse stock split of our outstanding common stock effected in May 2010.

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 will correct the error by recording additional stock-based compensation expense of $2.4 million in the three month period ending June 30, 2010. See Note 16 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 March 31,	
	2005	2006	2007	2008	2009	2009	2010
	(in thousands, except share and per share data)						
Consolidated Statements of Operations Data:							
Revenues:							
Automotive sales (including zero emission vehicle credit sales of $3,458, $8,152, $1,275 and $506 for the years ended December 31, 2008 and 2009 and three months ended March 31, 2009 and 2010, respectively)	$	$	$ 73	$ 14,742	$ 111,943	$ 20,886	$ 20,585
Development services							227
Total revenues			73	14,742	111,943	20,886	20,812
Cost of revenues(1):							
Automotive sales			9	15,883	102,408	22,932	16,858
Development services							102
Total cost of revenues			9	15,883	102,408	22,932	16,960
Gross profit (loss)			64	(1,141)	9,535	(2,046)	3,852
Operating expenses(1):							
Research and development (net of development compensation of $23,249 for the year ended December 31, 2009)	10,009	24,995	62,753	53,714	19,282	7,941	13,265
Selling, general and administrative	1,820	5,436	17,244	23,649	42,150	6,607	16,585
Total operating expenses	11,829	30,431	79,997	77,363	61,432	14,548	29,850
Loss from operations	(11,829)	(30,431)	(79,933)	(78,504)	(51,897)	(16,594)	(25,998)
Interest income	224	938	1,749	529	159	16	48
Interest expense		(423)		(3,747)	(2,531)	(1,402)	(230)
Other income (expense), net(2)		59	137	(963)	(1,445)	1,972	(3,221)

Loss before income taxes	(11,605)	(29,857)	(78,047)	(82,685)	(55,714)	(16,008)	(29,401)
Provision for income taxes		100	110	97	26	8	118
Net loss	$ (11,605)	$ (29,957)	$ (78,157)	$ (82,782)	$ (55,740)	$ (16,016)	$ (29,519)
Net loss per share of common stock, basic and diluted(3)	$ (4.00)	$ (10.18)	$ (22.69)	$ (12.46)	$ (7.94)	$ (2.31)	$ (4.04)
Shares used in computing net loss per share of common stock, basic and diluted(3)	2,901,993	2,941,411	3,443,806	6,646,387	7,021,963	6,924,194	7,301,940
Pro forma net loss per share of common stock, basic and diluted(2)(4) (unaudited)					$ (0.70)		$ (0.35)
Shares used in computing the pro forma net loss per share of common stock, basic and diluted(2)(4) (unaudited)					77,671,000		77,950,977

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

	Years Ended December 31,					Three Months Ended March 31,	
	2005	2006	2007	2008	2009	2009	2010
Cost of revenues	$	$	$	$ 26	$ 61	$ 12	$ 42
Research and development		17	95	125	376	40	281
Selling, general and administrative		6	103	286	997	38	3,064
Total	$	$ 23	$ 198	$ 437	$ 1,434	$ 90	$ 3,387

(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 will become a warrant to purchase shares of our common stock upon the closing of this offering. 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.

(4) Pro forma basic and diluted net loss per share of common stock has been computed to give effect to the conversion of the convertible preferred stock into common stock and the 1-for-3 reverse stock split of our outstanding common stock effected in May 2010. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains and losses resulting from remeasurements of the convertible preferred stock warrant liability as it is assumed that these warrants will be exercised immediately prior to a qualifying initial public offering and will no longer require periodic revaluation.

	As of December 31,					As of March 31,
	2005	2006	2007	2008	2009	2010
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 5,827	$ 35,401	$ 17,211	$ 9,277	$ 69,627	$ 61,546
Property and equipment, net	1,622	7,512	11,998	18,793	23,535	26,866
Working capital (deficit)	4,587	8,458	(28,988)	(56,508)	43,070	41,497
Total assets	7,856	44,466	34,837	51,699	130,424	145,320
Convertible preferred stock warrant liability		227	191	2,074	1,734	10,359
Capital lease obligations, less current portion			18	888	800	719
Convertible preferred stock	20,384	60,173	101,178	101,178	319,225	319,225
Total stockholders deficit	(13,995)	(43,923)	(117,846)	(199,714)	(253,523)	(279,297)

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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. In addition to designing and manufacturing our vehicles, we sell and service them through our own sales and service network.

We were incorporated in Delaware in 2003 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 of March 31, 2010, we had sold 1,063 Tesla Roadsters to customers in 22 countries. We are developing our planned Model S sedan which we currently expect to introduce commercially in 2012.

We 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 opened our first store in Los Angeles, California, in May 2008 and as of June 14, 2010, we operated a total of 12 Tesla stores in North America and Europe.

We have entered, and intend to enter, into development and commercial agreements with other manufacturers for the development and sale of electric powertrain components. From inception through December 31, 2009, these powertrain development activities were exclusively pursuant to a development arrangement entered into in the year ended December 31, 2008, which was formalized in an agreement entered into in May 2009 with Daimler AG, or Daimler, for the development of a battery pack and charger for Daimler s Smart fortwo electric drive. Additionally, we have been selected by Daimler to supply it with up to 1,000 battery packs and chargers to support a trial of the Smart fortwo electric drive in at least five European cities. Daimler has notified us that it intends to increase its purchase commitment by 50% to 1,500 battery packs and chargers. We began shipping the first of these battery packs and chargers in November 2009 and started to recognize revenue for these sales in the quarter ended December 31, 2009. 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. A formal agreement for this arrangement was entered into with Daimler in May 2010. In the quarter ended March 31, 2010, we completed the development and sale of modular battery packs for electric delivery vans for Freightliner Custom Chassis Corporation, or 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.

In May 2010, we entered into a stock purchase agreement with Toyota Motor Corporation, or Toyota, pursuant to which Toyota will purchase $50.0 million of our common stock, at a price per share equal to the initial public offering price, in a private placement to close immediately subsequent to the closing of this offering. In addition, Tesla and Toyota announced their intention to cooperate on the development of electric vehicles, and for Tesla to receive Toyota s support with sourcing parts and production and engineering expertise for the Model S. Active discussions are now underway, but we have not entered into any agreements with Toyota for any such arrangements, including any purchase orders, and we may never do so. We also entered into an agreement to purchase an existing automobile production facility in Fremont, California from New United Motor Manufacturing, Inc., or NUMMI, which is a joint venture between Toyota and Motors Liquidation Company, the owner of selected assets of General Motors. The purchase totals 207 acres, or approximately 55% of the land at the site, and includes all of the manufacturing facilities located thereon. The purchase price for the land and the

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facility, excluding whatever manufacturing equipment we may subsequently acquire from NUMMI, is approximately $42 million. We anticipate that this purchase will close within a few months following the completion of this offering. We intend to use this facility for the production of our planned Model S and future vehicles. We are in an early stage of planning for this facility.

Since inception through March 31, 2010, we had recognized $147.6 million in revenue. As of March 31, 2010, we had an accumulated deficit of $290.2 million. We experienced net losses of $78.2 million for the year ended December 31, 2007, $82.8 million for the year ended December 31, 2008, $55.7 million for the year ended December 31, 2009, and $29.5 million for the three months ended March 31, 2010.

Management Discussion Regarding Opportunities, Challenges and Risks

To date we have derived our revenue principally from sales of the Tesla Roadster and related sales of zero emission vehicle credits, and to a lesser extent on products and services related to electric powertrain activities. We intend in the longer term to derive substantial revenues from the sales of our planned Model S sedan electric vehicle which is at an early stage of development and which we currently expect to introduce commercially in 2012.

We currently design, manufacture and sell the Tesla Roadster, our first production vehicle that we introduced in 2008. To date, most of our Tesla Roadster sales have been to customers in North America but we believe there is a significant opportunity to increase sales outside the United States. The Tesla Roadster has only been produced in low volume quantities and is currently partially assembled by Lotus in its facilities in the United Kingdom. We have a supply agreement with Lotus, which we amended in March 2010, pursuant to which we are obligated to purchase a minimum of 2,400 Tesla Roadster vehicles or gliders over the term of the agreement, which will expire in December 2011. 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 number of Tesla Roadsters for sale in 2012. To the extent we wish to sell additional Tesla Roadsters with the Lotus gliders beyond the 2,400 we have already 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. We do not currently plan to begin selling our next generation Tesla Roadster until at least one year after the launch of the Model S which is expected to be in production in 2012. We intend to manufacture our next generation Tesla Roadster entirely in our own facilities. The Tesla Roadster is a high-end luxury automobile with a current effective base price of $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. As a result, continued difficult economic conditions, competition from third parties and the availability of the Model S could result in depressed sales of the Tesla Roadster.

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 in our planned manufacturing facility. In May 2010, we executed a purchase agreement to acquire a manufacturing facility in Fremont, California. We are in an early stage of planning for this facility. We have secured a $363.9 million loan under our DOE Loan Facility for the continued development of the Model S and the build out of our planned Model S manufacturing facility, which is subject to certain drawdown conditions. However, 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 the Model S on our planned timeline or result in cost overruns. In addition, there is no guarantee that a market for the Model S will develop.

We are continuing to develop our electric powertrain components and systems sales and services and have secured a $101.2 million loan under our DOE Loan Facility for the expansion of our engineering and production capability for these activities in our Palo Alto facility, which is subject to certain drawdown conditions. To date, Daimler and its affiliates have been the sole customers of our powertrain activities and there is no guarantee that we will be able to secure future business with Daimler as it has indicated its intent to produce all of its lithium-ion batteries by 2012 as part of a joint venture with Evonik Industries AG and has announced it has entered into a memorandum of understanding with BYD Auto to collaborate on the development of an electric car under a

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jointly owned new brand for the Chinese market. 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. In May 2010, Tesla and Toyota announced their intention to cooperate on the development of electric vehicles, and 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 arrangements, including any purchase orders, and we may never do so. We may have difficulty attracting and retaining powertrain customers in the future.

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.

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. To correct this error, we will record additional stock-based compensation of $2.4 million in the three month period ending 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, or 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. To date, most of our revenues have been generated through sales in the United States. Our international sales commenced with the launch of the Tesla Roadster in Europe in July 2009. 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 three months ended March 31, 2010, international sales represented 56% of our total automotive sales revenue, which is comprised of 48% of our total vehicle, options and related sales and 100% of our total powertrain component and related sales. 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. 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.

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,

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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. During the three months ended March 31, 2010, approximately 80% of our revenue recognized from the sale of Tesla Roadsters was related to reservations placed during the first quarter of 2010 and the fourth quarter of 2009. 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, 2009 and March 31, 2010, we had deferred $2.6 million and $2.6 million, respectively, in revenue primarily related to our extended warranty and battery replacement programs, and the sale of certain vehicle options that had not yet been delivered. We expect our deferred revenues may fluctuate in future periods depending on the number of automobiles that have been shipped but have not been delivered to customers at the end of a period.

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 number of Tesla Roadsters for sale in 2012. We do not currently plan to begin selling our next generation Tesla Roadster until at least one year after the launch of the Model S, which is expected to be in production in 2012. As a result, we anticipate that we may generate limited revenue from selling electric vehicles in 2012 until the launch of the planned 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. 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, 2010, 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.

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

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and 2009, we earned revenue from the sale of ZEV credits of $3.5 million and $8.2 million, respectively, and for the three months ended March 31, 2010, we earned revenue from the sale of ZEV credits of $0.5 million.

We have entered into contracts for the sale of ZEV credits with two separate automotive manufacturers. Our current agreement with American Honda Co., Inc., or 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, 2010, we had sold credits for 368 vehicles related to this agreement and Honda has an obligation to purchase additional credits earned from the sale of any remaining vehicles that we manufactured in 2009 but sold in 2010 and from the sale of up to 287 additional vehicles manufactured in 2010 and 2011 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 Honda or other manufacturers to sell such credits. 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 have been selected by Daimler to supply it with up to 1,000 battery packs and chargers to support a trial of the Smart fortwo electric drive in at least five European cities. Daimler has recently indicated that it plans to increase its purchase by 50% to 1,500 battery packs and chargers. We began shipping the first of these battery packs and chargers in November 2009 and started to recognize revenue for these sales during the quarter ended December 31, 2009.

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. As of March 31, 2010, we had deferred $5.5 million in revenue related to development services. We expect we will recognize this revenue over the remainder of 2010. 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 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.

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In the quarter ended March 31, 2010, we completed the development and delivery of modular battery packs for electric delivery vans for Freightliner Custom Chassis Corporation, or 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 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. However, as we did not finalize the development agreement until May 2010, we deferred all amounts received under this arrangement as of March 31, 2010.

We intend to grow our development services revenue over time by establishing additional commercial arrangements with Daimler and its affiliates and other automobile manufacturers.

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 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 quarter 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. 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. Cost of development services has not been significant.

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 to a lesser extent to date, for the Model S. 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.

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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. Since we began recognizing revenue from the production and sale of the Tesla Roadster, we have recorded these costs as cost of sales.

Since the commercial launch of the Tesla Roadster, our investment in related research and development has decreased significantly. We are, however, in the process of significantly increasing our research and development efforts for the Model S, which has resulted in a significant increase in our research and development expenses in both aggregate dollar amounts and as a percentage of our revenues. We also anticipate that the additional costs that we will incur in operating our planned Model S manufacturing facility in Fremont, California will further increase these expenditures until the start of production of the Model S.

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 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 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. 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 May 31, 2010, we had 257 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, increase our sales and marketing team to handle our expanding customer base and market presence, and as we transition to becoming a public company. 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 June 14, 2010, we had opened 12 Tesla stores in the United States and Europe. We plan to open additional stores during 2010, with a goal of establishing approximately 50 stores globally within the next several years. We also anticipate that the additional costs we will incur in operating our planned Model S manufacturing facility in Fremont, California will further increase these expenditures until the start of production of the Model S.

As of May 31, 2010, we had 229 employees working in selling, general and administrative functions.

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Interest Income

Interest income consists of interest earned on cash balances and short-term investments. We have historically invested our available cash balances in money market funds, short-term United States Treasury obligations and commercial paper.

Interest Expense

Interest expense consists of interest on outstanding long-term debt under our loan facility from the United States Department of Energy, or DOE Loan Facility, convertible debt and other borrowings. We expect interest expense to increase significantly in aggregate dollar amounts and, prior to the launch of the Model S, as a percentage of revenues, as we continue to draw down on the DOE Loan Facility.

Other Income (Expense), Net

Other income (expense), net consists primarily of the change in the fair value of our convertible preferred stock warrant liability and transaction gains and losses on our foreign currency-denominated assets and liabilities. We expect our transaction gains and losses will vary depending upon movements in the underlying exchange rates. We expect the charges resulting from the change in the fair value of our convertible preferred stock warrant liability to be eliminated following this offering as a result of our expectation that the warrants currently outstanding to purchase 650,882 shares of our Series C convertible preferred stock and 866,091 shares of our Series E convertible preferred stock will either be exercised or expire upon the completion of this offering, at which time the convertible preferred stock warrant liability will no longer exist. However, 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 $2.5124 per share. This preferred stock warrant will become a warrant to purchase up to 3,085,011 shares of our common stock at an exercise price of $7.54 per share upon the closing of this offering 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 March 31, 2010, we had approximately $273 million of federal and $239 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

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development tax credits of approximately $5.4 million and $5.6 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. Currently, we do not expect the utilization of our net operating loss and tax credit carry-forwards to be materially affected as no significant limitations are expected to be placed on these carry-forwards as a result of our previous ownership changes. We have not yet, however, determined whether this offering would constitute an ownership change resulting in limitations on our ability to use our net operating loss and tax credit carry-forwards. If an ownership change is deemed to have occurred as a result of this offering, utilization of these assets could be significantly reduced.

Internal Control Over Financial Reporting

In connection with the audit of our financial statements for the year ended December 31, 2007, our independent registered public accounting firm had identified material weaknesses in our internal controls. A material weakness is a deficiency or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses in our internal control over financial reporting for the year ended and as of December 31, 2007 were as follows:

- We did not maintain adequate controls to ensure the accuracy, completeness and safeguarding of spreadsheets used in our financial reporting process. Specifically, we maintained many supporting financial schedules on a manual and non-integrated spreadsheet basis, which increased the risk of compiling inaccurate or incomplete information.

- We did not maintain effective controls over cut-off procedures for expenses. Specifically, we did not have formal cut-off procedures in place to ensure the timely and accurate recording of accruals.

Our remediation efforts for these material weaknesses have included:

- an increased level of spreadsheet maintenance and review, as well as continuing exploration of automation opportunities;

- expanded cross-functional involvement and input into period end expense accruals, as well as process improvements in the procure-to-pay cycle and analytics in establishing certain cost center accruals; and

- increased reporting capabilities from our financial and enterprise resource planning systems to monitor and track financial reporting.

We plan to continue to assess our internal controls and procedures and intend to take further action as necessary or appropriate to address any other matters we identify.

No material weaknesses were identified in connection with the audit of our financial statements for the years ended December 31, 2008 or 2009.

To date, the audit of our consolidated financial statements by our independent registered public accounting firm has included a consideration of internal control over financial reporting as a basis of designing their audit procedures, but not for the purpose of expressing an opinion on the effectiveness of our internal controls over financial reporting. If such an evaluation had been performed or when we are required to perform such an evaluation, additional material weaknesses and other control deficiencies may have been or may be identified.

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,

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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

Automotive Sales

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.

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, 2010, we had deferred $5.5 million in revenue related to development services. 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 revenues.

Prior to 2010, compensation from the Smart fortwo development arrangement with Daimler, which is discussed below under Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates 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.

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.

Prior to commencement of sales of the Tesla Roadster in the quarter ended December 31, 2008, we recorded inventory write-downs as a component of research and development expenses. Upon commercial introduction of the Tesla Roadster, we recorded these write-downs as a component of cost of automotive sales. 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, 2007, we recorded write-downs of $0.8 million to research and development expenses. During the year ended December 31, 2008, we recorded write-downs of $3.7 million to research and

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development expenses and $0.6 million to cost of automotive sales. During the year ended December 31, 2009 and the three months ended March 31, 2010, we recorded write-downs of $1.4 million and $0.1 million to 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.

Adverse Purchase Commitments

To the extent future inventory purchases under non-cancellable purchase orders or agreements are for excess or obsolete parts or the related inventory is deemed to be in excess of its net realizable value, we record a provision for adverse purchase commitments. The charges recorded prior to commencement of recognition of automotive sales of the Tesla Roadster in the quarter ended December 31, 2008, were recorded as research and development expenses. Once we began recognizing revenue from vehicle sales, we began recording these charges as a component of cost of automotive sales. During the year ended December 31, 2007, we recorded charges of $1.5 million to research and development expenses. During the year ended December 31, 2008, we recorded charges of $1.0 million to research and development expenses and $0.4 million to cost of automotive sales. During the year ended December 31, 2009, we recorded charges of $0.4 million to cost of automotive sales. We did not record significant charges during the three months ended March 31, 2010.

The amounts we record 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 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 and accordingly, the adjustments that we record may be material. As of December 31, 2008, 2009 and March 31, 2010, we had $0.9 million, $3.8 million and $4.0 million in warranty reserves, respectively. Adjustments to warranty reserves are recorded in cost of sales.

It is likely that as we sell additional Tesla Roadsters 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.

We began selling powertrain components and recognizing such sales during the quarter ended December 31, 2009. As a result, we began accruing warranty reserves for these products. As with our warranty reserves for vehicle sales, we intend to review our powertrain warranty reserves at least quarterly to ensure that our accruals are adequate in meeting expected future warranty obligations, and will adjust our estimates as needed.

Valuation of Stock-Based Awards, Common Stock and Warrants

Stock-Based Compensation

Prior to January 1, 2006, we accounted for our stock options granted to employees using the intrinsic value method. The intrinsic value method requires a company to recognize compensation expense for stock options granted to employees based on any differences between the exercise price of the stock options granted and the fair value of the underlying common stock. Under the intrinsic value method, any compensation cost relating to stock options was recorded on the date of the grant in stockholders equity as deferred compensation and was

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thereafter amortized to expense over the vesting period of the grant. We generally did not recognize stock-based compensation for stock options granted to our employees prior to January 1, 2006 as we granted stock options with an exercise price equal to the fair value of the underlying common stock.

Effective January 1, 2006, we adopted 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.

We adopted the fair value method using the prospective transition method as we used the minimum value method for the previously required pro forma disclosures. The prospective transition method requires us to continue to apply the intrinsic value method in future periods to equity awards outstanding as of January 1, 2006. Under the prospective transition method, any compensation costs that will be recognized from January 1, 2006 will include only: (a) compensation cost for all stock-based awards granted prior to, but not yet vested as of December 31, 2005, based on the intrinsic value method; and (b) compensation cost for all stock-based awards granted or modified subsequent to December 31, 2005, net of estimated forfeitures, based on fair value. We amortize the fair value of our stock-based compensation for the equity awards granted after January 1, 2006 on a straight-line basis, which we believe better reflects the level of service to be provided by our employees over the vesting period of the awards. In accordance with the prospective transition method, results for prior periods were not restated.

Beginning on January 1, 2006, 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.

	2007	2008	2009	Three Months Ended March 31, 2010
Risk-free interest rate	4.4%	2.2%	2.2%	2.4%
Expected term (in years)	4.6	4.6	4.6	4.6
Expected volatility	52%	53%	64%	72%
Dividend yield	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

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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, 2007, 2008, 2009 and the three months ended March 31, 2010 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 $0.2 million, $0.4 million, $1.4 million and $3.4 million during the years ended December 31, 2007, 2008 and 2009, and the three months ended March 31, 2010, respectively. As of March 31, 2010, we had $27.9 million of unrecognized stock-based compensation costs, net of estimated forfeitures, that is expected to be recognized over a weighted-average period of 2.8 years and of which we expect to amortize $11.0 to $13.0 million during the remainder of the year ending December 31, 2010. In future periods, our stock-based compensation expense is expected to increase materially as a result of our existing unrecognized stock-based compensation and as we issue additional stock-based awards to continue to attract and retain employees and nonemployee directors.

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 stock-based compensation expense 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 will correct the error by recording additional stock-based compensation expense of $2.4 million in the three month period ending June 30, 2010. See Note 16 to our consolidated financial statements included elsewhere in this prospectus.

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

We have 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 has 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.

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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 and the associated per share exercise price, which equaled the fair value of our common stock for each of these grants.

Grant Date	Number of Options Granted	Exercise Price and Fair Value per Share of Common Stock
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
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 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 $^{1}/_{4}^{th}$ of the shares vesting immediately, and $^{1}/_{48}^{th}$ of the shares scheduled to vest each month over the subsequent 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:

- $^{1}/_{4}^{th}$ of the shares subject to the option are scheduled to vest upon the successful completion of the Model S Engineering Prototype;
- $^{1}/_{4}^{th}$ of the shares subject to the option are scheduled to vest upon the successful completion of the Model S Validation Prototype;
- $^{1}/_{4}^{th}$ of the shares subject to the option are scheduled to vest upon the completion of the first Model S Production Vehicle; and
- $^{1}/_{4}^{th}$ of the shares subject to the option are scheduled to vest upon the completion of $10,000^{th}$ 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.

Our Board of Directors has 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

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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	
December 31, 2007	30.0	40.0%
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%

Our projected cash flows have been primarily derived from our Tesla Roadster, Model S and powertrain revenue streams. More recently, 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 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 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 has considered the valuations derived from the approaches above, the probability and timing of completing an initial public offering, as well as other qualitative factors in arriving at our common stock valuations, including the following:

- significant operating losses for the years ended December 31, 2007, 2008, 2009 and the three months ended March 31, 2010;
- macroeconomic uncertainty in 2008;

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the absence of a significant initial public offering 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 income (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 $2.5124 per share. This convertible preferred stock warrant will become a warrant to purchase shares of our common stock at an exercise price of $7.54 per share upon the closing of this offering. 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. 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 the fair value of this common stock warrant liability reflected in other income (expense), net, until its expiration or vesting. Our ability to prepay the DOE Loan Facility and consequently, affect 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 convertible preferred stock 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 our Series E convertible preferred 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 Series E convertible preferred 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 a Series E convertible preferred 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

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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 Series E convertible preferred 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. As of March 31, 2010, the fair value of the DOE warrant of $6.1 million was included within the convertible preferred stock warrant liability on the consolidated balance sheet. 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 income (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 other convertible preferred stock warrants, as well as the common stock warrants issued in May 2010 to certain stockholders, 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 this offering, we expect that these convertible preferred stock warrants outstanding as of March 31, 2010, will either be exercised or expire. Accordingly, at that time we expect that the related convertible preferred stock warrant liability will no longer exist.

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, 2010, we had recorded a full valuation allowance on our U.S. 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.

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Results of Operations

The following table sets forth our historical operating results as of the periods indicated:

	Years Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Automotive sales (including zero emission vehicle credit sales of $3,458, $8,152, $1,275 and $506 for the years ended December 31, 2008, 2009, and the three months ended March 31, 2009 and 2010, respectively)	$ 73	$ 14,742	$ 111,943	$ 20,886	$ 20,585
Development services					227
Total revenues	73	14,742	111,943	20,886	20,812
Cost of revenues:					
Automotive sales	9	15,883	102,408	22,932	16,858
Development services					102
Total cost of revenues	9	15,883	102,408	22,932	16,960
Gross profit (loss)	64	(1,141)	9,535	(2,046)	3,852
Operating expenses:					
Research and development (net of development compensation of $23,249 for the year ended December 31, 2009)	62,753	53,714	19,282	7,941	13,265
Selling, general and administrative	17,244	23,649	42,150	6,607	16,585
Total operating expenses	79,997	77,363	61,432	14,548	29,850
Loss from operations	(79,933)	(78,504)	(51,897)	(16,594)	(25,998)
Interest income	1,749	529	159	16	48
Interest expense		(3,747)	(2,531)	(1,402)	(230)
Other income (expense), net	137	(963)	(1,445)	1,972	(3,221)
Loss before income taxes	(78,047)	(82,685)	(55,714)	(16,008)	(29,401)
Provision for income taxes	110	97	26	8	118
Net loss	$ (78,157)	$ (82,782)	$ (55,740)	$ (16,016)	$ (29,519)

Comparison of the Three Months Ended March 31, 2009 and 2010

Revenues

Automotive Sales

Automotive sales consisted of the following for the periods presented:

Three Months Ended March 31,	
2009	2010
(Unaudited)	
(in thousands)	

Vehicle, options and related sales	$ 20,886	$ 18,095
Powertrain component and related sales		2,490
	$ 20,886	$ 20,585

Prior to 2010, most of our revenues have 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. For the three

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months ended March 31, 2010, revenue from sales outside of the United States represented 56% of our total automotive sales revenue, which is compromised of 48% of our total vehicle, options and related sales and 100% of our total powertrain component and related sales.

Automotive sales during the three months ended March 31, 2009 in the amount of $20.9 million were derived primarily from sales of the Tesla Roadster, on which we began recognizing revenue during the quarter ended December 31, 2008, as well as the sale of ZEV credits. During the quarter ended March 31, 2009, we recognized revenue from the sale of 182 Tesla Roadsters. Almost all of such revenue came from fulfilling a significant number of Tesla Roadster reservations on our waitlist that are placed in prior periods, of which a large number were reserved by customers in prior years. Following the initiation of volume production of the Tesla Roadster during the quarter ended December 31, 2008, we made a significant effort to increase our production capacity in order to accelerate deliveries and reduce the number of existing reservations on our waitlist. As a result, revenues were significantly higher during the three months ended March 31, 2009, and not representative of new orders received in that or the prior quarter. We generated ZEV credits from the delivery of vehicles during the quarter which we sold to Honda.

Automotive sales of $20.6 million for the three months ended March 31, 2010 consisted of $18.1 million of vehicle, options and related sales, and $2.5 million of powertrain component and related sales. During the quarter ended March 31, 2010, we recognized revenue from the sale of 126 Tesla Roadsters. Approximately 80% of such revenue came from fulfilling Tesla Roadster reservations placed in that quarter and the fourth quarter of 2009. Vehicle, options and related sales was primarily related to sales of the Tesla Roadster as well as ZEV credit sales. ZEV credit sales decreased from $1.3 million during the three months ended March 31, 2009 to $0.5 million during the three months ended March 31, 2010 due primarily to the higher level of vehicle deliveries during the three months ended March 31, 2009 as we fulfilled a significant number of reservations placed prior to that time. Powertrain component and related sales were related to the battery packs and chargers we delivered to supply Daimler s Smart program.

Development Services

Development services revenue of $0.2 million during the three months ended March 31, 2010 related to the development and delivery of modular battery packs for electric delivery vans for Freightliner Custom Chassis Corporation, or Freightliner, an affiliate of Daimler. Freightliner plans to use these electric vans in a limited number of customer trials. We did not recognize any development services revenue during the three months ended March 31, 2009.

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, we had deferred $5.5 million in revenue related to these development services. We expect we will recognize this revenue over the remainder of 2010.

Cost of Revenues and Gross Profit (Loss)

Cost of revenues decreased from $22.9 million during the three months ended March 31, 2009 to $17.0 million during the three months ended March 31, 2010. The decrease in cost of revenues was primarily due to the lower volume of Tesla Roadster deliveries during the three months ended March 31, 2010 as well as a decline in materials and manufacturing costs and limited economies of scale from low cumulative vehicle production volumes through the three months ended March 31, 2009. Due to the model changeover from the Tesla Roadster to the Tesla Roadster 2, part changes implemented to improve the design and reduce per unit costs, and increased volume, during 2009, the per unit cost of the Tesla Roadster was lower for the three months ended March 31, 2010. These cost improvements as well as higher average selling prices contributed to the gross profit of $3.9 million recognized during the three months ended March 31, 2010 when compared to the gross loss of $2.0 million incurred during the three months ended March 31, 2009. These decreases were partially offset by cost of development services of $0.1 million during the three months ended March 31, 2010 compared to no such costs during the three months ended March 31, 2009.

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Research and Development Expenses

Research and development expenses increased from $7.9 million during the three months ended March 31, 2009 to $13.3 million during the three months ended March 31, 2010. The $5.3 million increase in research and development expenses consisted primarily of a $4.1 million increase in employee compensation expenses primarily associated with higher headcount for the three months ended March 31, 2010. The remainder of the increase was driven primarily by higher costs to support our Model S and development services activities.

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 we will record such costs in cost of revenue for the three months ending June 30, 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased from $6.6 million during the three months ended March 31, 2009 to $16.6 million during the three months ended March 31, 2010. The $10.0 million increase in our selling, general and administrative expenses during the three months ended March 31, 2010 consisted primarily of a $3.1 million increase in employee compensation expenses related to higher sales and marketing and general and administrative headcount to support a larger number of stores in the United States and Europe as well as to support the expansion of the business and our efforts to become a public company, a $3.0 million increase in stock-based compensation related to a larger number of outstanding equity awards and a higher common stock valuation applied to new grants made subsequent to March 31, 2009, a $2.3 million increase in office, information technology and facilities costs to support the growth of our business, including the opening of new stores, and a $0.6 million increase in legal, accounting and other consulting services to support our growth and expanded sales and marketing activities.

Interest Income

Interest income increased from $16,000 during the three months ended March 31, 2009 to $48,000 during the three months ended March 31, 2010. The increase in our interest income was primarily due to higher average cash balances during the three months ended March 31, 2010.

Interest Expense

Interest expense decreased from $1.4 million during the three months ended March 31, 2009 to $0.2 million during the three months ended March 31, 2010. The significantly higher interest expense during the three months ended March 31, 2009 was primarily related to our convertible notes which converted into shares of our Series E convertible preferred stock in May 2009.

Other Income (Expense), Net

Other income (expense), net, which consisted of income during the three months ended March 31, 2009 in the amount of $2.0 million, decreased by $5.2 million to an expense in the amount of $3.2 million for the three months ended March 31, 2010. Other income, net, during the three months ended March 31, 2009 was driven primarily by a $1.5 million gain recognized on the extinguishment of convertible notes and warrants. Other expense, net, recognized during the three months ended March 31, 2010 was driven primarily by the charge of $2.3 million of fair value changes in our convertible preferred stock warrant liability and the charge of $0.6 million of fair value change related to our liability to issue common stock warrants to certain of our stockholders in May 2010, both of which increased significantly in conjunction with the increase in our common stock valuation.

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Provision for Income Taxes

Our provision for income taxes increased from $8,000 during the three months ended March 31, 2009 to $0.1 million during the three months ended March 31, 2010 due primarily to the launch of the Tesla Roadster in Europe in July 2009 and the ensuing increase in taxable income in those jurisdictions.

Comparison of the Years Ended December 31, 2008 and 2009

Revenues

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 revenues for the year ended December 31, 2009, primarily representing international sales in the last six months. Our international sales commenced with the launch of the Tesla Roadster in Europe in July 2009.

Automotive sales during the year ended December 31, 2008 in the amount of $14.7 million were derived primarily from sales of the Tesla Roadster, on which we began recognizing revenue during the quarter ended December 31, 2008, as well as the sale of ZEV credits. Almost all of the revenue recognized during the year ended December 31, 2008, came from fulfilling reservations placed in prior periods. We generated ZEV credits from the delivery of vehicles during the year which we sold to a third party automobile manufacturer.

Substantially all of the increase in automotive sales to $111.9 million for the year ended December 31, 2009 was due to sales of the Tesla Roadster. During the year ended December 31, 2009, we recognized revenue related to the sale of 830 Tesla Roadsters. A significant portion of the revenue recognized during this period came from fulfilling reservations placed prior to 2009. As sales of the Tesla Roadster increased during the year ended December 31, 2009, sales of ZEV credits also increased. ZEV credit sales increased from $3.5 million during the year ended December 31, 2008 to $8.2 million during the year ended December 31, 2009.

As of December 31, 2009, we had deferred revenue from automotive sales in the amount of $2.6 million compared to $4.1 million as of December 31, 2008. Deferred revenue as of December 31, 2009 was mostly derived from Tesla Roadster sales where vehicles had been shipped, but had not been delivered to the customer as of the end of the period. Deferred revenue as of December 31, 2008 was comprised primarily of 34 Tesla Roadsters that we had delivered to customers in 2008 for 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 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 through the first three quarters of the year ended December 31, 2009.

Cost of Revenues and Gross Profit

Cost of revenues increased from $15.9 million during the year ended December 31, 2008 to $102.4 million during the year ended December 31, 2009. 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 quarter ended December 31, 2008. Cost of revenues also included warranty expense of $0.9 million for the year ended December 31, 2008, compared to warranty expense of $4.4 million for the year ended December 31, 2009. Due to 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, 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.

For the year ended December 31, 2008, we incurred a gross loss of $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. For the year ended December 31, 2009 we recognized a gross profit of $9.5 million and a gross margin of 8.5%, reflecting higher per unit revenue and reduced manufacturing cost from increased volume and component re-design.

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Research and Development Expenses

Research and development expenses decreased from $53.7 million during the year ended December 31, 2008 to $19.3 million during the year ended December 31, 2009. The $34.4 million decrease in research and development expenses was a result of development compensation we recognized from Daimler in the amount of $23.2 million, which partially offset research and development expenses during the year ended December 31, 2009, as well as a net decrease in research and development expenses of $11.2 million. The $11.2 million decrease in research and development expenses during the year ended December 31, 2009 consisted primarily of 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 in cost of sales 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 increased from $23.6 million during the year ended December 31, 2008 to $42.1 million during the year ended December 31, 2009. The $18.5 million increase in our selling, general and administrative expenses during the year ended December 31, 2009 consisted primarily of a $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 Income

Interest income decreased from $0.5 million during the year ended December 31, 2008 to $0.2 million during the year ended December 31, 2009. The $0.3 million decrease in our interest income during the year ended December 31, 2009 was a result of our receiving higher returns on our cash and short-term investment balances during the year ended December 31, 2008, partially offset by higher average balances during the year ended December 31, 2009.

Interest Expense

Interest expense decreased from $3.7 million during the year ended December 31, 2008 to $2.5 million during the year ended December 31, 2009. Interest expense for both periods was related to our convertible notes which converted into shares of our Series E convertible preferred stock in May 2009.

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Other Income (Expense), Net

Other income (expense), net, which consisted of expenses during the year ended December 31, 2008 in the amount of $1.0 million, increased by $0.4 million to an expense in the amount of $1.4 million for the year ended December 31, 2009. The $0.4 million increase during the year ended December 31, 2009 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 the outstanding convertible preferred stock warrants during the year ended December 31, 2009.

Provision for Income Taxes

Our provision for income taxes decreased from $0.1 million during the year ended December 31, 2008 to $26,000 during the year ended December 31, 2009 as a result of recognition of research and development credits during the year ended December 31, 2009 from our foreign operations.

Comparison of the Years Ended December 31, 2007 and 2008

Revenues

During the years ended December 31, 2007 and 2008, all of our automotive sales were from shipments to locations within the United States. Automotive sales during the year ended December 31, 2007 consisted entirely of sales of Tesla-branded merchandise as we did not recognize any revenue from the sales of our Tesla Roadster. We did not recognize revenue from sales of ZEV credits in the year ended December 31, 2007 as we had not yet earned any credits through deliveries of the Tesla Roadster. As we began delivering the Tesla Roadster to customers during the year ended December 31, 2008, we also began selling ZEV credits associated with these deliveries. For the year ended December 31, 2008, we earned $3.5 million from the sale of ZEV credits. Substantially all of the increase in automotive sales to $14.7 million during the year ended December 31, 2008 was due to sales of the Tesla Roadster for which we began to recognize revenue in the quarter ended December 31, 2008. Almost all of the revenue recognized during this period, came from fulfilling reservations placed in prior periods.

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. We had no deferred revenue as of December 31, 2007.

Cost of Revenues and Gross Profit (Loss)

Cost of revenues increased from $9,000 during the year ended December 31, 2007 to $15.9 million during the year ended December 31, 2008. All of the cost of revenues during the year ended December 31, 2007 consisted of cost related to sales of Tesla-branded merchandise. Substantially all of the cost of revenues for the year ended December 31, 2008 was due to the costs related to the sales of the Tesla Roadster which commenced during the quarter ended December 31, 2008.

During the year ended December 31, 2008, we had a gross loss of $1.1 million due to the lower pricing 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. During the year ended December 31, 2007, we had a gross profit of $64,000 from sales of our Tesla branded merchandise.

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Research and Development Expenses

Research and development expenses decreased from $62.8 million during the year ended December 31, 2007 to $53.7 million during the year ended December 31, 2008. The $9.0 million decrease in our research and development expenses was due to a $10.2 million decrease in development-related contract services expenses due primarily to the significant contractor and other resources required in 2007 to drive completion of Tesla Roadster development, a $4.4 million decrease in professional services driven by significant engineering activities on the powertrain and vehicle to facilitate the start of production, partially offset by a $3.7 million increase in tooling and material expenses, including costs related to obsolete inventory and adverse purchase commitments, and a $2.8 million increase in office expenses and allocated information technology and facilities costs to support our research and development activities.

Prior to the commercialization of the Tesla Roadster, expenses related to excess and obsolete inventory and certain other costs were charged to research and development expenses. Once we began recognizing revenue from the production and sales of the Tesla Roadster in the quarter ended December 31, 2008, we began recording these costs in cost of revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased from $17.2 million during the year ended December 31, 2007 to $23.6 million during the year ended December 31, 2008. The $6.4 million increase in our selling, general and administrative expenses during the year ended December 31, 2008 consisted primarily of a $3.6 million increase in legal services and legal settlements and, accounting and other consulting services, a $1.3 million increase associated with higher head count expenses and a $1.0 million increase in marketing expenses to support our growth.

Interest Income

Interest income decreased from $1.7 million during the year ended December 31, 2007 to $0.5 million during the year ended December 31, 2008. The $1.2 million decrease in our interest income during the year ended December 31, 2008 was a result of our receiving lower interest rates on invested cash during the year ended December 31, 2008 when compared to the year ended December 31, 2007, as well as higher average cash balances during the year ended December 31, 2007.

Interest Expense

Interest expense increased to $3.7 million during the year ended December 31, 2008 compared to no interest expense recognized during the year ended December 31, 2007. Interest expense during the year ended December 31, 2008 was primarily a result of interest on our outstanding convertible notes issued early in the year and which remained outstanding throughout the remainder of the year.

Other Income (Expense), Net

Other income (expense), net during the year ended December 31, 2007 in the amount of $0.1 million changed by $1.1 million to an expense of $1.0 million for the year ended December 31, 2008. A majority of this change was a result of a $2.8 million increase in the fair value of the outstanding convertible preferred stock warrants during the year ended December 31, 2008 compared to a small decrease during the year ended December 31, 2007. This expense for the year ended December 31, 2008 was partially offset, among other things, by a $1.2 million gain on extinguishment from the exchange of our February 2008 convertible notes for December 2008 convertible notes which contained substantially different conversion terms.

Provision for Income Taxes

Our provision for income taxes was $0.1 million during both years ended December 31, 2007 and 2008. In both periods, these expenses related primarily to foreign income taxes.

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Quarterly Results of Operations

The following unaudited quarterly consolidated statements of operations for the five quarters in the period ended March 31, 2010, 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.

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 will correct the error by recording additional stock-based compensation expense of $2.4 million in the three month period ending June 30, 2010. See Note 16 to our consolidated financial statements included elsewhere in this prospectus.

	Three Months Ended				
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010
	(in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Revenues:					
Automotive sales (including zero emission vehicle credit sales of $1,275, $4,341, $2,030, $506 and $506, for the three months ended March 31, June 30, September 30, and December 31, 2009 and the three months ended March 31, 2010, respectively)	$ 20,886	$ 26,945	$ 45,527	$ 18,585	$ 20,585
Development services					227
Total revenues	20,886	26,945	45,527	18,585	20,812
Cost of revenues(1):					
Automotive sales	22,932	24,844	37,828	16,804	16,858
Development services					102
Total cost of revenues	22,932	24,844	37,828	16,804	16,960
Gross profit (loss)	(2,046)	2,101	7,699	1,781	3,852
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	13,265
Selling, general and administrative	6,607	8,247	10,733	16,563	16,585
Total operating expenses	14,548	10,188	11,990	24,706	29,850
Loss from operations	(16,594)	(8,087)	(4,291)	(22,925)	(25,998)
Interest income	16	29	52	62	48
Interest expense	(1,402)	(1,086)	(18)	(25)	(230)
Other income (expense), net(2)	1,972	(1,715)	(577)	(1,125)	(3,221)
Loss before income taxes	(16,008)	(10,859)	(4,834)	(24,013)	(29,401)
Provision for (benefit from) income taxes	8	8	(219)	229	118
Net loss	$ (16,016)	$ (10,867)	$ (4,615)	$ (24,242)	$ (29,519)

Net loss per share of common stock, basic and diluted(3)	$ (2.31)	$ (1.56)	$ (0.66)	$ (3.43)	$ (4.04)
Shares used in computing net loss per share of common stock, basic and diluted(3)	6,924,194	6,965,958	7,014,055	7,065,641	7,301,940

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

	Three Months Ended				
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010
	(in thousands, except share and per share data)				
Cost of revenues	$ 12	$ 24	$ 18	$ 7	$ 42
Research and development	40	86	67	183	281
Selling, general and administrative	38	43	121	795	3,064
Total	$ 90	$ 153	$ 206	$ 985	$ 3,387

(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 will become a warrant to purchase shares of our common stock upon the closing of this offering. 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 common shares 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.

Revenues, Cost of Revenues and Gross Profit (Loss)

Revenues and cost of revenues increased during the quarters ended March 31 through September 30, 2009 as we continued to fulfill reservations for the Tesla Roadster. A significant portion of the revenue recognized during these quarters came from fulfilling reservations placed prior to 2009. As we had made a significant effort to increase our production capacity in order to accelerate deliveries to customers, by the end of the quarter ended September 30, 2009, we had substantially fulfilled the reservations on our waitlist. In July 2009, our international sales commenced with the launch of the Tesla Roadster in Europe which also contributed to higher sales recognized during the quarter ended September 30, 2009 compared to prior quarters. We had no revenues from sales outside of the United States prior to the third quarter of 2009. Beginning with the quarter ended December 31, 2009, sales of the Tesla Roadster began more closely approximating the level of orders placed during the quarter. The substantial fulfillment of the reservations on our waitlist by September 30, 2009, coupled with what we believe to be slower demand during the winter season for new car purchases, and in particular for high-performance sports vehicles such as the Tesla Roadster, accounted for the lower revenues and cost of revenues during the quarters ended December 31, 2009 and March 31, 2010, when compared to the quarter ended September 30, 2009.

The gross loss incurred during the three months ended March 31, 2009 reflected lower average selling prices for our initial vehicles as compared to the vehicles we sold and delivered after that date, higher materials and manufacturing costs associated with our first generation Tesla Roadster and limited economies of scale from low vehicle production volumes. Due to the model changeover from the Tesla Roadster to the Tesla Roadster 2, part changes implemented to improve design and reduce per unit costs, higher per unit revenue and increased volume, gross profit generally increased through September 30, 2009. The higher gross profit during the quarters ended June 30, 2009 and September 30, 2009 were driven primarily by higher production volume during those quarters.

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Due to the fulfillment of the significant number of reservations on our waitlist during the first three quarters of 2009, we do not believe that the results for the corresponding quarters in 2010 will be comparable. For example, during the quarter ended September 30, 2009, we delivered a significant number of reservations placed in prior periods and as a result, revenues were significantly higher and less representative of demand related to the quarter. Similarly, higher production volume to address the fulfillment of reservations on our waitlist had the effect of reducing per unit cost of revenues for the third quarter of 2009.

Operating Expenses

Research and development costs generally increased during the quarters ended March 31 through December 31, 2009 driven primarily by employee compensation expenses related to the increasing headcount to support the growth in our business; higher professional, consulting and tooling costs during the quarter ended June 30, 2009 related to final design and validation work related to the Tesla Roadster 2; and higher design and prototyping costs during the quarter ended December 31, 2009 as we completed our powertrain development activities related to Daimler s Smart electric vehicle program. However, due to the development compensation that we recognized under our development arrangement with Daimler, research and development expense levels for the quarters ended June 30 through December 31, 2009 were lower as a result of the $8.5 million, $8.7 million and $6.1 million offsetting development compensation that we recorded in these quarters, respectively.

We began receiving payments under the development arrangement with Daimler in the year ended December 31, 2008 to compensate us for the cost of our development activities related to Daimler s Smart vehicle program. 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 that had accumulated by March 31, 2009. This amount was recognized over the expected life of the agreement on a straight-line basis, 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. All development work related to this development agreement had been completed as of December 31, 2009. Research and development expenses for the quarter ended March 31, 2010 remained fairly consistent with those for the quarter ended December 31, 2009 after considering the $6.1 million offsetting development compensation that we recorded in the quarter ended December 31, 2009.

Selling, general and administrative expenses increased during the quarters ended March 31 through December 31, 2009 driven primarily by increasing employee compensation expenses related to the hiring and addition of 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; increasing office, information technology and facilities costs to support the growth of our business, including the opening of new stores; and increasing legal, accounting and other consulting services to support the significant financing activities that we engaged in during the year. Selling, general and administrative expenses for the quarter ended March 31, 2010 remained fairly consistent with those for the quarter ended December 31, 2009 due primarily to higher stock-based compensation expense offset by lower professional and consulting expenses.

Interest Expense

Interest expense for the quarters ended March 31 and June 30, 2009 were comprised primarily of interest related to our convertible notes which were converted into shares of our Series E convertible preferred stock in May 2009. The increase in interest expense during the quarter ended March 31, 2010, as compared to the quarters ended September 30 and December 31, 2009, was driven primarily by the interest incurred on our February and March 2010 draw-downs under the DOE Loan Facility.

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Other Income (Expense), Net

Other income (expense), net, is comprised primarily of foreign currency transaction gains and losses as well as changes in fair value on our convertible preferred stock warrant liability. In general, we incurred foreign currency transaction losses over the quarters of 2009 as a result of our foreign currency denominated purchases as well as the strengthening of foreign currencies against the U.S. dollar over the year. During the quarters of 2009 through the quarter ended March 31, 2010, we also recognized increasing fair value charges in other income (expense), net, due to the increasing valuation of our common stock and the corresponding impact on the valuation of our convertible preferred stock warrant liability. During the quarter ended March 31, 2009, we recognized income in other income (expense), net, driven primarily by the $1.5 million gain that we recognized on extinguishment of our convertible notes and warrants.

Provision for (Benefit from) Income Taxes

Our provision for income taxes relate primarily to foreign income taxes. We recorded a benefit from income taxes during the quarter ended September 30, 2009 as a result of the recognition of certain research and development credits from our foreign operations.

Liquidity and Capital Resources

As of March 31, 2010, our principal sources of liquidity were our cash and cash equivalents in the amount of $61.5 million which primarily are invested in money market funds. Our primary source of cash historically has been proceeds from the sales of convertible preferred stock, sales of convertible notes, refundable reservation payments from customers for the Tesla Roadster and more recently from sales of the Tesla Roadster, our compensation for electric powertrain development and refundable reservation payments for our Model S. Through March 31, 2010, we had raised an aggregate of $319.2 million from sales of convertible preferred stock and convertible note financings. Since inception through the three months ended March 31, 2010, we had accumulated net operating losses of $290.2 million.

DOE Loan Facility

On January 20, 2010, we entered into our DOE Loan Facility for $465.0 million to support the expansion of our manufacturing operations. 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 for the build out of a facility to design and manufacture lithium-ion battery packs, electric motors and electric components, or the Powertrain facility. 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 for the development of, and to build out the manufacturing facility for, our Model S sedan, or the Model S facility. Under the DOE Loan facility, we are responsible for the remaining 20% of the costs eligible for funding under the ATVM Program for the projects as well as any cost overruns for each project. The costs paid by us to date for the Powertrain facility and the Model S facility will be applied towards our obligation to contribute 20% of the eligible project costs, and the DOE s funding of future eligible costs will be adjusted to take this into account. Our remaining obligations for the development of, and the build-out of our manufacturing facility for, the Model S is budgeted to be an aggregate of $33 million, plus any cost overruns for the projects. On the closing date, we paid a facility fee to the DOE in the amount of $0.5 million. We have paid for the full 20% of the budgeted costs related to our Powertrain facility, but will continue to be responsible for cost overruns. Through June 14, 2010, we have received draw-downs under the DOE Loan Facility for an aggregate of $45.4 million.

Our ability to draw down funds under the DOE Loan Facility is conditioned upon several draw conditions. For the Powertrain facility, the draw conditions include our achievement of progress milestones relating to the development of the powertrain manufacturing facility and the successful development of commercial arrangements with third parties for the supply of powertrain components. For the Model S facility, the draw conditions include our achievement of

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progress milestones relating to the design and development of the Model S and the planned Model S manufacturing facility, including an environmental assessment of such facility approved by the DOE. Certain advances will be subject to additional conditions to draw-down related to the site on which the applicable project is located.

Advances under the DOE Loan Facility accrue interest at a per annum rate determined by the Secretary of the Treasury as of the date of the advance and will be based on the Treasury yield curve and the scheduled principal installments for such advance. Interest on advances under the DOE Loan Facility is payable quarterly in arrears.

Under the DOE Loan Facility, we have committed to pay all costs and expenses incurred to complete the projects being financed in excess of amounts funded under the loan facility. We will be required to maintain, at all times, available cash and cash equivalents of at least 105% of the amounts required to fund such commitment, after taking into account current cash flows and cash on hand, including cash on hand raised in this offering, and reasonable projections of future generation of net cash from operations, losses and expenditures. Loans may be requested under the facilities until January 22, 2013, and we have committed to complete the projects being financed prior to such date.

The DOE Loan Facility documents contain customary covenants that include, among others, a requirement that the projects 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, pay 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, in each case subject to customary exceptions. The DOE Loan Facility documents also contain financial covenants requiring us to maintain a minimum ratio of current assets to current liabilities, and (i) through December 15, 2012, a minimum cash balance, and (ii) after December 15, 2012, a maximum leverage ratio, a minimum interest coverage ratio, a minimum fixed charge coverage ratio, a limit on capital expenditures and, after March 31, 2014, a maximum ratio of total liabilities to shareholder equity.

Under the DOE Loan Facility, we are required to fund a debt service reserve account on or before December 31, 2012, in an amount equal to all principal and interest that will come due on the advances on the next two payment dates. Once we have deposited such two payments, we will not be required to further fund such debt service reserve account. We have also agreed that, in connection with the sale of our common stock in this offering, at least 75% of the net offering proceeds will be received by us and, in connection with the sale of our stock in any other follow-on equity offering, at least 50% of the net offering proceeds will be received by us. Offering proceeds may not be used to pay bonuses or other compensation to officers, directors, employees or consultants in excess of the amounts contemplated by our business plan approved by the DOE.

In addition to our obligation to fund a portion of the project costs as described above, we have agreed to set aside 50% of the net proceeds from this offering and the concurrent private placement and any subsequent offerings of stock occurring before the completion of the projects, up to an aggregate of $100 million, to fund a separate, dedicated account under our DOE Loan Facility. This dedicated account can be used by us to fund any cost overruns for our powertrain and Model S manufacturing facility projects and will also be used as a mechanism to defer advances under the DOE Loan Facility. This will not affect our ability to draw down the full amount of the DOE loans, but will require us to use the dedicated account to fund certain project costs up front, which costs may then be reimbursed by loans under the DOE Loan Facility once the dedicated account is depleted, or as part of the final advance for the applicable project. We will be required to deposit a portion of these reimbursements into the dedicated account, in an amount equal to up to 30% of the remaining project costs for the applicable project and these amounts may similarly be used by us to fund project costs and cost overruns and will similarly be eligible for reimbursement by the drawdown of additional loans under our DOE Loan Facility once used in full.

We expect that the proceeds of this offering and the concurrent private placement and the loans under the DOE Loan Facility, together with our anticipated cash from operating activities and cash on hand, will be

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sufficient to fund our operations for the next 24 months. In order to fund our operations beyond that time, 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, establish sales and service branches, improve infrastructure such as expanded battery assembly facilities, and introduce new vehicles such as the Model S. We cannot be certain that additional funds will be available to us on favorable terms when required, or at all.

Leasing Activities

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.

When compared to our sales of vehicles, our leasing activities will spread the cash inflows that we would otherwise receive upon the sale of a vehicle, over the lease term and final disposition of the leased vehicle. As such, our cash and working capital requirements will be directly impacted and if leasing volume increases significantly, the impact may be material. However, after taking into consideration our current and planned sources of operating cash, our ability to monitor and prospectively adjust our leasing activity, as well as our intent to collect nonrefundable deposits for leased vehicles that are manufactured to specification, we do not believe that our planned leasing operations will materially adversely impact our ability to meet our commitments and obligations as they become due. As we will also be exposed to credit risk related to the timely collection of lease payments from our customers, we intend to utilize our credit approval and ongoing review processes in order to minimize any credit losses that could occur and which could adversely affect our financial condition and results of operations. We intend to require deposits from customers electing a lease option for vehicles built to a customer s specifications on the same timeframe and under the same circumstances as from customers purchasing our vehicles outright. Through March 31, 2010, our leasing activity had not been significant.

Capital Expenditures

During the years ended December 31, 2007, 2008 and 2009, we used $9.8 million, $10.6 million and $11.9 million in cash, respectively, to fund capital expenditures. During the three months ended March 31, 2009 and 2010, we used $0.9 million and $5.5 million, respectively, to fund capital expenditures. We currently anticipate making aggregate capital expenditures of between $100 million and $125 million during the year ending December 31, 2010, primarily related to the development of the Model S and the purchase of our planned Model S manufacturing facility in Fremont, California.

Cash Flows from Operating Activities

We continue to experience negative cash flows from operations as we expand our business and build our infrastructure both in the United States and internationally. Our cash flows from operating activities are significantly affected by our cash investments to support the growth of our business in areas such as research and development and selling, general and administrative. Our operating cash flows are also affected by our working capital needs to support growth and fluctuations in inventory, personnel related expenditures, accounts payable and other current assets and liabilities.

	Years Ended December 31,			Three Months Ended March 31,	
	2007	2008	2009	2009	2010
			(in thousands)		
Net cash used in operating activities	$ (53,469)	$ (52,412)	$ (80,825)	$ (16,163)	$ (27,329)
Net cash used in investing activities	(9,762)	(11,590)	(14,244)	(902)	(9,379)
Net cash provided by financing activities	45,041	56,068	155,419	19,533	28,627

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A component of our cash flows from operations has been our receipt of refundable reservation payments from our customers. Refundable reservation payments consist of reservation and membership payments that allow potential customers to hold a reservation for the future purchase of a Tesla Roadster or Model S. For our 2010 model year Tesla Roadsters manufactured to specification, our current purchase agreement requires the payment of an initial $9,900, 11,500 or £10,000 deposit, depending on the location of the customer. For the Model S, we require an initial refundable reservation payment of at least $5,000. For vehicles purchased directly from our showrooms, no deposit is required. Prior to 2010, our reservation policy was to accept refundable reservation payments from all customers who wished to purchase a Tesla Roadster and require full payment of the purchase price of the vehicle at the time the customer selected their vehicle specifications. We recently changed our policy to require nonrefundable deposits for Tesla Roadsters manufactured to specification. We also occasionally accept refundable reservation payments for the Tesla Roadster if a customer is interested in purchasing a vehicle but not yet prepared to select the vehicle specifications. For customers who have placed a refundable reservation payment with us, the reservation payment becomes a nonrefundable deposit once the customer has selected the vehicle specifications. We now require full payment of the purchase price of the vehicle only upon delivery of the vehicle to the customer. These reservation payments and deposits are used by us to fund, in part, our working capital requirements and help us to align production with demand. We do not believe that these changes will materially impact our liquidity or capital resources. Reservation payments for a vehicle are recorded as a current liability when received. No later than upon the delivery of a vehicle, the reservation payments collected on a customer s account are applied against the total purchase price of the vehicle. Refundable reservation payments are expected to fluctuate as the number of reservation holders on the Tesla Roadster reservation list decreases, while the number of reservation holders on the Model S reservation list increases.

Net cash used in operating activities was $27.3 million during the three months ended March 31, 2010. The largest component of our cash used during this period was a net loss of $29.5 million, which included non-cash charges of $3.4 million related to stock-based compensation expense, $2.3 million related to the fair value change in our convertible preferred stock warrant liability and $2.1 million related to depreciation and amortization. Significant operating cash outflows were primarily related to $29.9 million of operating expenses, $17.0 million of cost of revenues, a $6.6 million decrease in our accrued liabilities and a $5.5 million increase in inventory, partially offset by a $3.1 million increase in accounts payable. Inventory increased to meet our production requirements while the decrease in accrued liabilities was driven primarily by the timing of payments. Significant operating cash inflows for the three months ended March 31, 2010 were derived primarily from sales of the Tesla Roadster and powertrain components as well as from development services activity. Cash inflows were $23.9 million comprised primarily of automotive sales of $20.6 million, $0.2 million of development services revenue, a $5.5 million increase in deferred revenues, partially offset by a $2.4 million increase in accounts receivable. 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. The increase in deferred revenues was primarily driven by payments that we had received from Daimler in relation to this development arrangement for which an agreement had yet to be finalized and therefore, revenue was deferred. The increase in accounts receivable was related primarily to powertrain component sales during the three months ended March 31, 2010 in relation to Daimler s Smart fortwo program. During the three months ended March 31, 2010, we received $1.8 million of net new reservation payments for the Model S.

Net cash used in operating activities was $16.2 million during the three months ended March 31, 2009. The largest component of our cash used during this period was a net loss of $16.0 million, which included non-cash charges of $1.4 million related to interest on convertible notes and $1.4 million related to depreciation and amortization, as well as a non-cash gain of $1.5 million from the extinguishment of convertible notes and warrants. Significant operating cash outflows were primarily related to $22.9 million of cost of revenues, $14.5 million of operating expenses and a $4.9 million increase in inventory, partially offset by a $1.5 million increase in accounts payable and a $0.2 million increase in accrued liabilities. Inventory increased to meet our production requirements and the increases in accounts payable and accrued liabilities were primarily due to the growth in

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our business. Significant operating cash inflows for the three months ended March 31, 2009 were derived primarily from sales of the Tesla Roadster as well as development compensation related to the Daimler Smart fortwo development arrangement. Cash inflows related to automotive sales activity were $14.7 million, comprised of automotive sales of $20.9 million, partially offset by a $5.2 million decrease in refundable reservation payments and a $1.0 million decrease in deferred revenues. The decrease in refundable reservation payments was due to the launch of the Tesla Roadster during the year ended December 31, 2008. As we continued to deliver the Tesla Roadster to our customers in 2009, we applied the related reservation payments to the respective customers purchase cost. Deferred revenues decreased as we retrofitted certain vehicles that were delivered in 2008 with new powertrains and recognized the related revenue in 2009. Cash inflows from the Daimler development arrangement were $7.1 million as reflected in the $4.4 million increase in deferred development compensation and $2.8 million decrease in accounts receivable. We deferred recognition of development compensation until we entered into a final agreement with Daimler in May 2009. The decrease in accounts receivable was primarily due to the receipt of development compensation invoiced to Daimler in 2008 in relation to the Smart fortwo development arrangement, prior to entering into the final agreement.

Net cash used in operating activities was $80.8 million during the year ended December 31, 2009. The largest component of our cash used during this year was the $55.7 million net loss, which included non-cash charges of $6.9 million related to depreciation and amortization, $2.7 million related to interest on convertible notes and $1.4 million related to inventory write-downs, as well as a non-cash gain of $1.5 million from the extinguishment of convertible notes and warrants. Significant operating cash outflows were primarily related to $102.4 million of cost of revenues, $61.4 million of operating expenses, a $7.9 million increase in inventory and a $2.0 million increase in our prepaid expenses and other current assets, partially offset by a $3.4 million increase in accrued liabilities and a $0.9 million increase in accounts payable. Inventory increased to meet our production requirements while the increase in prepaid expenses and other current assets reflect a higher level of annual operating costs such as insurance, licenses and taxes from the growth of the business. The increases in accrued liabilities and accounts payable were also primarily due to the growth in our business. Significant operating cash inflows for the year ended December 31, 2009 were derived primarily from the sales of the Tesla Roadster as well as development compensation related to the Daimler development agreement. Cash inflows related to automotive sales activity were $88.5 million comprised of $111.9 million of automotive sales, partially offset by a $22.0 million decrease in refundable reservation payments and a $1.5 million decrease in deferred revenues. The decrease in the refundable reservation payments was due to the launch of the Tesla Roadster during the year ended December 31, 2008. As we continued to deliver the Tesla Roadster to our customers in 2009, we applied the related reservation payments to the respective customers purchase cost. Cash inflows from the Daimler development agreement were $13.2 million comprised primarily of $23.2 million of development compensation partially offset by a $10.0 million decrease in deferred development compensation. The decrease in deferred development compensation was the result of the amortization of deferred development compensation that we received during the year ended December 31, 2008.

Net cash used in operating activities was $52.4 million during the year ended December 31, 2008. The largest component of our cash used during this period, was the $82.8 million net loss, which included non-cash charges of $4.3 million related to inventory write-downs, $4.2 million related to depreciation and amortization, $3.7 million related to interest on convertible notes and $2.8 million related to the fair value change in our convertible preferred stock warrant liability, as well as a non-cash gain of $1.2 million from the extinguishment of convertible notes and warrants. Significant operating cash outflows were driven primarily by $77.4 million of operating expenses, $15.9 million of cost of sales, and an $18.8 million increase in inventory, partially offset by an $8.8 million increase in accounts payable and a $2.6 million increase in accrued liabilities. We had increased inventory in anticipation of the commercial introduction of the Tesla Roadster. Accrued liabilities and accounts payable increased primarily due to the significant increase in activities to bring the Tesla Roadster to production. We benefited from operating cash inflows related to Tesla Roadster reservation activity and our development efforts. Cash inflows derived from Tesla Roadster sales and reservation activity were $29.4 million comprised primarily of $14.7 million of automotive sales, a $10.7 million increase in refundable reservation payments and a $4.1 million increase in deferred revenues. Refundable reservation payments increased reflecting new reservation activity received during the year partially

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offset by the reservation payments we applied to our customers purchase cost as we began delivering Tesla Roadsters during the year ended December 31, 2008. Deferred revenues increased primarily from customer payments we collected for certain Tesla Roadsters that we had delivered but as to which we had unfulfilled obligations related to powertrain upgrades. We received cash from Daimler of $8.6 million for our development efforts during the year ended December 31, 2008 although the amounts were deferred entirely until we executed a final agreement in May 2009, which is reflected in the related increase in deferred development compensation of $10.2 million partially offset by an increase in accounts receivable of $1.6 million.

Net cash used in operating activities was $53.5 million during the year ended December 31, 2007. This net use of cash in operating activities was primarily attributable to the $78.2 million net loss incurred during the year ended December 31, 2007, which included non-cash charges of $2.9 million related to depreciation and amortization and a $2.4 million loss on the abandonment of certain fixed assets. Significant operating cash outflows were driven primarily by $80.0 million of operating expenses and a $2.1 million increase in inventory, partially offset by a $7.6 million increase in accrued liabilities and a $0.5 million increase in accounts payable. The increase in accrued liabilities and accounts payable was largely driven by the increase in our powertrain and Tesla Roadster activities. Operating cash inflows were derived primarily from the collection of refundable reservation payments of $15.2 million.

Cash Flows from Investing Activities

We continue to experience negative cash flows from investing activities as we expand our business and build our infrastructure both in the United States and internationally. Cash flows from investing activities primarily relate to capital expenditures to support our growth in operations as well as restricted cash that we must maintain in relation to lease agreements, equipment financing, and certain vendor credit policies.