TESLA MOTORS INC
Form 10-Q
November 14, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-34756

Tesla Motors, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**91-2197729** **(I.R.S. Employer** **Identification No.)**
3500 Deer Creek Road **Palo Alto, California** **(Address of principal executive offices)**	 **94304** **(Zip Code)**

(650) 681-5000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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:

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2011, there were 104,298,634 shares of the registrant s Common Stock outstanding.

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TESLA MOTORS, INC.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Tesla Motors, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 213,328	$ 99,558
Short-term marketable securities	65,060	
Restricted cash	55,305	73,597
Accounts receivable	18,250	6,710
Inventory	49,216	45,182
Prepaid expenses and other current assets	10,962	10,839
Total current assets	412,121	235,886
Operating lease vehicles, net	11,672	7,963
Property, plant and equipment, net	248,122	114,636
Restricted cash	5,754	4,867
Other assets	22,581	22,730
Total assets	$ 700,250	$ 386,082
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 53,627	$ 28,951
Accrued liabilities	32,685	20,945
Deferred revenue	2,266	4,635
Capital lease obligations, current portion	388	279
Reservation payments	65,215	30,755
Total current liabilities	154,181	85,565
Common stock warrant liability	8,189	6,088
Capital lease obligations, less current portion	661	496
Deferred revenue, less current portion	3,536	2,783
Long-term debt	225,000	71,828
Other long-term liabilities	14,565	12,274
Total liabilities	406,132	179,034
Commitments and contingencies (Note 10)		
Stockholders equity:		
Preferred stock; $0.001 par value; 221,903,982 shares authorized; no shares issued and outstanding		

Common stock; $0.001 par value; 2,000,000,000 shares authorized as of September 30, 2011 and December 31, 2010; 104,188,831 and 94,908,370 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	104	95
Additional paid-in capital	881,941	621,935
Accumulated other comprehensive loss	(24)	
Accumulated deficit	(587,903)	(414,982)
Total stockholders equity	294,118	207,048
Total liabilities and stockholders equity	$ 700,250	$ 386,082

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tesla Motors, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues				
Automotive sales	$ 43,235	$ 23,350	$ 115,891	$ 67,906
Development services	14,431	7,891	48,976	12,552
Total revenues	57,666	31,241	164,867	80,458
Cost of revenues				
Automotive sales	32,752	19,457	90,241	56,581
Development services	7,690	2,488	20,866	4,467
Total cost of revenues	40,442	21,945	111,107	61,048
Gross profit	17,224	9,296	53,760	19,410
Operating expenses				
Research and development	54,083	26,698	147,776	55,379
Selling, general and administrative	27,618	20,432	76,545	59,224
Total operating expenses	81,701	47,130	224,321	114,603
Loss from operations	(64,477)	(37,834)	(170,561)	(95,193)
Interest income	80	100	166	195
Interest expense		(298)		(992)
Other income (expense), net	(594)	3,180	(2,150)	(6,770)
Loss before income taxes	(64,991)	(34,852)	(172,545)	(102,760)
Provision for income taxes	87	83	377	210
Net loss	$ (65,078)	$ (34,935)	$ (172,922)	$ (102,970)
Net loss per share of common stock, basic and diluted	$ (0.63)	$ (0.38)	$ (1.75)	$ (2.86)
Weighted average shares used in computing net loss per share of common stock, basic and diluted	104,076,830	92,270,721	99,039,709	36,051,610

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tesla Motors, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flows From Operating Activities		
Net loss	$ (172,922)	$ (102,970)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,115	7,733
Change in fair value of warrant liabilities	2,101	5,610
Stock-based compensation	20,737	13,313
Inventory write-downs	1,420	652
Other	30	
Changes in operating assets and liabilities		
Accounts receivable	(11,540)	(4,575)
Inventories and operating lease vehicles	(10,831)	(22,869)
Prepaid expenses and other current assets	(1,185)	(3,109)
Other assets	(335)	(818)
Accounts payable and accrued liabilities	37,999	5,862
Deferred development compensation		(156)
Deferred revenue	(1,616)	3,374
Reservation payments	34,460	1,821
Other long-term liabilities	2,291	2,599
Net cash used in operating activities	(87,276)	(93,533)
Cash Flows From Investing Activities		
Purchases of marketable securities	(64,952)	
Payments related to acquisition of Fremont manufacturing facility and related assets		(58,710)
Purchases of property and equipment	(143,634)	(23,055)
Withdrawals out of (transfer into) our dedicated Department of Energy account	18,292	(88,130)
Increase in other restricted cash	(887)	(1,852)
Net cash used in investing activities	(191,181)	(171,747)
Cash Flows From Financing Activities		
Proceeds from issuance of common stock in public offerings	172,410	188,842
Proceeds from issuance of common stock in private placements	59,058	50,000
Principal payments on capital leases and other debt	(225)	(233)
Proceeds from long-term debt	153,172	56,557
Proceeds from exercise of stock options and other stock issuances	7,812	741
Deferred common stock and loan facility issuance costs		(3,691)
Net cash provided by financing activities	392,227	292,216
Net increase in cash and cash equivalents	113,770	26,936
Cash and cash equivalents at beginning of period	99,558	69,627
Cash and cash equivalents at end of period	$ 213,328	$ 96,563

Supplemental disclosure of noncash investing activities:		
Acquisition of property and equipment	568	2,372

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tesla Motors, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Overview of the Company

Tesla Motors, Inc. (Tesla, we, us or our) was incorporated in the state of Delaware on July 1, 2003. We design, develop, manufacture and sell high-performance fully electric vehicles and advanced electric vehicle powertrain components. We have wholly-owned subsidiaries in North America, Europe and Asia. The primary purpose of these subsidiaries is to market and/or service our vehicles.

Since inception, we have incurred significant losses and have used approximately $418 million of cash in operations through September 30, 2011. As of September 30, 2011, we had $278.4 million in cash and cash equivalents and short-term marketable securities. We are currently selling the Tesla Roadster and are developing the Model S sedan which we currently expect to introduce commercially in 2012. We also currently plan to hold a limited showing of the prototype of the Model X crossover by the end of 2011 and to reveal it publicly early in 2012.

To the extent we do not meet our planned sales volumes or future product releases or our existing cash and cash equivalents or short-term marketable securities balances are insufficient to fund our future activities, we will need to raise additional funds. We cannot be certain that additional financing, if and when needed, will be available at terms satisfactory to us, or at all. These condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Public Offerings and Concurrent Private Placements

In July 2010, we completed the initial public offering (IPO) of common stock in which we sold a total of 11,880,600 shares of our common stock and received cash proceeds of $188.8 million from this transaction, net of underwriting discounts and commissions. Concurrent with the closing of our IPO, we also sold 2,941,176 shares of our common stock to Toyota Motor Corporation (Toyota) in a private placement and received cash proceeds of $50.0 million.

In June 2011, we completed a follow-on offering of common stock in which we sold a total of 6,095,000 shares of our common stock and received cash proceeds of $172.7 million from this transaction, net of underwriting discounts. Concurrent with this offering, we also sold 1,416,000 shares of our common stock to Elon Musk, our Chief Executive Officer and cofounder, and 637,475 shares of our common stock to Blackstar Investco LLC, an affiliate of Daimler AG (Daimler) and received total cash proceeds of $59.1 million in the private placements. No underwriting discounts or commissions were paid in connection with these private placements.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The condensed consolidated financial statements include the accounts of Tesla and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Unaudited Interim Financial Statements

The accompanying condensed consolidated balance sheet as of September 30, 2011 and the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010 and other information disclosed in the related notes are unaudited. The condensed consolidated balance sheet as of December 31, 2010 was derived from our audited consolidated financial statements at that date. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission.

The accompanying interim condensed consolidated financial statements and related disclosures have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair statement of the results of operations for the periods presented. The condensed consolidated results of operations for any interim period are not necessarily indicative of the results to be expected for the full year or for any other future year or interim period.

Revenue Recognition

We recognize revenues from sales of the Tesla Roadster, including vehicle options and accessories, vehicle service and sales of zero emission vehicle credits, and sales of electric vehicle powertrain components, such as battery packs and battery chargers. 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.

Multiple Deliverable Revenue Arrangements

Effective January 1, 2011, we adopted amended accounting standards issued by the Financial Accounting Standards Board (FASB) for multiple deliverable revenue arrangements on a prospective basis for applicable transactions originating or materially modified after January 1, 2011. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. For fiscal 2011 and future periods, when a sales arrangement contains multiple elements, we allocate revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. To date, we have been able to establish the fair value for each of the deliverables within the multiple element arrangements because we sell each of the vehicles, vehicles accessories and options separately, outside of any multiple element arrangements. Therefore, there were no material differences between total revenue reported and pro forma total revenues that would have been reported during the three and nine months ended September 30, 2011, if the transactions entered into or materially modified after January 1, 2011 were subject to previous accounting guidance.

Marketable Securities

During the three months ended September 30, 2011, we purchased marketable securities including commercial paper and corporate debt of $65.1 million. All marketable securities are designated as available-for-sale and reported at estimated fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss which is included in stockholders equity. Realized gains and losses on the sale of available-for-sale marketable securities are recorded in other income (expense), net. The cost of available-for-sale marketable securities sold is based on the specific identification method. Interest, dividends, amortization and accretion of purchase premiums and discounts on our marketable securities are included in other income (expense), net. Available-for-sale marketable securities with maturities greater than three months at the date of purchase and remaining maturities of one year or less are classified as short-term marketable securities. Where temporary declines in fair value exist, we have the ability and the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

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We regularly review all of our marketable securities for other-than-temporary declines in fair value. The review includes but is not limited to (i) the consideration of the cause of the impairment, (ii) the creditworthiness of the security issuers, (iii) the length of time a security is in an unrealized loss position, and (iv) our ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

Warranties

We began recording warranty reserves with the commencement of Tesla Roadster sales in 2008. Initially, Tesla Roadsters were sold with a warranty of four years or 50,000 miles. Subsequently, Tesla Roadsters have been sold with a warranty of three years or 36,000 miles. Accrued warranty activity consisted of the following for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Accrued warranty beginning of period	$ 6,289	$ 4,348	$ 5,417	$ 3,757
Warranty costs incurred	(851)	(496)	(2,078)	(1,398)
Provision for warranty	973	1,342	3,072	2,835
Accrued warranty end of period	$ 6,411	$ 5,194	$ 6,411	$ 5,194

We provide a warranty on all vehicle and production powertrain component sales, and we accrue warranty reserves at the time a vehicle or production powertrain component is delivered to the 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. Warranty expense is recorded as a component of cost of revenues in the condensed consolidated statements of operations. The portion of the warranty provision which is expected to be incurred within 12 months from the balance sheet date is classified as current, while the remaining amount is classified as long-term liabilities.

Concentration of Risk

Financial instruments that potentially subject us to a concentration of credit risk consist of cash, cash equivalents, marketable securities, restricted cash and accounts receivable. Our cash and cash equivalents are primarily invested in money market funds with high credit quality financial institutions in the United States. At times, these deposits and securities may be in excess of insured limits. We invest cash not required for use in operations in high credit quality securities based on our investment policy. Our investment policy provides guidelines and limits regarding credit quality, investment concentration, investment type, and maturity that we believe will provide liquidity while reducing risk of loss of capital. Investments are of a short-term nature and include investments in corporate debt securities.

As of September 30, 2011 and December 31, 2010, our accounts receivable were derived primarily from sales of powertrain components to Daimler and the development of powertrain systems for Toyota Motor Corporation (Toyota) (see Note 9).

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The following summarizes the accounts receivable in excess of 10% of our total accounts receivable:

	September 30, 2011	December 31, 2010
Toyota	53%	42%
Daimler	46%	51%

Single source suppliers provide us with a number of components that meet our manufacturing requirements. For example, Lotus Cars Limited (Lotus) is the only manufacturer for certain components, such as the chassis of our Tesla Roadster. In other instances, although there may be multiple suppliers available, many of the components used in our vehicles are purchased by us from a single source. If these single source suppliers fail to satisfy our requirements on a timely basis at competitive prices, we could suffer manufacturing delays, a possible loss of revenues, or incur higher cost of sales, any of which could adversely affect our operating results.

Net Loss per Share of Common Stock

Our basic and diluted net loss per share of common stock is calculated by dividing net loss by the weighted average shares of common stock outstanding for the period. Potentially dilutive shares, which are based on the number of shares underlying outstanding stock options, warrants and other convertible securities, are not included when their effect is antidilutive.

The following table presents the potential common shares outstanding that were excluded from the computation of basic and diluted net loss per share of common stock for the periods presented:

	Nine Months Ended September 30,	
	2011	2010
Period-end stock options to purchase common stock	15,496,749	13,207,367
Period-end DOE warrant to purchase common stock	3,090,111	3,090,111
Period-end common stock subject to repurchase	486	7,278

Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive loss. Other comprehensive loss consists of unrealized gains and losses on our available-for-sale marketable securities that have been excluded from the determination of net loss. Other comprehensive loss for the three and nine months ended September 30, 2011 was $24,000.

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Income Taxes

We estimate our income taxes in each of the tax jurisdictions in which we operate prior to the completion and filing of tax returns for such periods. This process involves estimating actual current tax expense together with assessing temporary differences in the treatment of items for tax purposes versus financial accounting purposes that may create net deferred tax assets and liabilities. Income taxes are completed using the asset and liability method, which requires, among other things, that deferred income taxes be provided for temporary differences between the tax bases of assets and liabilities and their financial statement reported amounts. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses, research and development credit carryforwards and temporary differences.

Valuation allowances are established when necessary to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. Because of the uncertainty of the realization of the deferred tax assets, we have recorded a full valuation allowance against our domestic net deferred tax assets.

Unrecognized tax benefits relate to uncertainties in the application of complex global tax regulations. We regularly assess our tax positions in light of significant legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which we do business. We currently do not believe there will be any material changes in our unrecognized tax benefits within the next 12 months.

Recent Accounting Pronouncements

In June 2011, the FASB issued an accounting standard update, which revises the manner in which companies present comprehensive income in their financial statements. The new guidance removes the presentation options and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The guidance is effective for fiscal years, and interim periods within those years beginning after December 15, 2011. Early adoption is permitted. We anticipate adopting the guidance in fiscal 2012. We do not expect the adoption of the guidance to have a material impact on our condensed consolidated financial statements.

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level I and Level II fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation of fair value measurements using Level III inputs, a reporting entity will be required to disclose information about purchases, sales, issuances and settlements on a gross rather than on a net basis. The updated guidance will also require fair value disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring Level II and Level III fair value measurements. The updated guidance is effective for interim or annual reporting periods beginning after December 15, 2009, except for the disclosures regarding the reconciliation of Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this updated guidance did not have a material impact on our condensed consolidated financial statements.

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3. Balance Sheet Components

Inventory

As of September 30, 2011 and December 31, 2010, our inventory consisted of the following components (in thousands):

	September 30, 2011	December 31, 2010
Raw materials	$ 15,675	$ 15,936
Work in process	6,848	4,538
Finished goods	20,025	20,125
Service parts	6,668	4,583
Total	$ 49,216	$ 45,182

Property, Plant and Equipment, net

As of September 30, 2011 and December 31, 2010, our property, plant and equipment consisted of the following components (in thousands):

	September 30, 2011	December 31, 2010
Computer equipment and software	$ 8,953	$ 8,864
Office furniture, machinery and equipment	18,983	12,551
Tooling	16,166	15,913
Leasehold improvements	25,654	13,993
Land	26,391	26,391
Construction in progress	180,354	58,917
	276,501	136,629
Less: Accumulated depreciation and amortization	(28,379)	(21,993)
Total	$ 248,122	$ 114,636

Construction in progress is comprised primarily of assets related to the manufacturing of our Model S, including building improvements at our manufacturing facility, the Tesla Factory, in Fremont, California as well as tooling and manufacturing equipment and capitalized interest expense. We will start depreciating these assets upon commencement of our Model S production. Interest expense on outstanding debt is capitalized during the period of significant capital asset construction. Capitalized interest on construction in progress is included in property, plant and equipment, and is amortized over the life of the related assets. During the three and nine months ended September 30, 2011, we capitalized $1.1 million and $2.8 million of interest expense, respectively.

Depreciation and amortization expense during the three and nine months ended September 30, 2011 and the three and nine months ended September 30, 2010, was $3.7 million, $10.5 million, $2.7 million and $7.3 million, respectively.

Other Assets

As of September 30, 2011 and December 31, 2010, our other assets consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Emission credits	$ 14,508	$ 14,508
Loan facility issuance costs, net	6,570	7,053
Other	1,503	1,169
Total	$ 22,581	$ 22,730

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Accrued Liabilities

As of September 30, 2011 and December 31, 2010, our accrued liabilities consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Accrued purchases	$ 22,424	$ 9,731
Payroll and related costs	6,123	6,516
Accrued warranty	2,056	1,725
Taxes payable	1,962	2,686
Other	120	287
Total	$ 32,685	$ 20,945

Other Long-Term Liabilities

As of September 30, 2011 and December 31, 2010, our other long-term liabilities consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Environmental liabilities	$ 5,300	$ 5,300
Accrued warranty, long-term	4,355	3,692
Deferred rent liability	3,623	2,919
Other	1,287	363
Total	$ 14,565	$ 12,274

4. Fair Value of Financial Instruments

The carrying values of our financial instruments including cash equivalents, marketable securities, accounts receivable and accounts payable approximate their fair value due to their short-term nature. As a basis for determining the fair value of certain of our assets and liabilities, we established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level III) unobservable inputs in which there is little or no market data which requires us to develop our own assumptions. This hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Our financial assets that are measured at fair value on a recurring basis consist of cash equivalents and marketable securities. Our liabilities that are measured at fair value on a recurring basis consist of our common stock warrant liability.

All of our cash equivalents and current restricted cash, which are comprised primarily of money market funds, are classified within Level I of the fair value hierarchy because they are valued using quoted market prices or market prices for similar securities. Our short-term marketable securities are classified within Level II of the fair value hierarchy. Our common stock warrant liability (see Note 6) is classified within Level III of the fair value hierarchy.

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As of September 30, 2011 and December 31, 2010, the fair value hierarchy for our financial assets and financial liabilities that are carried at fair value was as follows (in thousands):

	September 30, 2011				December 31, 2010			
	Fair Value	Level I	Level II	Level III	Fair Value	Level I	Level II	Level III
Money market funds	$ 235,381	$ 235,381	$	$	$ 145,708	$ 145,708	$	$
Corporate note	10,111		10,111					
Commercial paper	54,949		54,949					
Total	$ 300,441	$ 235,381	$ 65,060	$	$ 145,708	$ 145,708	$	$
Common stock warrant liability	$ 8,189	$	$	$ 8,189	$ 6,088	$	$	$ 6,088
Total	$ 8,189	$	$	$ 8,189	$ 6,088	$	$	$ 6,088

Our available-for-sale marketable securities classified by security type as of September 30, 2011 consisted of the following (in thousands):

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate note	$ 10,116	$	$ (5)	$ 10,111
Commercial paper	54,968		(19)	54,949
Total	$ 65,084	$	$ (24)	$ 65,060

All of our marketable securities with continuous unrealized losses have been in an unrealized loss position for less than twelve months as of September 30, 2011. We have determined that the gross unrealized losses on our marketable securities as of September 30, 2011 were temporary in nature.

The changes in the fair value of our common stock and convertible preferred stock warrant liability were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Fair value, beginning of period	$ 7,849	$ 16,709	$ 6,088	$ 1,734
Issuances				6,293
Settlements and Extinguishments		(6,962)		(6,962)
Change in fair value	340	(3,072)	2,101	5,610
Fair value, end of period	$ 8,189	$ 6,675	$ 8,189	$ 6,675

The estimated fair value of our long-term debt was approximately $171.7 million (par value of $225.0 million) and $53.4 million (par value of $71.8 million) as of September 30, 2011 and December 31, 2010, respectively.

5. Reservation Payments

Reservation payments consist of payments that allow potential customers to hold a reservation for the future purchase of a Tesla Roadster or Model S. These amounts are recorded as current liabilities until the vehicle is delivered. For our Tesla Roadsters manufactured to specification, our current purchase agreement requires the payment of an initial nonrefundable deposit which varies based on the country of purchase. For the

Model S, we require an initial refundable reservation payment of at least $5,000. For Tesla Roadsters purchased directly from our showrooms, no deposit is required. Prior to the three months ended June 30, 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. During the three months ended June 30, 2010, we changed our policy to require nonrefundable deposits for Tesla Roadsters manufactured to specification at the time a customer enters into a purchase agreement. However, 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 and enters into a purchase agreement. We require full payment of the purchase price of the vehicle only upon delivery of the vehicle to the customer. Amounts received by us as reservation payments are generally not restricted as to their use by us. Upon delivery of the vehicle, the related reservation payments are applied against the customer s total purchase price for the vehicle and recognized in automotive sales as part of the respective vehicle sale.

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As of September 30, 2011, we held reservation payments for undelivered Model S sedans in an aggregate amount of $62.1 million and reservation payments for Tesla Roadsters in an aggregate amount of $3.1 million. As of December 31, 2010, we held reservation payments for undelivered Model S sedans in an aggregate amount of $28.3 million and reservation payments for Tesla Roadsters in an aggregate amount of $2.5 million. In order to convert the reservation payments into revenue, we will need to sell vehicles to these customers. All reservation payments for the Model S are fully refundable until such time that a customer enters into a purchase agreement.

6. Department of Energy Loan Facility

On January 20, 2010, we entered into a loan facility with the Federal Financing Bank (FFB), and the Department of Energy (DOE), pursuant to the Advanced Technology Vehicles Manufacturing (ATVM) Incentive Program (the DOE Loan Facility). Under the DOE Loan 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, which will be available to finance up to 80% of the costs eligible for funding for the powertrain engineering and the build out of a facility to design and manufacture lithium-ion battery packs, electric motors and electric components and the development of, and to build out the manufacturing facility for, our Model S sedan. 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. 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. All outstanding amounts under the Loan Facility will be due and payable in September 2019 and September 2022.

Our DOE Loan Facility draw-downs were as follows (in thousands):

	Loan Facility Available for Future Draw-downs	Interest rates
Beginning Balance, January, 2010	$ 465,048	
Draw-downs received during the three months ended March 31, 2010	(29,920)	2.9% - 3.4%
Draw-downs received during the three months ended June 30, 2010	(15,499)	2.5% - 3.4%
Draw-downs received during the three months ended September 30, 2010	(11,138)	1.7% - 2.6%
Draw-downs received during the three months ended December 31, 2010	(15,271)	1.7% - 2.8%
Remaining Balance, December 31, 2010	393,220	
Draw-downs received during the three months ended March 31, 2011	(30,656)	2.1% - 3.0%
Draw-downs received during the three months ended June 30, 2011	(31,693)	1.8% - 2.7%
Draw-downs received during the three months ended September 30, 2011	(90,822)	1.0% - 1.4%
Remaining Balance, September 30, 2011	$ 240,049	

The DOE Loan Facility contains customary operational and financial covenants with which we must comply, and impose restrictions on, among other things, additional indebtedness, liens, various fundamental changes to our business (including mergers and acquisitions), payments, expenditures, investments, transactions with affiliates, and other aspects regarding the management of our finances. We are currently in compliance with these covenants. All obligations under the DOE Loan Facility are secured by substantially all of our property.

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In addition to our obligation to fund a portion of the project costs as described above, we agreed to, and upon completion of our IPO in 2010, set aside $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 is 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 upfront, 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 then 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 draw-down of additional loans under the DOE Loan Facility once used in full, or as part of the final advance for the applicable project. Depending on the timing and magnitude of our draw-downs and the funding requirements of the dedicated account, the balance of the dedicated account will fluctuate throughout the period in which we plan to make draw-downs under the DOE Loan Facility. Upon completion of our final advance under the DOE Loan Facility, the balance in the dedicated account will be fully transferred out of the dedicated account. As of September 30, 2011 and December 31, 2010, $55.3 million and $73.6 million were held in the dedicated account, respectively. As we expect to transfer the current balance out of the dedicated account within one year, we have classified such cash as current restricted cash on the condensed consolidated balance sheets. Pursuant to our DOE Loan Facility, we were not required to hold any portion of the net proceeds from our follow-on public offering and the concurrent private placements completed in June 2011 in the dedicated account.

DOE Warrant

In connection with the closing of the DOE Loan Facility, we have also issued a warrant to the DOE to purchase up to 9,255,035 shares of our Series E convertible preferred stock at an exercise price of $2.51 per share. Upon the completion of our IPO on July 2, 2010, this preferred stock warrant became a warrant to purchase up to 3,090,111 shares of common stock at an exercise price of $7.54 per share. Beginning on December 15, 2018 and until December 14, 2022, the shares subject to purchase under the warrant will vest and become exercisable in quarterly amounts depending on the average outstanding balance of the loan 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 ultimately issuable under the 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 warrant using a Monte Carlo simulation approach. The Monte Carlo approach simulates and captures the optimal decisions to be made between prepaying the DOE loan and the cancellation of the DOE warrant. 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 prepayment feature which allows us 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 warrant liability on our condensed consolidated balance sheets. Changes to the fair value of the embedded derivative are reflected as part of the warrant liability re-measurement to fair value at each balance sheet reporting date.

The warrant is recorded at its estimated fair value with changes in its fair value reflected in other expense, net, until its expiration or vesting. The fair value of the warrant at issuance was $6.3 million, and along with the DOE Loan Facility fee of $0.5 million and other debt issuance costs of $0.9 million, represents a cost of closing the loan facility and is being amortized to interest expense over the expected term of the DOE Loan Facility of approximately 13 years. During the three and nine months ended September 30, 2011, we amortized $0.2 million and $0.5 million to interest expense, respectively. During the three and nine months ended September 30, 2010, we amortized $0.2 million and $0.4 million to interest expense, respectively.

The DOE warrant will continue to be recorded at its estimated fair value with changes in the fair value reflected in other expense, net, as the number of shares of common stock ultimately issuable under the warrant is variable until its expiration or vesting. As of September 30, 2011 and December 31, 2010, the fair value of the DOE warrant was $8.2 million and $6.1 million, respectively. During the three and nine months ended September 30, 2011, we recognized expense for the change in the fair value of the DOE warrant in the amount of $0.3 million and $2.1 million, respectively. During the three months ended September 30, 2010, we recognized income for the change in the fair value of the DOE warrant in the amount of $0.7 million and during the nine months ended September 30, 2010, we recognized expense for the change in the fair value of $0.4 million through other income (expense), net, in the condensed consolidated statements of operations.

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7. Equity Incentive Plans

Effective January 1, 2006, we adopted the fair value method of accounting for stock options granted to employees which requires the recognition of compensation expense for costs related to all share-based payments, including stock options.

Prior to the completion of our IPO, the fair value of the shares of common stock underlying the stock options has historically been determined by the Board of Directors as there was no public market for our common stock. The Board of Directors has determined fair value of the common stock at the time of each grant of options by considering a number of objective and subjective factors including the valuation of comparable companies, sales of convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock, and trends in the broader automobile industry.

Subsequent to the completion of our IPO, we account for stock-based compensation by measuring and recognizing the fair value of all stock-based payment awards made to employees based on the estimated grant date fair values, including employee stock options and the employee stock based purchase plan. We use the Black-Scholes option pricing model to estimate the value of employee stock options which requires a number of assumptions to determine the model inputs. These include the expected volatility of the stock s market price, the expected term of the stock-based awards, the expected risk free rate of interest and any dividend yields. As stock-based compensation expense is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. We estimate and adjust forfeiture rates based on a periodic review of recent forfeiture activity and expected future employee turnover. As we have been operating as a public company for a period of time that is shorter than our estimated expected option life, we concluded that our historical price volatility does not provide a reasonable basis for input assumptions within its Black-Scholes valuation model when determining the fair value of its stock options. As a result, our expected volatility is based on the historical volatility of a peer group of publicly traded companies.

The following table summarizes the consolidated stock-based compensation expense by line item in the condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Cost of sales	$ 171	$ 72	$ 506	$ 150
Research and development	3,588	1,256	8,904	2,088
Selling, general and administrative	4,127	2,483	11,327	11,075
Total	$ 7,886	$ 3,811	$ 20,737	$ 13,313

8. Information about Geographic Areas

We have determined that we operate in one reporting segment which is the design, development, manufacturing and sales of electric vehicles and electric vehicle powertrain components.

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The following tables set forth revenues and long-lived assets by geographic area (in thousands):

Revenues

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
North America	$ 31,357	$ 8,586	$ 89,282	$ 28,105
Europe	24,619	21,317	67,766	49,936
Asia	1,690	1,338	7,819	2,417
Total	$ 57,666	$ 31,241	$ 164,867	$ 80,458

During the three and nine months ended September 30, 2011 and 2010, we recognized revenues of $30.9 million, $87.5 million, $7.1 million and $24.4 million in the United States, respectively.

Long-lived Assets

	September 30, 2011	December 31, 2010
United States	$ 254,903	$ 119,014
International	4,891	3,585
Total	$ 259,794	$ 122,599

9. Development Services

Daimler AG

Daimler A-Class Program

In 2010, Daimler AG 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. Through September 30, 2010, we invoiced $14.1 million and recognized $11.4 million of the total payments received to date in development services revenue.

As of December 31, 2010, all development work related to the A-Class EV development program had been completed and as such, no further development services revenue were recorded during the nine months ended September 30, 2011.

Toyota Motor Corporation

Toyota RAV4 Program

In July 2010, we and Toyota entered into a Phase 0 agreement to initiate development of an electric powertrain for the Toyota RAV4 EV. Under this early phase development agreement, prototypes would be made by us by combining the Toyota RAV4 model with a Tesla electric powertrain. We began producing and delivering prototypes to Toyota during the three months ended September 30, 2010. During the three months ended September 30, 2010, we recognized $0.5 million in development services revenue and recorded $0.2 million in deferred revenues. As of June 30, 2011, we had delivered all prototypes and as such no further development services revenue under the Phase 0 agreement was recorded during the three months ended September 30, 2011. During the nine months ended September 30, 2011, we recognized $7.6 million in development services revenue under this agreement.

In October 2010, we entered into a Phase 1 contract services agreement with Toyota for the development of a validated powertrain system, including a battery, power electronics module, motor, gearbox and associated software, which will be integrated into an electric vehicle version of the Toyota RAV4. Pursuant to the agreement, Toyota will pay us up to $60.0 million for the successful completion of certain development milestones and the delivery of prototype samples, including a $5.0 million upfront payment that we received upon the execution of the agreement. During the three and nine months ended September 30, 2011, we completed various milestones and along with the amortization of our upfront payment and the delivery of certain prototype samples, we recognized $14.3 million and $40.9 million in development services revenue, respectively. Through September 30, 2011, we have received total payments from Toyota of $35.5 million under the Phase 1 contract services agreement under this agreement.

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In July 2011, we entered into a supply and services agreement with Toyota for the supply of a validated electric powertrain system, including a battery, charging system, inverter, motor, gearbox and associated software, which will be integrated into an electric vehicle version of the Toyota RAV4. Additionally, we will provide Toyota with certain services related to the supply of the electric powertrain system. We plan to begin delivery of the electric powertrain system to Toyota for installation into the Toyota RAV4 EV in 2012 and as such, no payments have been received and no revenue has been recognized to date under this agreement. Future revenue to be recognized under this agreement will be recorded in automotive sales. Our production activities under this program are expected to continue through 2014.

10. Commitments and Contingencies

Environmental Liabilities

In May 2010, we entered into an agreement to purchase an existing automobile production facility located in Fremont, California from New United Motor Manufacturing, Inc. (NUMMI). NUMMI has previously identified environmental conditions at the Fremont site which affect soil and groundwater, and until recently, were undertaking efforts to address these conditions. These conditions are now being addressed by us and NUMMI. Although we have been advised by NUMMI that it has documented and managed the environmental issues, 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. Based on management s best estimate, we estimated the fair value of the environmental liabilities that we assumed to be $5.3 million. The fair value of these liabilities was determined based on an expected value analysis of the related potential costs to investigate, remediate and manage various environmental conditions that were identified as part of NUMMI s facility decommissioning activities as well as our own diligence efforts. As we continue with our planned construction and operating activities, it is reasonably possible that our estimate of environmental liabilities may change materially.

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 completion of the facility and land purchase for any known or unknown environmental conditions, 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 and we have released NUMMI for any known or unknown claims except for NUMMI s obligations for representations and warranties under the agreement. As of September 30, 2011, we have accrued $5.3 million related to these environmental liabilities.

From time to time, we are subject to various legal proceedings that arise from the normal course of business activities. In addition, from time to time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations, prospects, cash flows, financial position and brand.

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11. Subsequent Events

Panasonic Supply Agreement

On October 5, 2011, we entered into a supply agreement with Panasonic for the supply of lithium ion battery cells. Pursuant to the agreement, we will purchase from Panasonic a certain portion of our lithium ion battery cell needs for our batteries at long-term preferential pricing. The agreement generally provides for the purchase of lithium ion battery cells through December 31, 2015 and also contains standard warranty, indemnification and other provisions.

DOE Loan Facility Draw-Down

On November 10, 2011, we received additional loans under the DOE Loan Facility for $20.4 million at interest rates ranging from 1.0% to 1.4%.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes that appear elsewhere in this Form 10-Q. These discussions contain forward-looking statements reflecting our current expectations that involve risks and uncertainties. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, expectations regarding demand and acceptance for our technologies, growth opportunities and trends in the market in which we operate, prospects plans and objectives of management and the statements made below under the heading Management Opportunities, Challenges and Risks. The words anticipates , believes , estimates , expects , intends , may , plans , projects , will , would and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, Risk Factors in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission. We do not assume any obligation to update any forward-looking statements.

Overview and Quarter Highlights

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

During the three months ended September 30, 2011, we recognized total revenues of $57.7 million, an increase of 85% over total revenues of $31.2 million for the three months ended September 30, 2010. Automotive sales revenue of $43.2 million increased 85% from the three months ended September 30, 2010, driven by strong customer demand for the Tesla Roadster globally and significantly higher powertrain component sales.

During the three months ended September 30, 2011, we continued our efforts in expanding our company-owned retail network with the opening of a new store in Eindhoven. We plan to open several more stores by year end in the United States utilizing the new store concept embodied by our Santana Row and Park Meadows Tesla stores. We believe this new store concept provides a unique retail experience designed to engage and inform potential customers about electric vehicles in general, learn about Tesla s innovations and configure their cars through hands-on interactive screens. Some of these new stores will replace existing stores which we plan to continue using as service locations. As a result of our continued activities to support the sales of the Tesla Roadster, the opening and operation of new stores, higher store-related and marketing activities, as well as the growth of the business, we incurred higher selling, general and administrative expenses of $27.6 million for the three months ended September 30, 2011 when compared to expenses of $20.4 million for the three months ended September 30, 2010.

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Development services revenue increased to $14.4 million for the three months ended September 30, 2011 from $7.9 million during the three months ended September 30, 2010, due primarily to our development activities for the Toyota Motor Corporation (Toyota) RAV4 EV program. We completed planned milestones and deliveries of samples to Toyota during the quarter, and we currently expect to complete our remaining development services milestones and sample deliveries by early 2012.

The Model S program remains on track for planned first customer deliveries no later than July 2012. During the three months ended September 30, 2011, we continued to make progress on the build of the beta phase of our Model S prototypes. Detailed testing of systems integration, performance and safety, all of which are ongoing, has allowed us to further refine the overall design of the Model S and its constituent parts as well as the production and assembly processes to manufacture the vehicle. In October 2011, we finalized a long term supply contract with Panasonic Corporation for cells to be used in our products, which gives us increased visibility into our variable costs.

Research and development expenses included expenses related to Model S beta prototype build, development of the Tesla Factory, significant engineering, design and testing work being undertaken at several of our suppliers to support Model S readiness, design and engineering activities related to Model X prototyping, and other research and development activities. Research and development expenses were $54.1 million for the three months ended September 30, 2011, compared to $26.7 million for the three months ended September 30, 2010. We anticipate that the level of research and development spending will increase slightly from the current level for the remainder of 2011 as we continue with the engineering and testing of Model S, prepare the Tesla Factory for production of the Model S next year, and accelerate the advanced engineering work on Model X.

In addition to Model S engineering, we also experienced significant activity at the Tesla Factory, where we intend to produce our Model S and future vehicles, including our Model X crossover. Significant construction continues to take place and detailed manufacturing readiness plans are being executed. Most of our Model S vehicle manufacturing equipment has been installed at the Tesla Factory, especially in the stamping, plastics, paint, body and final assembly shops. As a result of investments being made in the Tesla Factory and related supplier tooling for the Model S, capital expenditures increased to $68.8 million for the three months ended September 30, 2011, compared to $66.5 million for the three months ended September 30, 2010 which was comprised primarily of payments we had made towards the purchase of the Tesla Factory from New United Motor Manufacturing, Inc. (NUMMI). We will continue to seek opportunities to limit our capital expenditures and anticipate our aggregate capital expenditures for 2011 to be in the range of $220 million and $245 million, primarily focused on vehicle development and manufacturing activities for Model S and Model X.

Our Model S, Model X and powertrain development activities, as well as our capital investments in manufacturing infrastructure, continued to be supported by draw-downs under our Department of Energy Loan Facility (DOE Loan Facility) and other sources of cash including cash from the sales of the Tesla Roadster, cash from the provision of development services and sales of powertrain components, cash received from refundable reservation payments for our Model S and cash received from our public offerings and private placements. During the three months ended September 30, 2011, we received $90.8 million in draw-downs under the DOE Loan Facility bringing our total long-term debt under the facility to $225.0 million. As we continue to progress on our Model S and powertrain activities, we expect to continue making draw-downs under the DOE Loan Facility.

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As of September 30, 2011, we had $573.7 million in principal sources of liquidity available from our cash and cash equivalents, short-term marketable securities, cash held in our dedicated DOE account and the remaining amounts available under the DOE Loan Facility. This includes our cash and cash equivalents in the amount of $213.3 million which includes investments in money market funds, short-term marketable securities of $65.1 million, cash of $55.3 million deposited in a dedicated DOE account in accordance with the requirements of our DOE Loan Facility, and $240.0 million available under the DOE Loan Facility.

Management Opportunities, Challenges and Risks

Our principal focus continues to be on the disciplined development of the Model S so that we can achieve our plan of first customer deliveries no later than July 2012. We are also focused on the continued sales of the Tesla Roadster and powertrain components, development services activities with our strategic partners, advanced engineering work on the planned Model X and pursuing new electric powertrain opportunities with automobile manufacturers.

In June 2011, we entered into an amendment to our supply agreement with Lotus Cars Limited (Lotus) to increase our purchase from 2,400 Tesla Roadster vehicles or gliders to 2,500 vehicles or gliders. Through September 30, 2011, we have delivered over 2,000 vehicles to customers. We currently intend to manufacture at Lotus our current generation Tesla Roadster through January 2012. We plan to sell the last of the North American Roadsters by early next year and continue selling in Europe and Asia until inventory is fully depleted in 2012.

Powertrain component sales in 2011 have increased when compared with 2010. While we anticipate entering into a new development services program with Daimler AG (Daimler), all our powertrain component sales under current agreements with Daimler will be completed by the end of 2011. We expect to resume sales of powertrain components in 2012 with the start of production of the Toyota RAV4 EV program. In July 2011, we entered into a supply and services agreement with Toyota for the production of a validated electric powertrain system, including a battery, charging system, inverter, motor, gearbox and associated software, which will be integrated into the Toyota RAV4 EV. Additionally, we will provide Toyota with certain services related to the supply of these components. Pursuant to the agreement, Toyota will pay us approximately $100 million from 2012 through 2014 based on our delivery of these components for the RAV4 EV. We plan to begin shipping RAV4 EV production powertrain systems to Toyota consistent with Toyota s announced plan to produce the RAV4 EV for sale in 2012.

As we have a limited number of the Tesla Roadsters left for sale and as we expect powertrain component sales to decline until the start of production for the Toyota RAV4 EV program, we anticipate our automotive sales will decline, potentially significantly, just prior to the planned 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.

Remaining development services revenue for 2011 will be derived primarily from our electric powertrain development activities with Toyota under the Toyota RAV4 EV program. We expect that the Toyota RAV4 EV development program, and the associated development services revenue, will be completed by early 2012. We recently received a letter of intent from Daimler for a full powertrain program for a vehicle in the Mercedes line and anticipate negotiating a development services agreement with Daimler to implement such a program in the upcoming months. Due to timing differences that may arise between the recognition of future milestone revenue and the underlying costs of development services, the gross margin from our development services activities may vary from period to period.

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The build of the Model S beta prototypes in the Tesla Factory is continuing to progress and we are working closely with suppliers to design, develop and test components that will meet our anticipated production design specifications and schedule. Ensuring that our design, engineering, operations and manufacturing engineering teams, and our suppliers, execute on all significant activities will be critical to a timely launch of first customer deliveries of our Model S no later than July 2012. Our continuing negotiations with suppliers, and our manufacturing capabilities will influence our ability to achieve the cost per unit that we are currently projecting. Our plan to begin first deliveries of the Model S no later than July 2012 is also dependent upon the timely availability of funds from the DOE Loan Facility, 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.

Earlier in 2011, we publicly announced the Tesla Model X as the first vehicle derivative we intend to develop by leveraging the Model S platform. We are designing the Model X as a crossover vehicle. We currently plan to hold a limited showing of the prototype of the Model X crossover by the end of 2011 and to reveal it publicly early in 2012 followed by the anticipated commercial introduction of this vehicle in the fourth quarter of 2013.

Our operating expenses in 2011 have been significant as we continue to execute on the Model S program and systematically and strategically expand our sales and service infrastructure globally to support the launch of the Model S. As we continue to make significant investments in research and development and our infrastructure to launch the Model S as well as incur costs for the development of the Model X, we expect to continue generating a net loss until we reach volume sales of the Model S. As pre-production development and prototyping costs cannot be capitalized, we expect our operating expenses to continue increasing due to our ongoing activities to prepare the Tesla Factory for production, refine the Model S and continue the advanced engineering work on Model X. Once we start recognizing revenue from the sales of Model S, our Model S production costs, including direct parts, material and labor costs, manufacturing overhead and amortized tooling, and logistics, will begin to be reflected in cost of automotive sales.

Capital spending for the Model S program is anticipated to be at its highest level over the next few quarters, as we make final payments for much of the tooling and manufacturing equipment required for production. We anticipate that most of the capital expenditures on the Model S will be funded by the DOE Loan Facility. We will continue to seek opportunities to limit our capital expenditures and anticipate our aggregate capital expenditures for 2011 to be in the range of $220 million and $245 million, primarily focused on vehicle development and manufacturing activities for Model S and Model X. We have also elected to invest incrementally in new technologies and additional plant automation to efficiently produce vehicles at high quality and at an affordable cost. Depreciation of our capital expenditures related to the Fremont facility will begin with the start of Model S production.

See Part II Item 1A Risk Factors for a further discussion of risks associated with our business, including additional risks related to the Model S and Model X.

Critical Accounting Policies and Estimates

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

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For a description of our critical accounting policies and estimates, please refer to the Critical Accounting Policies and Estimates section of our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (SEC). In addition, please refer to Note 2, Summary of Significant Accounting Policies, of our condensed consolidated financial statements in Item 1, Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

For revenue arrangements that were entered into or materially modified after January 1, 2011, implementation of new revenue accounting guidance had no material impact on our reported revenue for the three and nine months ended September 30, 2011 as compared to revenue that would have been reported if the related arrangements were subject to the accounting requirements in effect in the prior year.

During the three months ended September 30, 2011, we purchased marketable securities including commercial paper and corporate debt of $65.1 million. All marketable securities are designated as available-for-sale and reported at estimated fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss which is included in stockholders equity. Realized gains and losses on the sale of available-for-sale marketable securities are recorded in other income (expense), net. The cost of available-for-sale marketable securities sold is based on the specific identification method. Interest, dividends, amortization and accretion of purchase premiums and discounts on our marketable securities are included in other income (expense), net. Available-for-sale marketable securities with maturities greater than three months at the date of purchase and remaining maturities of one year or less are classified as short-term marketable securities. Where temporary declines in fair value exist, we have the ability and the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

We regularly review all of our marketable securities for other-than-temporary declines in fair value. The review includes but is not limited to (i) the consideration of the cause of the impairment, (ii) the creditworthiness of the security issuers, (iii) the length of time a security is in an unrealized loss position, and (iv) our ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

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Results of Operations

The following table sets forth our condensed consolidated statements of operations data for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues				
Automotive sales	$ 43,235	$ 23,350	$ 115,891	$ 67,906
Development services	14,431	7,891	48,976	12,552
Total revenues	57,666	31,241	164,867	80,458
Cost of revenues				
Automotive sales	32,752	19,457	90,241	56,581
Development services	7,690	2,488	20,866	4,467
Total cost of revenues	40,442	21,945	111,107	61,048
Gross profit	17,224	9,296	53,760	19,410
Operating expenses				
Research and development	54,083	26,698	147,776	55,379
Selling, general and administrative	27,618	20,432	76,545	59,224
Total operating expenses	81,701	47,130	224,321	114,603
Loss from operations	(64,477)	(37,834)	(170,561)	(95,193)
Interest income	80	100	166	195
Interest expense		(298)		(992)
Other income (expense), net	(594)	3,180	(2,150)	(6,770)
Loss before income taxes	(64,991)	(34,852)	(172,545)	(102,760)
Provision for income taxes	87	83	377	210
Net loss	$ (65,078)	$ (34,935)	$ (172,921)	$ (102,970)

Revenues

Automotive Sales

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Vehicle, options and related sales	$ 28,403	$ 18,221	$ 76,443	$ 55,452
Powertrain component and related sales	14,832	5,129	39,448	12,454
Total automotive sales	$ 43,235	$ 23,350	$ 115,891	$ 67,906

Automotive sales during the three and nine months ended September 30, 2011 were $43.2 million and $115.9 million, respectively, an increase from $23.4 million and $67.9 million during the three and nine months ended September 30, 2010, respectively. Vehicle, options and related sales represent sales of the Tesla Roadster, including vehicle options, accessories and destination charges, vehicle service and sales of zero emission vehicle credits. Powertrain component and related sales represent the sales of electric vehicle powertrain components, such as battery packs and battery chargers, to other manufacturers.

Vehicle, options and related sales during the three and nine months ended September 30, 2011 were $28.4 million and $76.4 million, respectively, an increase from $18.2 million and $55.4 million for the three and nine months ended September 30, 2010, respectively. The increase in vehicle, options and related sales was primarily attributable to an increase in the number of Tesla Roadsters that we sold, particularly in North America and Asia, coupled with slightly higher average selling prices. Under our supply agreement with Lotus, we will build 2,500 Roadster gliders, the last of which we should receive early next year. We plan to sell the last of the North American Roadsters by early next year and continue selling in Europe and Asia until inventory is fully depleted in 2012. Powertrain component and related sales for the three and nine months ended September 30, 2011 were $14.8 million and $39.4 million, respectively, an increase from $5.1 million and $12.5 million for the three and nine months ended September 30, 2010, respectively. The increase in powertrain component and related sales was primarily due to significant shipments of battery packs and chargers to Daimler. We began delivering battery packs and chargers for the Daimler Smart fortwo EV program during the first quarter of 2010, and for the Daimler A-Class EV program late in the fourth quarter of 2010. Production for both the Smart fortwo and A-Class EV programs is expected to continue through the end of 2011.

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Development Services

Development services represent arrangements where we develop electric vehicle powertrain components for other automobile manufacturers, including the design and development of battery packs and chargers to meet customer s specifications.

Development services revenue during the three and nine months ended September 30, 2011 was $14.4 million and $49.0 million, respectively, an increase from $7.9 million and $12.6 million during the three and nine months ended September 30, 2010, respectively.

In July 2010, we entered into an agreement with Toyota to initiate development of an electric powertrain for the Toyota RAV4 EV. Under this Phase 0 development agreement, prototypes would be made by us by combining the Toyota RAV4 model with a Tesla electric powertrain. Through June 30, 2011, we had delivered all remaining prototype vehicles under the Phase 0 agreement and as such, we did not recognize further development services revenue during the three months ended September 30, 2011.

In October 2010, we also entered into a Phase 1 contract services agreement with Toyota for the development of a validated powertrain system, including a battery, power electronics module, motor, gearbox and associated software, which will be integrated into an electric vehicle version of the Toyota RAV4. During the three months ended September 30, 2011, we completed two milestones and delivered several samples under the Phase 1 agreement. Development services revenue under this arrangement with Toyota for the three months ended September 30, 2011 was $14.4 million. During the nine months ended September 30, 2011, we completed various milestones and delivered several samples under the Phase 1 agreement and delivered all remaining prototype vehicles under the Phase 0 agreement. Development services revenue under these arrangements with Toyota for the nine months ended September 30, 2011 was $49.0 million. We expect that the Phase 1 agreement, and the associated development services revenues, will be completed by early 2012.

We intend to grow our development services revenue over time by establishing additional commercial arrangements with other automobile manufacturers and by looking for new development opportunities with existing strategic partners.

Additionally, we expect our development services revenue may fluctuate in future periods based on the timing of our delivery of milestones and samples, as well as the timing of meeting revenue recognition criteria.

Cost of Revenues and Gross Profit

Cost of revenues includes cost of automotive sales and costs related to our development services. Cost of revenues during the three and nine months ended September 30, 2011 was $40.4 million and $111.1 million, respectively, an increase from $21.9 million and $61.0 million during the three and nine months ended September 30, 2010, respectively. The increase in cost of automotive sales for the three and nine months ended September 30, 2011 was driven primarily by an increase in the number of vehicles that we sold and the increased shipments of battery packs and chargers to Daimler. We began delivering battery packs and chargers for the Daimler Smart fortwo EV program during the first quarter of 2010 and for the Daimler A-Class EV program late in the fourth quarter of 2010. 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. The increase in cost of development services was driven primarily by our activities for the Toyota RAV4 EV program which began in the second half of 2010.

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Gross profit for the three and nine months ended September 30, 2011 was $17.2 million and $53.8 million, respectively, an increase from $9.3 million and $19.4 million for the three and nine months ended September 30, 2010, respectively. The increase for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, was driven primarily by higher sales of the Tesla Roadster coupled with higher average selling prices, as well as gross profit from our development services activities. The increase for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, was driven primarily by the gross profit contributed by our development services activities which we expanded in the latter half of 2010 with the Toyota RAV4 EV program, as well as a significant increase in Tesla Roadster sales coupled with slightly higher average selling prices and ongoing cost improvement programs on the Roadster.

We expect our development services gross profit and gross margin may fluctuate in future periods as the timing of revenue recognition may not coincide with the period in which the corresponding cost of revenues is recognized.

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.

Research and development expenses during the three months ended September 30, 2011 were $54.1 million, an increase from $26.7 million during the three months ended September 30, 2010. The $27.4 million increase in research and development expenses during the three months ended September 30, 2011 consisted primarily of a $10.0 million increase in materials and prototyping expenses primarily to support our Model S alpha and beta builds as well as powertrain development activities, an $8.7 million increase in employee compensation expenses from higher headcount, a $4.3 million increase in costs related to Model S engineering, design and testing activities incurred by our suppliers, a $2.4 million increase in stock-based compensation expense related to a larger number of outstanding equity awards and generally an increasing common stock valuation applied to new grants, and a $2.1 million increase in office, information technology and facilities-related costs to support the growth of our business.

Research and development expenses during the nine months ended September 30, 2011 were $147.8 million, an increase from $55.4 million during the nine months ended September 30, 2010. The $92.4 million increase in research and development expenses during the nine months ended September 30, 2011 consisted primarily of a $30.6 million increase in costs related to Model S engineering, design and testing activities incurred by our suppliers, a $29.5 million increase in materials and prototyping expenses primarily to support our Model S alpha and beta builds as well as powertrain development activities, a $23.4 million increase in employee compensation expenses from higher headcount, a $7.2 million increase in stock-based compensation expense related to a larger number of outstanding equity awards and generally a higher common stock valuation applied to new grants, and a $5.9 million increase in office, information technology and facilities-related costs to support the growth of our business.

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We have significantly increased our research and development efforts for the Model S in recent quarters, which has resulted in an increase in our research and development expenses. We anticipate that our research and development expenses will rise moderately from our current level in the fourth quarter of 2011 as we incur additional costs to further develop the Model S, to develop the Model X and to operate our Model S manufacturing facility in Fremont, California prior to the start of Model S production.

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.

Selling, general and administrative expenses during the three months ended September 30, 2011 were $27.6 million, an increase from $20.4 million during the three months ended September 30, 2010. The $7.2 million increase in our selling, general and administrative expenses during the three months ended September 30, 2011 consisted primarily of a $3.0 million increase in employee compensation expenses related to higher sales and marketing headcount to support sales activities worldwide and higher general and administrative headcount to support the expansion of the business, a $1.6 million increase in stock-based compensation expense related to a larger number of outstanding equity awards and generally an increasing common stock valuation applied to new grants, a $1.3 million increase in office, information technology and facilities-related costs to support the growth of our business, a $0.7 million increase in professional and outside services costs, and a $0.4 million increase in costs principally related to our planned Tesla store and gallery openings.

Selling, general and administrative expenses during the nine months ended September 30, 2011 were $76.5 million, an increase from $59.2 million during the nine months ended September 30, 2010. The $17.3 million increase in our selling, general and administrative expenses during the nine months ended September 30, 2011 consisted primarily of a $9.4 million increase in employee compensation expenses related to higher sales and marketing headcount to support sales activities worldwide and higher general and administrative headcount to support the expansion of the business, a $4.2 million increase in office, information technology and facilities-related costs to support the growth of our business, a $2.1 million increase in professional and outside services costs, a $1.3 million increase in costs principally related to the operation of new Tesla stores openings and a $0.3 million increase in stock-based compensation expense related to a larger number of outstanding equity awards and generally an increasing common stock valuation applied to new grants.

We expect selling, general and administrative expenses to increase in future periods as we continue to grow and expand our operations, and increase our sales and marketing activities to handle our expanding market presence and prepare for the planned Model S launch scheduled for no later than July 2012. 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. We plan to open additional stores during 2011, mostly in the United States, and some of these stores will replace existing stores, which we may continue to use as service locations.

Interest Expense

Our interest expense is primarily due to our loans under the DOE Loan Facility which we began accessing in 2010. Although interest expense will increase as we continue to draw down on the DOE Loan Facility to fund our Model S and powertrain activities, we expect to capitalize this interest to construction in progress until the start of Model S production. During the three and nine months ended September 30, 2011, we capitalized $1.1 million and $2.8 million, respectively, of interest expense to construction in progress.

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Other Income (Expense), Net

Other income (expense), net consists primarily of the change in the fair value of our warrant liabilities and gains and losses on our foreign currency-denominated assets and liabilities. We expect our foreign exchange gains and losses will vary depending upon movements in the underlying exchange rates. Income or charges resulting from the change in the fair value of our stock warrant liability, excluding the DOE warrant liability, was eliminated after July 2, 2010, as these warrants were net exercised at the completion of our IPO. The DOE convertible preferred stock warrant became a common stock warrant on July 2, 2010 and is carried at its estimated fair value with changes in its fair value continuing to be reflected in other income (expense), net, until its expiration or vesting.

Other expense, net, during the three months ended September 30, 2011 was $0.6 million, an increase in expense compared to other income, net of $3.2 million during the three months ended September 30, 2010. Other expense, net, during the nine months ended September 30, 2011 was $2.2 million, a decrease in expense compared to other expense, net, of $6.8 million during the nine months ended September 30, 2010. The increase in expense for the three months ended September 30, 2011 was primarily due to a more significant fair value change in our warrant liabilities during the three months ended September 30, 2010 resulting from a lower stock price. The decrease in expense for the nine months ended September 30, 2011 was primarily due to the elimination of warrant liabilities, excluding the DOE warrant liability, upon the completion of our IPO in July 2010.

Provision for Income Taxes

Our provision for income taxes during the three and nine months ended September 30, 2011 was $0.1 million and $0.4 million, respectively, compared to $0.1 million and $0.2 million during the three and nine months ended September 30, 2010, respectively. The increase for the three and nine months ended September 30, 2011 was due primarily to the increase in taxable income in our international jurisdictions.

Liquidity and Capital Resources

Since inception and through the three and nine months ended September 30, 2011, we had accumulated net losses of $587.9 million and have used approximately $418 million of cash in operations. As of September 30, 2011, we had approximately $574 million in principal sources of liquidity available from our cash and cash equivalents, short-term marketable securities, cash held in our dedicated DOE account and the remaining amounts available under the DOE Loan Facility. This includes our cash and cash equivalents in the amount of $213.3 million which included investments in money market funds, our short-term marketable securities in the amount of $65.1 million, cash of $55.3 million deposited in a dedicated DOE account in accordance with the requirements of our DOE Loan Facility, and approximately $240.0 million available under the DOE Loan Facility, which is primarily intended to cover spending related to the development of the Model S and our powertrain activities. Other sources of cash also include cash from the sales of the Tesla Roadster, cash from the provision of development services, sales of powertrain components and refundable reservation payments for our Model S.

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We expect that our current sources of liquidity, including cash, cash equivalents, short-term marketable securities, cash held in our dedicated DOE account and the remaining amounts available under the DOE Loan Facility, together with our anticipated cash from operating activities will be sufficient to develop the Model S and Model X based on our current plans. This capital will fund our ongoing operations, continue research and development projects, establish sales and service centers, improve infrastructure such as expanded battery assembly facilities, and to make the investments in tooling and manufacturing capital required to introduce the Model S and to continue development of the Model X. The acceleration of the development of future vehicles, investments in new technologies, increased in-sourcing of manufacturing capabilities, investments to expand our powertrain activities or further expand our sales and service network, may require us to raise additional funds through the issuance of equity, equity-related or debt securities or through obtaining credit. We may also choose to opportunistically raise additional funds if market conditions are favorable. We cannot be certain that additional funds will be available to us on favorable terms when required, or at all.

DOE Loan Facility

On January 20, 2010, we entered into a loan facility with the Federal Financing Bank (FFB), and the Department of Energy (DOE), pursuant to the Advanced Technology Vehicles Manufacturing (ATVM) Incentive Program (the DOE Loan Facility). Under the DOE Loan 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, which will be available to finance up to 80% of the costs eligible for funding for the powertrain engineering and the build out of a facility to design and manufacture lithium-ion battery packs, electric motors and electric components and the development of, and to build out the manufacturing facility for, our Model S sedan (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. 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. All outstanding amounts under the Loan Facility will be due and payable in September 2019 and September 2022.

The following table summarizes our DOE Loan Facility draw-down activities (in thousands):

	Loan Facility Available for Future Draw-downs	Interest rates
Beginning Balance, January, 2010	$ 465,048	
Draw-downs received during the three months ended March 31, 2010	(29,920)	2.9% - 3.4%
Draw-downs received during the three months ended June 30, 2010	(15,499)	2.5% - 3.4%
Draw-downs received during the three months ended September 30, 2010	(11,138)	1.7% - 2.6%
Draw-downs received during the three months ended December 31, 2010	(15,271)	1.7% - 2.8%
Remaining Balance, December 31, 2010	393,220	
Draw-downs received during the three months ended March 31, 2011	(30,656)	2.1% - 3.0%
Draw-downs received during the three months ended June 30, 2011	(31,693)	1.8% - 2.7%
Draw-downs received during the three months ended September 30, 2011	(90,822)	1.0% - 1.4%
Remaining Balance, September 30, 2011	$ 240,049	

The DOE Loan Facility contains customary operational and financial covenants with which we must comply, and impose restrictions on, among other things, additional indebtedness, liens, various fundamental changes to our business (including mergers and acquisitions), payments, expenditures, investments, transactions with affiliates, and other aspects regarding the management of our finances. We are currently in compliance with these covenants. All obligations under the DOE Loan Facility are secured by substantially all of our property.

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In addition to our obligation to fund a portion of the project costs as described above, we agreed to, and upon completion of our IPO, set aside $100.0 million to fund a separate dedicated account under our DOE Loan Facility. Depending on the timing and magnitude of our draw-downs and the funding requirements of the dedicated account, the balance of the dedicated account will fluctuate throughout the period in which we plan to make draw-downs under the DOE Loan Facility. Upon completion of our final advance under the DOE Loan Facility, the balance in the dedicated account will be fully transferred out of the dedicated account. As of September 30, 2011 and December 31, 2010, $55.3 million and $73.6 million were held in the dedicated account, respectively. As we expect to transfer the current balance out of the dedicated account within one year, we have classified such cash as current restricted cash on the condensed consolidated balance sheets. Pursuant to our DOE Loan Facility, we were not required to hold any portion of the net proceeds from our follow-on public offering and the concurrent private placements completed in June 2011 in the dedicated account.

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. During the three and nine months ended September 30, 2011, approximately 5% and 7%, respectively, of the vehicles delivered during these periods were under operating leases. As of September 30, 2011, we had deferred revenues of $1.4 million of down payments which will be recognized over the term of the individual leases. Through September 30, 2011, our leasing activity has not had a significant adverse impact on our liquidity.

Reservations Payments

A source of our cash flows from operations has been through our receipt of reservation payments from our customers. Reservation payments consist of reservation payments that allow potential customers to hold a reservation for the future purchase of a Tesla Roadster or Model S. We are not currently accepting reservation payments for our Model X crossover vehicle. For our Tesla Roadsters manufactured to specification, our current purchase agreement requires the payment of an initial nonrefundable deposit which varies based on the country of purchase. For the Model S, we require an initial refundable reservation payment of at least $5,000. For Tesla Roadsters purchased directly from our showrooms, no deposit is required. Prior to the second quarter of 2010, our reservation policy was to accept 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. During the second quarter of 2010, we changed our policy to require nonrefundable deposits for Tesla Roadsters manufactured to specification at the time a customer enters into a purchase agreement. However, we also occasionally accept 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 reservation payment with us, the reservation payment becomes a nonrefundable deposit once the customer has selected the vehicle specifications and enters into a purchase agreement. The full payment of the purchase price of the vehicle is required only upon delivery of the vehicle to the customer. 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. 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.

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Summary of Cash Flows

	Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Net cash used in operating activities	$ (87,276)	$ (93,533)
Net cash used in investing activities	(191,181)	(171,747)
Net cash provided by financing activities	392,227	292,216

Cash Flows used in 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.

Net cash used in operating activities was $87.3 million during the nine months ended September 30, 2011. The largest component of our cash used during this period related to our net loss of $172.9 million, which included non-cash charges of $20.7 million related to stock-based compensation expense, $12.1 million related to depreciation and amortization and $2.1 million related to the fair value change in our warrant liability. Significant operating cash outflows were primarily related to $224.3 million of operating expenses, $111.1 million of cost of revenues and a $10.8 million increase in inventory and operating lease vehicles, partially offset by a $38.0 million increase in accounts payable and accrued liabilities. Inventory increased to meet our production requirements for the Tesla Roadster and powertrain component sales as well as leasing activities while the net increase in accounts payable and accrued liabilities was due to both the growth of our business and the timing of vendor payments. Significant operating cash inflows for the nine months ended September 30, 2011 were comprised primarily of automotive sales of $115.9 million, $49.0 million of development services revenue and a $34.5 million net increase in reservation payments, partially offset by an $11.5 million increase in accounts receivable and a $1.6 million increase in deferred revenue. The increase in accounts receivable was related primarily to receivables from Toyota for the achievement of two milestones in September 2011 under the Toyota RAV4 EV Phase 1 contract services agreement and shipments of batteries and chargers to Daimler under the Daimler Smart fortwo and A-Class EV programs.

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Net cash used in operating activities was $93.5 million during the nine months ended September 30, 2010. The largest component of our cash used during this period related to our net loss of $103.0 million, which included non-cash charges of $13.3 million related to stock-based compensation expense, $7.7 million related to depreciation and amortization and $5.6 million related to the fair value change in our warrant liabilities. Significant operating cash outflows were primarily related to $114.6 million of operating expenses, $61.0 million of cost of revenues, a $22.8 million increase in inventory and operating lease vehicles, a $3.1 million increase in prepaid expenses and other current assets, partially offset by an $5.9 million increase in accounts payable and accrued liabilities. Inventory and operating lease vehicles increased to meet our production requirements for the Tesla Roadster and powertrain component sales as well as the introduction of our leasing program in 2010 while the net increase in accounts payable and accrued liabilities was due to both the growth of our business as well as our increased manufacturing activities. Significant operating cash inflows for the nine months ended September 30, 2010 were comprised primarily of automotive sales of $67.9 million, $12.6 million of development services revenue, a $3.4 million increase in deferred revenues, partially offset by a $4.6 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, and in May 2010, we executed a final agreement under which Daimler would make additional payments to us for the successful completion of certain development milestones and the delivery of prototype samples. The increase in deferred revenues was primarily driven by payments that we had received from Daimler in relation to this development arrangement for which revenue recognition has yet to be achieved. Deferred revenues also increased from our vehicle leasing activities as we are recognizing the lease down-payments over the term of the operating leases. The increase in accounts receivable was related primarily to powertrain component sales and development services during the nine months ended September 30, 2010 in relation to Daimler s Smart fortwo and A-Class EV programs. During the nine months ended September 30, 2010, we received $7.6 million of net reservation payments for the Model S.

Cash Flows used in Investing Activities

Cash flows from investing activities primarily relate to capital expenditures to support our growth in operations, including investments in Model S manufacturing, as well as restricted cash that we must maintain in relation to our DOE Loan Facility, facility lease agreements, equipment financing, and certain vendor credit policies.

Net cash used in investing activities was $191.2 million during the nine months ended September 30, 2011 primarily related to $143.6 million in purchases of capital equipment and $65.0 million in purchases of short-term marketable securities, partially offset by an $18.3 million of net transfers out of our dedicated DOE account in accordance with the provisions of the DOE Loan. The increase in capital purchases was primarily due to significant development and construction activities at the Tesla Factory as well as purchases of manufacturing equipment.

Net cash used in investing activities was $171.7 million during the nine months ended September 30, 2010 primarily related to capital purchases of $81.8 million and an increase in restricted cash of $90.0 million. The increase in capital purchases was driven primarily by nonrefundable payments of $8.0 million and a further $52.1 million of escrow payments made in relation to our purchase of an existing automobile production facility located in Fremont, California from NUMMI, and certain manufacturing assets located thereon to be used for our planned Model S manufacturing, as well as expenditures related to our transition to and build out of our powertrain manufacturing facility and corporate headquarters in Palo Alto, California, and purchases of manufacturing equipment. Our purchase transactions with NUMMI were completed in October 2010. The increase in restricted cash was primarily related to $100.0 million of net proceeds from our IPO and concurrent private placement that we transferred to a dedicated account as required by our DOE Loan Facility, partially offset by $11.9 million that was transferred out of the dedicated account during the three months ended September 30, 2010 in accordance with the provisions of the DOE Loan Facility. To a lesser extent, the increase in restricted cash was also related to certain refundable reservation payments segregated in accordance with state consumer protection regulations in Washington State.

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Cash Flows from Financing Activities

Net cash provided by financing activities was $392.2 million during the nine months ended September 30, 2011 and was comprised primarily of $231.5 million received from our follow-on public offering and concurrent private placements completed in June 2011, $153.2 million received from our draw-downs under the DOE Loan Facility and $7.8 million received from the exercise of common stock options by employees and the purchase of common stock under our employee stock purchase plan.

Net cash provided by financing activities was $292.2 million during the nine months ended September 30, 2010 comprised primarily of $188.8 million in proceeds from our IPO, $50.0 million in proceeds from the Toyota private placement, $56.6 million we received from our loans under the DOE Loan Facility, partially offset by $3.7 million of issuance costs we incurred in relation to our DOE Loan Facility and our IPO.

Off-Balance Sheet Arrangements

During the periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

A portion of our revenues, costs and expenses for the three and nine months ended September 30, 2011 and 2010 were denominated in foreign currencies. This is primarily due to the contract with Lotus Cars Limited in the United Kingdom to manufacture the Tesla Roadster vehicles and gliders, and other parts sourced in Europe. In addition, our international sales and marketing operations incur expenses denominated in foreign currencies, principally in the British pound, the euro and the Japanese yen. This cost exposure is partially offset by our sales growth in these regions since payments for vehicles sold in these regions are denominated in the local currency. This provides a partial natural hedge to our cost exposure in Europe and Asia depending on our sales levels in these regions. Our battery cell purchases as well as asset purchases for the Tesla Factory from Asian suppliers are also subject to currency risk. Although our present contracts are United States dollar based, if the United States dollar depreciates significantly against the local currency, it could cause our Asian suppliers to significantly raise their prices, which could harm our financial results. To date, the foreign currency effect on our cash and cash equivalents has not been significant.

Interest Rate Risk

We had cash and cash equivalents and short-term marketable securities totaling $278.4 million as of September 30, 2011. A portion of our cash and cash equivalents were invested in money market funds. Our cash and cash equivalents and short-term marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes. We believe that we do not have any material exposure to changes in the fair value as a result of changes in interest rates due to the short term nature of our cash equivalents and marketable securities. Declines in interest rates, however, would reduce future investment income.

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As of September 30, 2011, we have received loans under the DOE Loan Facility for an aggregate of $225.0 million with interest rates ranging from 1.0 % to 3.4%. As we continue to borrow under our DOE Loan Facility, interest rates will be determined by the Secretary of the Treasury as of the date of each loan, based on the Treasury yield curve and the scheduled principal installments for such loan. We also have capital lease obligations of $1.0 million as of September 30, 2011 which are fixed rate instruments and are not subject to fluctuations in interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2011. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2011, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to various legal proceedings that arise from the normal course of business activities. In addition, from time to time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on our results of operations, prospects, cash flows, financial position and brand.

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ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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

You must consider the risks and difficulties we face as an early stage company with limited operating history. If we do not successfully address these risks, our business, prospects, operating results and financial condition will be materially and adversely harmed. We were formed in July 2003. We began delivering our first performance electric vehicle, the Tesla Roadster, in early 2008, and as of September 30, 2011, we had only sold approximately 2,000 production vehicles to customers, almost all of which were sold in the United States and Europe. Our revenues for the three months ended September 30, 2011 and 2010 were $57.7 million and $31.2 million, respectively, and for the nine months ended September 30, 2011 and 2010 were $164.9 million and $80.5 million, respectively. We have a very limited operating history on which investors can base an evaluation of our business, operating results and prospects.

To date, we have derived our revenues principally from sales of the Tesla Roadster and from electric powertrain development services and sales. We intend in the longer term to derive substantial revenues from the sales of our Model S sedan and future electric vehicles, including our Model X crossover. The Model S is in development and we may not start delivering to customers until July 2012. We have no operating history with respect to the Model S electric vehicle and have not yet fully completed the component procurement process for the Model S, which limits our ability to accurately forecast the cost of the vehicle. Further, we have not yet produced a prototype of the Model X crossover and do not expect this vehicle to be available for sale before the fourth quarter of 2013 at the earliest. We only completed the purchase of our manufacturing facility in Fremont, California in October 2010 to produce such vehicles, and we have not yet completely finalized the full vehicle design or our engineering, manufacturing or component supply plans for the Model S. In addition, our powertrain component sales, development services revenue and powertrain research and development compensation have been almost entirely generated under arrangements with Daimler AG (Daimler) and Toyota Motor Corporation (Toyota). While we recently received a letter of intent from Daimler for a full powertrain program for a vehicle in the Mercedes line, we have not yet entered into any development services agreement with Daimler for such program and may never do so. Furthermore, while we have executed a supply and services agreement with Toyota related to the Toyota RAV4 EV program, there are no assurances that we will be able to secure future business with Daimler, Toyota or any of their affiliates.

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

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In addition, our revenues to date have included amounts we receive from selling zero emission vehicle (ZEV) credits to other automobile manufacturers, pursuant to certain state regulations. While we continue to sign agreements with automakers to sell ZEV and other regulatory credits, we may not be able to enter into new agreements to sell any additional credits related to the Model S or our other future vehicles, which would negatively impact our revenues and margin targets in the long term.

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

We currently generate a significant percentage of our revenue from the sale of our Tesla Roadsters. We will end the production run of the Tesla Roadster at 2,500 vehicles in January 2012 and beyond that date, our sales of new Tesla Roadsters will be limited to any vehicles available from our remaining inventory.

Our second planned vehicle, our Model S, is not expected to be in production until mid-2012, requires significant investment prior to commercial introduction, and may never be successfully developed or commercially successful. There can be no assurance that we will be able to design future models of performance electric vehicles that will meet the expectations of our customers or that our future models, including the Model S, will become commercially viable. To the extent that we are not able to build the production Model S to the expectations created by the early prototypes and our anticipated specifications, customers may cancel their reservations, our future sales could be harmed and investors may lose confidence in us. 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 a significant increase in losses and will experience a significant decrease in revenues prior to the launch of the Model S.

Prior to the launch of our Model S, we anticipate our revenues will decline significantly. We currently produce the Tesla Roadster gliders, which are partially assembled vehicles that do not contain our electric powertrain, with Lotus Cars Limited (Lotus) in Hethel, England. We currently intend to manufacture gliders with Lotus for our current generation Tesla Roadster until January 2012. 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. 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. Furthermore, although we recently received a letter of intent from Daimler for a full powertrain program for a vehicle in the Mercedes line we do not have any agreement with Daimler for sales or services beyond 2011. In addition to the limited number of the Tesla Roadsters left for sale, we also expect powertrain component sales to decline until the start of production for the Toyota RAV4 EV program. The potential decrease in sales revenue prior to the launch of the Model S due to declines in both Roadster and powertrain component sales 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.

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

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

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

- that we will be able to complete changes to the late stage design of Model S in a timely manner that meets our targeted production date and allows for high quality manufacturing;

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

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

- that our internal crash testing and computer aided design process can accurately predict the performance of our vehicle for passing relevant safety standards and that we will be able to meet our safety goals without changing materials or designs in a way that would impact our anticipated start of production;

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

- that we will be able to develop and equip the Tesla Factory exceeding our projected costs and on our projected timeline;

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

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

- that we will be able to attract, recruit, hire and train skilled employees, including employees on the production line, to operate the Tesla Factory; and

- that we will be able to maintain high quality controls as we transition to a higher level of in-house manufacturing process.

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. We have, and may in the future, experience cost increases from certain of our suppliers in order to meet our quality targets and development timelines. Any failure to develop such manufacturing processes and capabilities within our projected costs and timelines could have a material adverse effect on our business, prospects, operating results and financial condition.

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

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

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We may experience similar delays in launching the Model S, and any such delays could be significant. In addition, final designs for the Model S and plans for the build out of the manufacturing facility are still in process, and various aspects of the Model S component procurement and manufacturing plans have not yet been determined. We continue to make adjustments to the design of the Model S to create the highest quality electric vehicle in the world. If we do not complete these late stage changes to the design of Model S however, and do not execute on the Model S manufacturing plans in a timely manner, we may be unable to meet our plan to deliver first customer vehicles no later than July 2012, our costs may rise and/or the Model S that we do produce may be lower in quality. Additionally, detailed testing of systems integration, performance and safety are ongoing and any negative results from such testing could cause production delays in the Model S, cost increases or lower quality Model S vehicles.

In addition, we are currently evaluating, qualifying and selecting certain remaining 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. Furthermore, even if we are able to engage needed suppliers, such suppliers may not be ready or able to supply us with needed Model S components in a timely manner or may be unable to provide us with the necessary level of quality components that we require.

In addition, we will also need to do extensive testing to ensure that the Model S is in compliance with applicable National Highway Traffic Safety Administration (NHTSA) safety regulations and United States Environmental Protection Agency (EPA) and California Air Resources Board (CARB) emission regulations prior to beginning mass production and delivery of the vehicles. Our plan to begin production of the Model S in mid-2012 is dependent upon the timely availability of funds from our DOE Loan Facility, upon our finalizing the related design, engineering, component procurement, testing, build out and manufacturing plans in a timely manner, and upon our ability to execute these plans within the current timeline.

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

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

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

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 $65.1 million and $172.9 million for the three and nine months ended September 30, 2011, respectively. In addition, we have accumulated net losses of $587.9 million from our inception through September 30, 2011. We have had net losses in each quarter since our inception. We believe that we will continue to incur operating and net losses each quarter until at least the time we begin significant deliveries of the Model S, which is not expected to be in production until mid-2012 with higher volume production not occurring until 2013, and may occur later. Even if we are able to successfully develop the Model S, there can be no assurance that it will be commercially successful. If we are to ever achieve profitability it will be dependent upon the successful development and successful commercial introduction and acceptance of automobiles such as the Model S, which may not occur.

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

- conclude Roadster sales;
- complete the development services contract for the Toyota RAV4 EV program;
- experience a drop in powertrain component sales until we commence powertrain component sales for the Toyota RAV4 EV in 2012;

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

design, develop and manufacture components of our electric powertrain;