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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2016

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  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  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  (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

As of April 29, 2016, there were 133,944,622 shares of the registrant's Common Stock outstanding.

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TESLA MOTORS, INC.  
FORM 10-Q FOR THE QUARTER ENDED March 31, 2016

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## **Forward-Looking Statements**

*The discussions in this Quarterly Report on Form 10-Q 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, future profitability, future delivery of automobiles, 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.*

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**Tesla Motors, Inc.**  
**Consolidated Balance Sheets**  
**(in thousands)**  
**(unaudited)**

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,441,789	\$ 1,196,908
Restricted cash and marketable securities	23,980	22,628
Accounts receivable	318,056	168,965
Inventory	1,301,961	1,277,838
Prepaid expenses and other current assets	153,757	115,667
Total current assets	<u>3,239,543</u>	<u>2,782,006</u>
Operating lease vehicles, net	2,244,210	1,791,403
Property, plant and equipment, net	3,593,014	3,403,334
Restricted cash	47,783	31,522
Other assets	67,152	59,674
Total assets	<u>\$ 9,191,702</u>	<u>\$ 8,067,939</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 1,013,486	\$ 916,148
Accrued liabilities	438,522	422,798
Deferred revenue	516,620	423,961
Resale value guarantees	192,423	136,831
Customer deposits	391,363	283,370
Current portion of long-term debt and capital leases	635,285	627,927
Total current liabilities	<u>3,187,699</u>	<u>2,811,035</u>
Long-term debt and capital leases	2,484,329	2,021,093
Deferred revenue	496,997	446,105
Resale value guarantees	1,583,075	1,293,741
Other long-term liabilities	426,611	364,976
Total liabilities	<u>8,178,711</u>	<u>6,936,950</u>
Commitments and contingencies (Note 10)		
Convertible senior notes (Notes 8)	42,626	47,285
Stockholders' equity:		
Preferred stock; \$0.001 par value; 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock; \$0.001 par value; 2,000,000 shares authorized as of March 31, 2016 and December 31, 2015; 133,858 and 131,425 shares issued and outstanding as of March 31, 2016 and December 31, 2015	134	131
Additional paid-in capital	3,561,256	3,409,452
Accumulated other comprehensive loss	13,565	(3,556)
Accumulated deficit	(2,604,590)	(2,322,323)
Total stockholders' equity	<u>970,365</u>	<u>1,083,704</u>
Total liabilities and stockholders' equity	<u>\$ 9,191,702</u>	<u>\$ 8,067,939</u>

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

**Tesla Motors, Inc.**  
**Consolidated Statements of Operations**  
(in thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
Automotive	\$ 1,026,064	\$ 893,320
Services and other	120,984	46,560
Total revenues	1,147,048	939,880
<b>Cost of revenues</b>		
Automotive	779,316	631,745
Services and other	115,264	48,062
Total cost of revenues	894,580	679,807
Gross profit	252,468	260,073
<b>Operating expenses</b>		
Research and development	182,482	167,154
Selling, general and administrative	318,210	195,365
Total operating expenses	500,692	362,519
Loss from operations	(248,224)	(102,446)
Interest income	1,251	184
Interest expense	(40,625)	(26,574)
Other income (expense), net	9,177	(22,305)
Loss before income taxes	(278,421)	(151,141)
Provision for income taxes	3,846	3,040
Net loss	\$ (282,267)	\$ (154,181)
Net loss per share of common stock, basic and diluted	\$ (2.13)	\$ (1.22)
Weighted average shares used in computing net loss per share of common stock, basic and diluted	132,676	125,947

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

**Tesla Motors, Inc.**  
**Consolidated Statements of Comprehensive Loss**  
**(in thousands)**  
**(Unaudited)**

	<u>Three Months Ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Net loss	\$ (282,267)	\$ (154,181)
Other comprehensive income (loss), net of tax:		
Unrealized net gain on derivatives and short-term marketable securities	20,805	204
Foreign currency translation adjustment	(3,684)	(16,147)
Other comprehensive income (loss)	17,121	(15,943)
Comprehensive loss	<u>\$ (265,146)</u>	<u>\$ (170,124)</u>

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

**Tesla Motors, Inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (282,267)	\$ (154,181)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	156,460	77,112
Stock-based compensation	89,658	43,026
Amortization of discount on convertible debt	20,613	17,941
Inventory write-downs	13,010	5,901
Disposal of property and equipment	26,171	2,753
Other non-cash operating activities	7,135	2,862
Foreign currency transaction (gain) loss	(9,356)	27,977
Changes in operating assets and liabilities		
Accounts receivable	(159,327)	2,175
Inventories and operating lease vehicles	(512,671)	(307,209)
Prepaid expenses and other current assets	(9,134)	(43,475)
Other assets	(6,862)	(6,055)
Accounts payable and accrued liabilities	60,593	47,493
Deferred revenue	89,671	50,729
Customer deposits	100,804	(3,012)
Resale value guarantee	150,636	62,712
Other long-term liabilities	15,261	41,457
Net cash used in operating activities	<u>(249,605)</u>	<u>(131,794)</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of property and equipment excluding capital leases	(216,859)	(426,060)
(Increase) decrease in other restricted cash	(16,960)	(6,284)
Net cash used in investing activities	<u>(233,819)</u>	<u>(432,344)</u>
<b>Cash Flows From Financing Activities</b>		
Collateralized lease borrowing	241,763	77,961
Proceeds from issuance of convertible and other debt	430,000	77,661
Proceeds from exercise of stock options and other stock issuances	52,838	35,218
Principal payments on capital leases and other debt	(8,128)	(3,726)
Common stock and debt issuance costs	(1,038)	(958)
Net cash provided by financing activities	<u>715,435</u>	<u>186,156</u>
Effect of exchange rate changes on cash and cash equivalents	12,870	(17,655)
Net increase (decrease) in cash and cash equivalents	244,881	(395,637)
Cash and cash equivalents at beginning of period	1,196,908	1,905,713
Cash and cash equivalents at end of period	<u>\$ 1,441,789</u>	<u>\$ 1,510,076</u>
<b>Supplemental noncash investing activities</b>		
Acquisition of property and equipment included in accounts payable and accrued liabilities	235,829	235,582
Estimated fair value of facilities under build-to-suit lease	39,034	29,212

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

**Tesla Motors, Inc.**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**Note 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 Tesla Energy products. We have wholly-owned subsidiaries in North America, Europe and Asia. The primary purpose of these subsidiaries is to market, manufacture, sell and/or service our vehicles and Tesla Energy products.

**Note 2 - Summary of Significant Accounting Policies**

*Basis of Consolidation*

The consolidated financial statements include the accounts of Tesla and its wholly-owned subsidiaries. Intercompany balances and transactions between consolidated entities have been eliminated.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted 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 and accompanying notes. Estimates are used for, but not limited to, determining the selling price of products and services in multiple element revenue arrangements and determining the amortization period of these elements, residual value of operating lease vehicles, inventory valuation, warranties, fair value of financial instruments, depreciable lives of property and equipment, inputs used to value stock-based compensation including volatility, lives of stock option awards and forfeiture rates, income taxes, and contingencies. Actual results could differ from those estimates.

*Unaudited Interim Financial Statements*

The accompanying consolidated balance sheet as of March 31, 2016, the consolidated statements of operations and consolidated statements of comprehensive loss for the three months ended March 31, 2016 and 2015 and the consolidated statements of cash flows for the three months ended March 31, 2016 and 2015, and other information disclosed in the related notes are unaudited. The consolidated balance sheet as of December 31, 2015, was derived from our audited consolidated financial statements at that date. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission.

The accompanying interim 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 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.

*Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board issued an accounting update which amends the existing accounting standards for revenue recognition. The new guidance provides a new model to determine when and over what period revenue is recognized. Under this new model, revenue is recognized as goods or services are delivered in an amount that reflects the consideration we expect to collect. The guidance is effective for fiscal years beginning after December 15, 2017; early adoption is permitted for periods beginning after December 15, 2016. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method and are evaluating the impact of adopting this guidance.

In April 2015, the FASB issued new authoritative accounting guidance on simplifying the presentation of debt issuance costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We have retrospectively adopted this standard as of March 31, 2016, and as a result, on the December 31, 2015, consolidated balance sheet we reclassified \$9.6 million as a reduction in prepaid expenses and other current assets, along with \$15.0 million reduction in other assets, with a corresponding reduction in the aggregate carrying value of the Company's long term debt liabilities. Similarly, as a result of the change in carrying value of long term debt, \$5.2 million was reclassified out of additional paid in capital and into mezzanine equity on the December 31, 2015 consolidated balance sheet.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016 - 02, *Leases (Topic 842)*. The new standard is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The standard will require lessees to report most leases as assets and liabilities on the balance sheet, while lessor accounting will remain substantially unchanged. The standard requires a modified retrospective transition approach for existing leases, whereby the new rules will be applied to the earliest year presented. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

### ***Revenue Recognition***

We recognize revenue for products and services when: (i) a persuasive evidence of an arrangement exists; (ii) delivery has occurred and there are no uncertainties regarding customer acceptance; (iii) pricing or fees are fixed or determinable; and (iv) collection is reasonably assured.

Vehicle sales include standard features, customer selected options and accessories, and specific other elements that meet the definition of a deliverable under multiple-element accounting guidance including free internet connectivity, free access to our Supercharger network, and free future over the air software updates. These deliverables are valued on a stand-alone basis and we recognize their revenue over our performance period, which is generally the eight-year life of the vehicle, except for internet connectivity which is over the free four year period. If we sell a deliverable separately, we use that pricing to determine its fair value; otherwise, we use our best estimated selling price by considering costs used to develop and deliver the service, third party pricing of similar options, and other information which may be available.

As of March 31, 2016, we had deferred \$55.7 million, \$58.3 million, \$37.6 million, and \$2.6 million related to the purchase of vehicle maintenance and service plans, access to our Supercharger network, internet connectivity, and future software updates. As of December 31, 2015, we had deferred \$53.6 million, \$49.5 million, \$32.4 million, and \$2.7 million related to these same performance obligations.

### ***Resale Value Guarantees and Other Financing Programs***

#### *Vehicle sales to customers with a residual value guarantee*

We offer resale value guarantees or similar buy-back terms to all customers who purchase vehicles and who finance their vehicle through one of our specified commercial banking partners. Under this program, customers have the option of selling their vehicle back to us during the guarantee period for a pre-determined resale value. Guarantee periods generally range from 36 to 39 months. Although we receive full payment for the vehicle sales price at the time of delivery, we are required to account for these transactions as operating leases. The amount of sale proceeds equal to the residual value guarantee is deferred until the guarantee expires or is exercised. The remaining sale proceeds are deferred and recognized on a straight line basis over the stated guarantee period. The guarantee period expires at the earlier of the end of the guarantee period or the pay-off of the initial loan. We capitalize the cost of these vehicles to leased vehicles on our Consolidated Balance Sheets and depreciate their value, less salvage value, to cost of automotive revenue over the same period.

In cases when a customer retains ownership of a vehicle at the end of the guarantee period, the resale value guarantee liability and any remaining deferred revenue balances related to the vehicle are settled to automotive revenue and the net book value of the leased vehicle is expensed to costs of automotive revenue. In cases when customers return the vehicle back to us during the guarantee period, we purchase the vehicle from the customer in an amount equal to the resale value guarantee and settle any remaining deferred balances to automotive revenue and we reclassify the net book value of the vehicle on our balance sheet to pre-owned vehicle inventory. As of March 31, 2016 and December 31, 2015, \$192.4 million and \$136.8 million of the guarantees were exercisable by customers within the next twelve months.

*Vehicle sales to leasing partners with a residual value guarantee*

In the fourth quarter of 2014, we also began offering residual value guarantees in connection with automobile sales to certain bank leasing partners. As we have guaranteed the value of these vehicles and as the vehicles are leased to end-customers, we account for these transactions as interest bearing collateralized borrowings as required under *ASC 840 - Leases*. Under this program, cash is received for the full price of the vehicle and is recorded within resale value guarantee for the long-term portion and deferred revenue for the current portion. We accrete the deferred revenue amount to automotive revenue on a straight line basis over the guarantee period and accrue interest expense based on our borrowing rate. We capitalize vehicles under this program to operating lease vehicles on our Consolidated Balance Sheets and we record depreciation from these vehicles to cost of automotive revenues during the period the vehicle is under a lease arrangement. Cash received for these vehicles, net of revenue recognized during the period, is classified as collateralized lease borrowings within cash flows from financing activities in our Consolidated Statements of Cash Flows.

At the end of the lease term, we settle our liability in cash by either purchasing the vehicle from the leasing partner for the residual value guarantee amount, or paying a shortfall to the guarantee amount the leasing partner may realize on the sale of the vehicle. Any remaining balances within deferred revenue and resale value guarantee will be settled to automotive revenue. In cases where the bank retains ownership of the vehicle after the end of our guarantee period, we expense the net value of the leased vehicle to costs of automotive revenue. The maximum cash we could be required to pay under this program, should we decide to repurchase all vehicles is \$498.7 million at March 31, 2016.

As of March 31, 2016 and December 31, 2015, we had \$716.3 million and \$527.5 million of such borrowings recorded in resale value guarantee and \$179.4 million and \$120.5 million recorded in deferred revenue liability.

At least annually, we assess the estimated market values of vehicles under our resale value guarantee program to determine if we have sustained a loss on any of these contracts. As we accumulate more data related to the resale values of our vehicles or as market conditions change, there may be significant changes to their estimated values.

Account activity related to our resale value guarantee and similar programs consisted of the following for the periods presented (in thousands):

	Three Months Ended	
	March 31, 2016	March 31, 2015
<b>Operating Lease Vehicles</b>		
Operating lease vehicles—beginning of period	\$ 1,556,529	\$ 684,590
Net increase in operating lease vehicles	413,981	139,791
Depreciation expense recorded in cost of automotive revenues	(44,818)	(22,041)
Additional depreciation expense recorded in cost of automotive revenues as a result of early cancellation of resale value guarantee	(3,086)	(4,396)
Increases to inventory from vehicles returned under our trade-in program	(13,296)	(5,233)
Operating lease vehicles—end of period	<u>\$ 1,909,310</u>	<u>\$ 792,711</u>
<b>Deferred Revenue</b>		
Deferred revenue—beginning of period	\$ 679,132	\$ 381,096
Net increase in deferred revenue from new vehicle deliveries and reclassification of collateralized borrowing from long-term to short-term	225,764	91,694
Amortization of deferred revenue and short-term collateralized borrowing recorded in automotive revenue	(97,748)	(44,980)
Additional revenue recorded in automotive revenue as a result of early cancellation of resale value guarantee	(2,996)	(909)
Recognition of deferred revenue resulting from return of vehicle under trade-in program	(3,184)	(2,797)
Deferred revenue—end of period	<u>\$ 800,968</u>	<u>\$ 424,104</u>
<b>Resale Value Guarantee</b>		
Resale value guarantee liability—beginning of period	\$ 1,430,573	\$ 487,879
Net increase in resale value guarantee	381,499	124,112
Reclassification from long-term to short-term collateralized borrowing	(22,826)	(644)
Additional revenue recorded in automotive revenue as a result of early cancellation of resale value guarantee	(2,501)	(1,070)
Release of resale value guarantee resulting from return of vehicle under trade-in program	(11,247)	(4,056)
Resale value guarantee liability—end of period	<u>\$ 1,775,498</u>	<u>\$ 606,221</u>

#### ***Vehicle Leasing Program***

In April 2014, we began offering a leasing program in the United States, and subsequently began to offer similar programs in Canada and Germany. Qualifying customers are permitted to lease a vehicle directly from Tesla for 36 or 48 months. At the end of the lease term, customers have the option of either returning the vehicle to us or purchasing it for a pre-determined residual value. We account for these leasing transactions as operating leases and recognize leasing revenues over the contractual term and record the depreciation of these vehicles to cost of automotive revenues. As of March 31, 2016 and December 31, 2015, we had deferred \$36.5 million and \$25.8 million of lease-related upfront payments which will be recognized on a straight-line basis over the contractual term of the individual leases. Lease revenues are recorded in automotive revenue and for the three months ended March 31, 2016 and 2015, we recognized \$16.7 million and \$6.6 million.

#### ***Warranties***

We provide a manufacturer's warranty on all new and certified pre-owned vehicles, production powertrain components and systems, and Tesla Energy products we sell. We accrue a manufacturer's warranty reserve which includes our best estimate of the projected costs to repair or to replace items under warranty. These estimates are based on actual claims incurred to-date and an estimate of the nature, frequency and costs of future claims. These estimates are inherently uncertain and changes to our historical or projected warranty experience may cause material changes to our warranty reserve in the future. The portion of the warranty provision expected to be incurred within 12 months is classified as current within accrued liabilities, while the remaining amount is classified as long-term within other long-term liabilities.

Accrued warranty activity consisted of the following for the periods presented (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Accrued warranty—beginning of period	\$ 180,754	\$ 129,043
Warranty costs incurred	(15,704)	(11,786)
Net changes in liability for pre-existing warranties, including expirations and FX impact	3,384	10,762
Provision for warranty	30,271	27,282
Accrued warranty—end of period	<u>\$ 198,705</u>	<u>\$ 155,301</u>

Our warranty reserves do not include projected warranty costs associated with our vehicles subject to lease accounting, as costs to repair these vehicles are expensed as incurred. For the three months ended March 31, 2016, warranty costs incurred for vehicles subject to lease accounting were \$2.5 million, and for the three months ended March 31, 2015, costs were \$1.8 million. Warranty expense is recorded as a component of cost of automotive revenue.

### ***Inventory Valuation***

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

We also review inventory to determine whether its carrying value exceeds the net amount realizable upon the ultimate sale of the inventory. This requires us to determine the estimated selling price of our vehicles less the estimated cost to convert inventory on hand into a finished product. After inventory is written-down, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Should our estimates of future selling prices or production costs change, additional and potentially material increases to this reserve may be required. A small change in our estimates may result in a material charge to our reported financial results.

### ***Concentration of Risk***

#### ***Credit Risk***

Financial instruments that potentially subject us to a concentration of credit risk consist of cash, cash equivalents, restricted cash and accounts receivable. Our 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. Our investments are currently of a short-term nature and include U.S. treasury bills.

As of March 31, 2016 and December 31, 2015, our accounts receivable were derived primarily from amounts to be received from financial institutions and leasing companies offering various financing products to our customers, sales of regulatory credits, as well as the development and sales of powertrain components and systems to automotive original equipment manufacturers (OEMs). As of March 31, 2016, we had an increase in receivables due from credit card companies due to Model 3 reservations and collectively, credit card receivables represent approximately 36% of our accounts receivable.

#### ***Supply Risk***

The majority of our suppliers are currently single source suppliers, despite efforts to qualify and obtain components from multiple sources whenever feasible. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to vehicle design changes, increased costs and delays in vehicle deliveries to our customers, which could hurt our relationships with our customers and result in negative publicity, damage to our brand and a material and adverse effect on our business, prospects, financial condition and operating results.

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

We use the fair value method of accounting for our stock options and restricted stock units (RSUs) granted to employees and our Employee Stock Purchase Plan (ESPP) to measure the cost of employee services received in exchange for the stock-based awards. The fair value of stock options and ESPP are estimated on the grant date and offering date using the Black-Scholes option-pricing model. The fair value of RSUs is measured on the grant date based on the closing fair market value of our common stock. The resulting cost is recognized over the service period, which is generally four years for stock options and RSUs and six months for the ESPP. Stock-based compensation expense is recognized on a straight-line basis, net of estimated forfeitures.

For performance-based awards, stock-based compensation expense is recognized over the expected performance achievement period of individual performance milestones when the achievement of each individual performance milestone becomes probable.

For performance-based awards with a vesting schedule based entirely on the attainment of both performance and market conditions, the stock-based compensation expense is recognized for each pair of performance and market conditions over the longer of the implicit or derived service period of the performance and market conditions, beginning at the point in time that the relevant performance condition is considered probable of being met.

### ***Derivative Financial Instruments***

In November 2015, we implemented a program to hedge the foreign currency exposure risk related to certain forecasted inventory purchases denominated in Japanese yen. The derivative instruments we use are foreign currency forward contracts and are designated as cash flow hedges with maturity dates of 12 months or less. We do not enter into derivative contracts for trading or speculative purposes.

The bank counterparties in all contracts expose Tesla to credit-related losses in the event of their nonperformance. However, to mitigate that risk, Tesla only contracts with counterparties who meet the Company's minimum requirements under its counterparty risk assessment process. Tesla monitors ratings, credit spreads, and potential downgrades on at least a quarterly basis. Based on our on-going assessment of counterparty risk, the Company will adjust its exposure to various counterparties. We generally enter into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. However, we do not have any master netting arrangements in place with collateral features.

### ***Comprehensive Loss***

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on derivatives, our available-for-sale marketable securities, and foreign currency translation adjustment that have been excluded from the determination of net loss.

### ***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 and warrants as well as our convertible senior notes, are not included when their effect is antidilutive.

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Employee share based awards	16,267,953	15,711,086
Convertible senior notes	1,955,136	2,040,822
Warrants issued May 2013	344,392	471,339

Since we expect to settle the principal amount of our outstanding convertible senior notes in cash, we use the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of our common stock for a given period exceeds the conversion price of \$124.52, \$359.87 and \$359.87 per share for the convertible senior notes due 2018 (2018 Notes), convertible senior notes due 2019 (2019 Notes), and convertible senior notes due 2021 (2021 Notes).

### Income Taxes

There are transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. As of March 31, 2016 and December 31, 2015, the aggregate balances of our gross unrecognized tax benefits were \$109.4 million and \$99.3 million. \$105.5 million and \$95.7 million of these aggregate balances would not give rise to changes in our effective tax rate since these tax benefits would increase a deferred tax asset which is currently offset by a full valuation allowance.

### Note 3 - 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 follow 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.

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 restricted short-term marketable securities are classified within Level I of the fair value hierarchy.

As of March 31, 2016 and December 31, 2015, the fair value hierarchy for our financial assets that are carried at fair value was as follows (in thousands), and unrealized gains (losses) on all financial assets for all periods presented were less than \$1.0 million:

	March 31, 2016				December 31, 2015			
	Fair Value	Level I	Level II	Level III	Fair Value	Level I	Level II	Level III
Money market funds	\$757,918	\$757,918	\$ —	\$ —	\$297,810	\$297,810	\$ —	\$ —
U.S. treasury bills	16,667	16,667	—	—	16,664	16,664	—	—
Total	<u>\$774,585</u>	<u>\$774,585</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$314,474</u>	<u>\$314,474</u>	<u>\$ —</u>	<u>\$ —</u>

As of March 31, 2016, the estimated fair value of our 2018 Notes, 2019 Notes, and 2021 Notes was \$1.22 billion (par value \$659.8 million), \$837.2 million (par value \$920.0 million), and \$1.19 billion (par value \$1.38 billion). As of December 31, 2015 the estimated fair value of our 2018 Notes, 2019 Notes, and 2021 Notes was \$1.29 billion (par value \$659.8 million), \$864.8 million (par value \$920.0 million), and \$1.27 billion (par value \$1.38 billion). These fair values represent Level II valuations. When determining the estimated fair value of our long-term debt, we used a commonly accepted valuation methodology and market-based risk measurements that are indirectly observable, such as credit risk. As of March 31, 2016, the \$565.0 million carrying value of our Credit Agreement liability approximates the fair value of the borrowings based upon the borrowing rate available to us for debt with similar terms and consideration of credit and default risk using Level II inputs.

### Derivative Financial Instruments

In November 2015, we implemented a program to hedge the foreign currency exposure risk related to certain forecasted inventory purchases denominated in Japanese yen. The derivative instruments we use are foreign currency forward contracts and are designated as cash flow hedges with maturity dates of 12 months or less. We do not enter into derivative contracts for trading or speculative purposes.

We document each hedge relationship and assess its initial effectiveness at the inception of the hedge contract and we measure its ongoing effectiveness on a quarterly basis using regression analysis. During the term of an effective hedge contract, we record gains and losses within accumulated other comprehensive loss. We reclassify these gains or losses to costs of automotive sales in the period the related finished goods inventory is sold or over the depreciation period for those sales accounted for as leases. Although our contracts are considered effective hedges, we may experience small amounts of ineffectiveness due to timing differences between our actual inventory purchases and the settlement date of the related foreign currency forward contracts. Ineffectiveness related to the hedges is immaterial as of March 31, 2016.

The net notional amount of these contracts was \$306.9 million at March 31, 2016. Outstanding contracts are recognized as either assets or liabilities on the Consolidated Balance Sheet at fair value within other assets or within accrued liabilities, depending on our net position. The cumulative gain of \$28.1 million in accumulated other comprehensive loss as of March 31, 2016 is expected to be recognized to the cost basis of finished goods inventory in the next twelve months. The total fair values of foreign currency contracts designated as cash flow hedges as of March 31, 2016 is \$26.8 million and was determined using Level II inputs and recorded in prepaid expenses and other current assets on our Consolidated Balance Sheets. No amounts have been reclassified to costs of automotive sales as of March 31, 2016.

#### Note 4 - Inventory

As of March 31, 2016 and December 31, 2015, our inventory consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Raw materials	\$ 507,529	\$ 528,935
Work in process	199,157	163,830
Finished goods	472,834	476,512
Service parts	122,441	108,561
Total	<u>\$ 1,301,961</u>	<u>\$ 1,277,838</u>

Finished goods inventory includes vehicles in transit to fulfill customer orders, new vehicles available for immediate sale at our retail and service center locations, pre-owned Tesla vehicles, and Tesla Energy products.

#### Note 5 - Property, Plant and Equipment

As of March 31, 2016 and December 31, 2015, our property, plant and equipment consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Machinery, equipment and office furniture	\$ 1,831,771	\$ 1,694,910
Tooling	641,534	550,902
Leasehold improvements	361,341	338,392
Building and building improvements	490,552	461,303
Land	60,226	60,234
Computer equipment and software	193,974	175,512
Construction in progress	686,705	693,207
	4,266,103	3,974,460
Less: Accumulated depreciation and amortization	(673,089)	(571,126)
Total	<u>\$ 3,593,014</u>	<u>\$ 3,403,334</u>

Construction in progress is comprised primarily of tooling and equipment related to the manufacturing of Model S and Model X vehicles, Gigafactory construction, and related capitalized interest. Completed assets are transferred to their respective asset class and depreciation begins when the asset is ready for its intended use. 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 months ended March 31, 2016 and March 31, 2015, we capitalized \$9.1 million and \$8.3 million of interest expense.

We are sometimes involved in construction at our leased facilities primarily related to retail stores, service centers, and certain manufacturing facilities. In accordance with Accounting Standards Codification 840, *Leases*, for build-to-suit lease arrangements where we are involved in the construction of structural improvements prior to the commencement of the lease or take some level of construction risk, we are considered the owner of the assets and land during the construction period. Accordingly, upon commencement of our construction activities, we record a construction in progress asset and a corresponding financing liability. Once the construction is completed, if the lease meets certain “sale-leaseback” criteria, we will remove the asset and related financial obligation from the balance sheet and treat the building lease as an operating lease. If upon completion of construction, the project does not meet the “sale-leaseback” criteria, the leased property will be treated as a capital lease and included in building and building improvements in the table above. As of March 31, 2016 and December 31, 2015, the table above includes \$245.7 million and \$206.1 million of build-to-suit assets. As of March 31, 2016 and December 31, 2015, corresponding financing obligations of \$2.0 million and \$1.3 million are recorded in accrued liabilities and \$244.8 million and \$201.3 million are recorded in other long-term liabilities.

Depreciation and amortization expense during the three months ended March 31, 2016 and March 31, 2015 was \$99.2 million and \$52.1 million. Total property and equipment assets under capital lease as of March 31, 2016 and December 31, 2015 were \$69.0 million and \$58.1 million. Accumulated depreciation related to assets under capital lease as of these dates were \$27.2 million and \$22.7 million.

We have incurred \$354.6 million of construction costs on the site for our Gigafactory, as of March 31, 2016.

#### Note 6 - Accrued Liabilities

As of March 31, 2016 and December 31, 2015, our accrued liabilities consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Taxes payable	\$ 93,836	\$ 101,206
Accrued purchases	147,425	140,540
Payroll and related costs	90,766	86,859
Warranty and other	106,495	94,193
<b>Total</b>	<b>\$ 438,522</b>	<b>\$ 422,798</b>

Taxes payable includes Value Added Tax, sales tax, property tax, and income tax payables.

Accrued purchases reflects liabilities related to the construction of the Gigafactory along with engineering design and testing accruals. As these services are invoiced, this balance will reduce and accounts payable will increase.

#### Note 7 - Customer Deposits

Customer deposits include cash payments from customers at the time they place an order for a vehicle and additional payments up to the point of delivery including the fair value of customer trade-in vehicles that are applicable toward a new vehicle purchase. Customer deposit amounts and timing vary depending on the vehicle model and country of delivery. Customer deposits are fully refundable up to the point the vehicle is placed into the production cycle. Customer deposits are included in current liabilities until refunded or until they are applied to a customer's purchase balance at time of delivery.

As of March 31, 2016 and December 31, 2015, we held customer deposits of \$391.4 million and \$283.4 million.

## Note 8 - Convertible and Long-term Debt Obligations

### *0.25% and 1.25% Convertible Senior Notes and Bond Hedge and Warrant Transactions*

In March 2014, we issued \$800.0 million principal amount of 0.25% convertible senior notes due 2019 (2019 Notes) and \$1.20 billion principal amount of 1.25% convertible senior notes due 2021 (2021 Notes) in a public offering. In April 2014, we issued an additional \$120.0 million aggregate principal amount of 2019 Notes and \$180.0 million aggregate principal amount of 2021 Notes, pursuant to the exercise in full of the overallotment options of the underwriters of our March 2014 public offering. The total net proceeds from these offerings, after deducting transaction costs, were approximately \$905.8 million from 2019 Notes and \$1.36 billion from 2021 Notes. We incurred \$14.2 million and \$21.4 million of debt issuance costs in connection with the 2019 Notes and the 2021 Notes, which we initially recorded in other assets and are amortizing to interest expense using the effective interest method over the contractual terms of these notes. The interest rates are fixed at 0.25% and 1.25% per annum and are payable semi-annually in arrears on March 1 and September 1 of each year, commencing on September 1, 2014.

Each \$1,000 of principal of these notes will initially be convertible into 2.7788 shares of our common stock, which is equivalent to an initial conversion price of approximately \$359.87 per share, subject to adjustment upon the occurrence of specified events. Holders of these notes may convert their notes at their option on or after December 1, 2018 for the 2019 Notes and on or after December 1, 2020 for the 2021 Notes. Further, holders of these notes may convert their notes at their option prior to the respective dates above, only under the following circumstances: (1) during any fiscal quarter beginning after the fiscal quarter ending June 30, 2014, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price of the applicable notes on each applicable trading day; (2) during the five business day period following any five consecutive trading day period in which the trading price for the applicable notes is less than 98% of the average of the closing sale price of our common stock for each day during such five trading day period; or (3) if we make specified distributions to holders of our common stock or if specified corporate transactions occur. Upon conversion of the 2019 Notes, we would pay or deliver as applicable, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. Upon conversion of the 2021 Notes, we would pay the holders in cash for the principal amount and, if applicable, shares of our common stock (subject to our right to deliver cash in lieu of all or a portion of such shares of our common stock) based on a daily conversion value. If a fundamental change occurs prior to the maturity date, holders of these notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount of the notes, plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the applicable maturity date, we will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event in certain circumstances. During the first quarter of 2016, the closing price of our common stock did not meet or exceed 130% of the applicable conversion price of our 2019 Notes and 2021 Notes on at least 20 of the last 30 consecutive trading days of the quarter; furthermore, no other conditions allowing holders of these notes to convert have been met as of March 31, 2016. Therefore, the 2019 Notes and 2021 Notes are not convertible during the second quarter of 2016 and are classified as long-term debt. Should the closing price conditions be met in the second quarter of 2016 or a future quarter, the 2019 and/or the 2021 Notes will be convertible at their holders' option during the immediately following quarter. As of March 31, 2016, the if-converted value of the 2019 Notes and 2021 Notes did not exceed the principal value of those notes.

In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the notes from the respective host debt instrument and initially recorded the conversion option of \$188.1 million for the 2019 Notes and \$369.4 million for the 2021 Notes in stockholders' equity. The resulting debt discounts on the 2019 Notes and 2021 Notes are being amortized to interest expense at an effective interest rate of 4.89% and 5.96%, respectively, over the contractual terms of the notes.

In connection with the offering of these notes in March 2014, we entered into convertible note hedge transactions whereby we have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 5.6 million shares of our common stock at a price of approximately \$359.87 per share. The total cost of the convertible note hedge transactions was \$524.7 million. In addition, we sold warrants whereby the holders of the warrants have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 2.2 million shares of our common stock at a price of \$512.66 for the 2019 Notes and a total of approximately 3.3 million shares of our common stock at a price of \$560.64 per share for 2021 Notes. We received \$338.4 million in cash proceeds from the sale of these warrants. Similarly, in connection with the issuance of additional notes in April 2014, we entered into convertible note hedge transactions and paid an aggregate \$78.7 million. In addition, we sold warrants to purchase (subject to adjustment for certain specified events) a total of approximately 0.3 million shares of our common stock at a price of \$512.66 per share for the warrants relating to 2019 Notes, and a total of approximately 0.5 million shares of our common stock at a price of \$560.64 per share for the warrants relating to 2021 Notes. We received aggregate proceeds of approximately \$50.8 million from the sale of the warrants. Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to reduce potential dilution and/or offset potential cash payments upon the conversion of these notes and to effectively increase the overall conversion price from \$359.87 to \$512.66 per share in the case of warrants relating to 2019 Notes and from \$359.87 to \$560.64 in the case of warrants relating to 2021 Notes. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions was recorded as a reduction to additional paid-in capital on the consolidated balance sheet.

#### ***1.50% Convertible Senior Notes and Bond Hedge and Warrant Transactions***

In May 2013, we issued \$660.0 million aggregate principal amount of 2018 Notes in a public offering. The net proceeds from the offering, after deducting transaction costs, were approximately \$648.0 million. We incurred \$12.0 million of debt issuance costs in connection with the issuance of the 2018 Notes, which we initially recorded in other assets and are amortizing to interest expense using the effective interest method over the contractual term of the 2018 Notes. The interest under the 2018 Notes is fixed at 1.50% per annum and is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2013.

Each \$1,000 of principal of the 2018 Notes will initially be convertible into 8.0306 shares of our common stock, which is equivalent to an initial conversion price of approximately \$124.52 per share, subject to adjustment upon the occurrence of specified events. Holders of the 2018 Notes may convert their 2018 Notes at their option on or after March 1, 2018. Further, holders of the 2018 Notes may convert their 2018 Notes at their option prior to March 1, 2018, only under the following circumstances: (1) during any fiscal quarter beginning after the fiscal quarter ending September 30, 2013, if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the last 30 consecutive trading days of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period following any five consecutive trading day period in which the trading price for the 2018 Notes is less than 98% of the average of the closing sale price of our common stock for each day during such five trading day period; or (3) if we make specified distributions to holders of our common stock or if specified corporate transactions occur. Upon conversion, we would pay the holders in cash for the principal amount of the 2018 Notes and, if applicable, shares of our common stock (subject to our right to deliver cash in lieu of all or a portion of such shares of our common stock) based on a calculated daily conversion value. If a fundamental change occurs prior to the maturity date, holders of the 2018 Notes may require us to repurchase all or a portion of their 2018 Notes for cash at a repurchase price equal to 100% of the principal amount of the 2018 Notes, plus any accrued and unpaid interest. In addition, if specific corporate events occur prior to the maturity date, we will increase the conversion rate for a holder who elects to convert its 2018 Notes in connection with such a corporate event in certain circumstances.

In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the 2018 Notes from the host debt instrument and recorded the conversion option of \$82.8 million in stockholders' equity. The resulting debt discount on the 2018 Notes is being amortized to interest expense at an effective interest rate of 4.29% over the contractual term of the 2018 Notes.

In connection with the offering of the 2018 Notes, we entered into convertible note hedge transactions whereby we have the option to purchase initially (subject to certain specified events) a total of approximately 5.3 million shares of our common stock at a price of approximately \$124.52 per share. The cost of the convertible note hedge transactions was \$177.5 million. In addition, we sold warrants whereby the holders of the warrants have the option to purchase initially (subject to certain specified events) a total of approximately 5.3 million shares of our common stock at a price of \$184.48 per share. We received \$120.3 million in cash proceeds from the sale of these warrants. Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to offset any actual dilution from the conversion of the 2018 Notes and to effectively increase the overall conversion price from \$124.52 to \$184.48 per share. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost incurred in connection with the convertible note hedge and warrant transactions was recorded as a reduction to additional paid-in capital on the consolidated balance sheet as of December 31, 2015.

During the first quarter of 2016, the closing price of our common stock exceeded 130% of the applicable conversion price of our 2018 Notes on at least 20 of the last 30 consecutive trading days of the quarter; therefore, holders of 2018 Notes may convert their notes during the second quarter of 2016. As such, we classified the \$617.1 million carrying value of our 2018 Notes as current liabilities and classified \$42.6 million, representing the difference between the aggregate principal of our 2018 Notes of \$659.8 million and the carrying value of 2018 Notes, as mezzanine equity on our consolidated balance sheet as of March 31, 2016. Should the closing price conditions be met in the second quarter of 2016 or a future quarter, 2018 Notes will be convertible at their holders' option during the immediately following quarter.

#### ***Convertible Senior Notes Carrying Value and Interest Expense***

In accordance with accounting guidance on embedded conversion features, we valued and bifurcated the conversion option associated with the Notes from the respective host debt instrument and initially recorded the conversion option for the 2018, 2019, and 2021 Notes in stockholders' equity. The resulting debt discounts on the 2018 Notes, 2019 Notes, and 2021 Notes are being amortized to interest expense at the effective interest rate over the contractual terms of the Notes.

	March 31, 2016			December 31, 2015		
	2018 Notes	2019 Notes	2021 Notes	2018 Notes	2019 Notes	2021 Notes
	(in thousands, except years and percentages)					
Carrying value	\$ 617,135	\$ 797,676	\$ 1,093,309	\$ 612,476	\$ 788,004	\$ 1,080,867
Unamortized discount and issuance costs	42,626	122,324	286,691	47,285	131,996	299,133
Principal amount	<u>\$ 659,761</u>	<u>\$ 920,000</u>	<u>\$ 1,380,000</u>	<u>\$ 659,761</u>	<u>\$ 920,000</u>	<u>\$ 1,380,000</u>
Remaining amortization period (years)	2.2	2.9	4.9			
Effective interest rate on liability component	4.29%	4.89%	5.96%			
Equity component	\$ 82,800	\$ 188,100	\$ 369,400			
If converted, value in excess of par value	\$ 557,644					

#### ***Asset-Based Credit Agreement***

In June 2015, we entered into a senior secured asset-based revolving credit agreement (the "Credit Agreement") with a syndicate of banks. The Credit Agreement provides for a senior secured asset-based revolving credit facility (the "Credit Facility"), which we may draw upon as needed. In October 2015, lenders increased their total funding commitments to us under the Credit Facility by up to an additional \$250.0 million, subject to certain conditions, for total commitments up to \$750 million. In addition, the Credit Agreement provides for a \$200.0 million letter of credit sub-facility and a \$40.0 million swing-line loan sub-facility. The Credit Agreement is collateralized by a pledge of certain of our accounts receivable, inventory, and equipment, and availability under the Credit Agreement is based on the value of such assets, as reduced by certain reserves. In February 2016, we amended the Credit Agreement and increased the availability and the commitments under the Credit Agreement from \$750.0 million to \$1.0 billion.

Borrowed funds bear interest, at our option, at an annual rate of (a) 1% plus LIBOR or (b) the highest of (i) the federal funds rate plus 0.50%, (ii) the lenders "prime rate" or (iii) 1% plus LIBOR. The fee for undrawn amounts is 0.25% per annum. Interest is payable quarterly. The Credit Agreement terminates, and all outstanding loans become due and payable, in June 2020. As of March 31, 2016, we had \$535.0 million in borrowings under the Credit Facility and \$30.0 million in borrowings under the swing-line loan sub-facility. In April 2016, we repaid \$350.0 million of the outstanding balance.

We are required to meet various covenants, including meeting certain reporting requirements, such as the completion and presentation of audited consolidated financial statements for our borrowings. As of March 31, 2016 we were in compliance with all covenants contained in the Credit Agreement.

#### ***Pledged Assets***

As of March 31, 2016 and December 31, 2015, we have pledged or restricted \$1.65 billion and \$1.43 billion principally from finished goods and raw materials inventory, as well as certain property and equipment, direct lease vehicles, receivables and cash as collateral for letters of credit including our Credit Agreement, real estate leases, and insurance policies.

### ***Interest Expense***

The following table presents the aggregate amount of interest expense recognized on the Warehouse Facility (terminated December 2015), Credit Agreement, 2018 Notes, 2019 Notes, and 2021 Notes relating to the contractual interest coupon and amortization of the debt issuance costs and debt discount, in thousands:

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Contractual interest coupon	\$ 8,391	\$ 7,307
Amortization of debt issuance costs	1,898	1,530
Amortization of debt discount	25,191	23,638
Total	<u>\$ 35,480</u>	<u>\$ 32,475</u>

### **Note 9 - Equity Incentive Plans**

In July 2003, we adopted the 2003 Equity Incentive Plan. Concurrent with the effectiveness of our registration statement on Form S-1 on June 28, 2010, we adopted the 2010 Equity Incentive Plan (the Plan) and all remaining common shares reserved for future grant or issuance under the 2003 Equity Incentive Plan were added to the 2010 Equity Incentive Plan. The Plan provides for the granting of stock options, RSUs and stock purchase rights to our employees, directors and consultants. Options granted under the Plan may be either incentive options or nonqualified stock options. Incentive stock options may be granted only to our employees including officers and directors. Nonqualified stock options and stock purchase rights may be granted to our employees and consultants. Generally, our stock options and RSUs vest over four years and are exercisable over a period not to exceed the contractual term of ten years from the date the stock options are granted. Continued vesting typically terminates when the employment or consulting relationship ends. As of March 31, 2016, 20,725,440 shares of common stock were reserved for issuance under the Plan. As of March 31, 2016 and December 31, 2015, 2,263,948 and 2,816,785 shares were available for grant relating to stock options and RSUs.

#### ***Performance-based Stock Option Grant***

In 2014, to create incentives for continued long term success beyond the Model S program and to closely align executive pay with our stockholders' interests in the achievement of significant milestones by our company, the Compensation Committee of our Board of Directors granted stock options to certain employees to purchase an aggregate 1,073,000 shares of our common stock. Each such grant consists of four vesting tranches with a vesting schedule based entirely on the attainment of future performance milestones, assuming continued employment and service to us through each vesting date.

- 1/4th of the shares subject to the options are scheduled to vest upon completion of the first Model X Production Vehicle;
- 1/4th of the shares subject to the options are scheduled to vest upon achieving aggregate vehicle production of 100,000 vehicles in a trailing 12-month period;
- 1/4th of the shares subject to the options are scheduled to vest upon completion of the first Model 3 Production Vehicle; and
- 1/4th of the shares subject to the options are scheduled to vest upon achievement of annualized gross margin of greater than 30.0% in any three years.

As of March 31, 2016, the following performance milestone was achieved and approved by our Board of Directors.

- Completion of the first Model X Production Vehicle

As of March 31, 2016, the following performance milestone was considered probable of achievement:

- Completion of the first Model 3 Production Vehicle

We begin recording stock-based compensation expense as each milestone becomes probable. For the three months ended March 31, 2016, we recorded stock-based compensation expense of \$9.0 million related to this grant. For the three months ended March 31, 2015, we recorded stock-based compensation expense of \$3.7 million related to this grant.

### **2012 CEO Grant**

In August 2012, our Board of Directors granted 5,274,901 stock options to our CEO (2012 CEO Grant). The 2012 CEO Grant consists of ten vesting tranches with a vesting schedule based entirely on the attainment of both performance conditions and market conditions, assuming continued employment and service to us through each vesting date.

Each of the ten vesting tranches requires a combination of one of the ten pre-determined performance milestones and an incremental increase in our market capitalization of \$4.0 billion, as compared to the initial market capitalization of \$3.2 billion measured at the time of the 2012 CEO Grant.

As of March 31, 2016, the market conditions for seven vesting tranches and the following five performance milestones were achieved and approved by our Board of Directors:

- Successful completion of the Model X Alpha Prototype;
- Successful completion of the Model X Beta Prototype;
- Completion of the first Model X Production Vehicle;
- Aggregate vehicle production of 100,000 vehicles; and
- Successful completion of the Model 3 Alpha Prototype.

As of March 31, 2016, the following performance milestones were considered probable of achievement:

- Successful completion of the Model 3 Beta Prototype;
- Completion of the first Model 3 Production Vehicle; and
- Aggregate vehicle production of 200,000 vehicles.

We begin recording stock-based compensation expense as each milestone becomes probable. For the three months ended March 31, 2016, we recorded stock-based compensation expense of \$10.4 million related to this grant. For the three months ended March 31, 2015, we recorded stock-based compensation expense of \$1.4 million related to this grant.

Our CEO earns a base salary that reflects the currently applicable minimum wage requirements under California law, and he is subject to income taxes based on such base salary. However, he has never accepted and currently does not accept his salary.

### **Summary Stock-Based Compensation Information**

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Cost of sales	\$ 6,403	\$ 4,601
Research and development	39,602	19,792
Selling, general and administrative	43,652	18,633
Total	<u>\$ 89,657</u>	<u>\$ 43,026</u>

### **Note 10 - Commitments and Contingencies**

#### **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.

In November 2013, a putative securities class action lawsuit was filed against Tesla in U.S. District Court, Northern District of California, alleging violations of, and seeking remedies pursuant to, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5. The complaint made claims against Tesla and our CEO, Elon Musk, sought damages and attorney's fees on the basis of allegations that, among other things, Tesla and Mr. Musk made false and/or misleading representations and omissions, including with respect to the safety of Model S. This case was brought on behalf of a putative class consisting of certain persons who purchased Tesla's securities between August 19, 2013 and November 17, 2013. On September 26, 2014, the trial court, upon the motion of Tesla and Mr. Musk, dismissed the complaint with prejudice, and thereafter issued a formal written order to that effect. The plaintiffs have appealed from the trial court's order, and that appeal is pending.

## 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 consolidated financial statements and the related notes that appear elsewhere in this Quarterly Report on Form 10-Q.*

### Overview

We design, develop, manufacture, and sell high-performance fully electric vehicles, and energy storage products. We are currently producing and selling our Model S sedan and our Model X sport utility vehicle. Since the introduction of Model S in June 2012, we have enhanced our vehicle offerings with all-wheel drive capability, autopilot options, and free over-the-air software updates. We commenced customer deliveries of our Model X in September 2015 and are currently ramping production. We have delivered over 122,000 vehicles through March 31, 2016. We unveiled Model 3, a lower priced sedan designed for the mass market, in the first quarter of 2016 to significant interest. Given this demand for Model 3, we expect to achieve volume production and deliveries in late 2017.

In addition to our automotive products, we recently announced the next generation of our energy storage products, the 7 kWh Powerwall for residential applications and the 100 kWh Powerpack for commercial and industrial applications. We began production and deliveries of these products, which we sell under the Tesla Energy brand, in the third quarter of 2015. We transitioned the production of these products from the Tesla Factory to the Gigafactory during the fourth quarter of 2015.

Our primary source of revenue is from the sale of our vehicles. During the quarter ended March 31, 2016, we recognized total revenues of \$1.15 billion, an increase of \$207.2 million over total revenues of \$939.9 million for the quarter ended March 31, 2015, primarily driven by growth of Model S deliveries worldwide. Gross margin for the quarter ended March 31, 2016 was 22.0%, a decrease from 27.7% for the quarter ended March 31, 2015.

We continue to increase our sales and service footprint worldwide and expand our Supercharging and destination charging networks. With the continued global expansion of our customer support infrastructure, selling, general and administrative expenses were \$318.2 million for the quarter ended March 31, 2016, compared to \$195.4 million for the quarter ended March 30, 2015.

### Management Opportunities, Challenges and Risks

#### *Demand, Production and Deliveries*

We are currently producing and selling both the Model S sedan and the Model X sport utility vehicle. We have broadened the appeal of Model S by introducing new variants that improve range, performance, and value. The introduction of Model X now provides customers with a performance electric vehicle option in the sport utility segment for the first time. Similar to Model S, we expect to introduce new versions and functionality for the Model X over time, beginning with the 75 kWh version of Model X that we recently introduced. We unveiled Model 3 in the first quarter of 2016 and received more than 325,000 reservations for this vehicle within one week of its introduction. Overall, we expect that demand for our vehicles will continue to increase worldwide as more people drive and become aware of our vehicles, as we grow our customer sales and service infrastructure, and as we continue to develop our vehicles.

We have been increasing our vehicle production activities and expect to continue to do so for the foreseeable future. In August 2014, we began a significant production capacity increase at the Tesla Factory by transitioning to our new final assembly line and upgrading our body center. These production capacity increases continued into 2015, with further investments including building a new paint shop, a new body shop for Model X, and additional stamping capacity. In the first quarter of 2016, we produced 15,510 vehicles, including about 2,650 Model X vehicles. Our Model X production ramp has faced challenges, including supplier part shortages. However, we are making significant progress in increasing production and plan to continue increasing total vehicle production to support over 50,000 deliveries in the second half of this year, which gives us confidence in our ability to deliver 80,000 to 90,000 new Model S and Model X vehicles in 2016. In addition, we are on track to achieve volume production and deliveries of Model 3 in late 2017. In order to meet that timeframe, we will be holding both ourselves and our suppliers accountable to be ready for volume production in advance of that timing. We expect our production will increase considerably each year for the next several years, and are targeting an overall vehicle production level of 500,000 vehicles, including Model S, Model X and Model 3, in 2018. Increasing production five fold over the next two years will be challenging and will likely require some additional capital, but this is our goal and we will be working hard to achieve it.

In addition to expanding our vehicle production and deliveries, we expect to continue to lower the cost of manufacturing our vehicles over the next several quarters. We expect that this trend will contribute to improved automotive gross margin over time, excluding the impact of foreign currency movements. Significant cost improvements for Model S were achieved in 2014 and 2015 relating to material cost reductions from both engineering and commercial actions, and manufacturing efficiencies, excluding the impact of newly introduced Model S variants and Model X. However, during our product introductions over the last few years, we encountered manufacturing inefficiencies and supplier constraints which negatively impacted our gross margin. We expect that automotive gross margin should increase during 2016 due to cost reductions for Model S, and improving margin on Model X as our manufacturing efficiency improves for that vehicle, supporting our plan to be profitable for the fourth quarter of 2016. If we are not able to achieve the planned cost reductions from our various cost savings and process improvement initiatives or ramp Model X efficiently, our ability to reach our gross margin goals would be negatively affected.

We are expanding our sales, service and charging infrastructure worldwide to accommodate a much larger fleet of vehicles and provide more timely service in areas with a high concentration of Tesla customers. In particular, we remain on plan to open more than 70 additional retail and service locations in 2016, to bring our total to nearly 300 locations. Since we now offer our vehicles in many countries throughout North America, Europe and Asia, our expansion will primarily occur in geographic areas in which we already have a presence. We expect our long-term sales outside of North America will be over half of our worldwide automotive revenue. As compared to markets in the United States, we have relatively limited experience in international markets, and thus we may face difficulties meeting our future international expansion plans. If we experience unexpected difficulties or delays in finding and opening desirable locations for stores and service centers, we may not be able to meet our delivery plans.

#### *Trends in Cash Flow, Capital Expenditures and Operating Expenses*

We have decided to advance our 500,000 total unit build plan by two years to 2018, which is approximately double our prior growth plan. Given this plan, we are currently in the process of evaluating our capital expenditure needs, but expect it will be approximately 50% higher than the \$1.5 billion we previously estimated for the full year of 2016. Our capital expenditure needs include expenditures for the tooling, production equipment and construction of the Model 3 production lines, equipment to support cell production at the Gigafactory, more than 70 new retail locations and service centers, and approximately 250 new Supercharger locations.

While we are also currently in the process of evaluating our operating expenditures given our revised vehicle build plan, we currently expect operating expenses to grow by approximately 20 – 25% in 2016 as compared to 2015. This increase is driven primarily by the expansion of our retail and service centers, as well as increases in research and development required to bring Model 3 to market and selling, general and administrative costs to support the growth of our business. We expect selling, general and administrative expenses to decline over time as a percentage of revenue as we focus on increasing operational efficiency while continuing to expand our customer and corporate infrastructure. Over time, we also expect total operating expenses to decrease as a percentage of revenue.

As of March 31, 2016 and December 31, 2015, the net book value of our Supercharger network was \$170.6 million and \$166.6 million, and as of March 31, 2016 our Supercharger network included 613 locations globally. We plan to continue investing in our Supercharger network for the foreseeable future, including in North America, Europe and Asia, and expect such spending to be a minimal portion of total capital spending during 2016. During 2016, we expect that this investment will grow our Supercharger network by about 40%. We allocate Supercharger related expenses to cost of automotive revenues and selling, general, and administrative expenses. These costs were immaterial for all periods presented.

#### *Customer Financing Options*

We offer loans and leases in North America, Europe and Asia primarily through various financial institutions. We offer a resale value guarantee in connection with certain loans offered by financial institutions and as of March 31, 2016 had approximately 20,690 vehicles under this program. We expanded this program to selected European and Asian markets during the first half of 2015. Resale value guarantees available for exercise within the next 12 months total \$192.4 million in value and relate to 4,209 vehicles.

Vehicle deliveries with the resale value guarantee do not impact our near-term cash flows and liquidity, since we receive the full amount of cash for the vehicle sales price at delivery. However, this program requires the deferral of revenues and costs into future periods as they are considered leases for accounting purposes.

While we do not assume any credit risk related to the customer, if a customer exercises the option to return the vehicle to us, we are exposed to liquidity risk that the resale value of vehicles under these programs may be lower than our guarantee, or the volume of vehicles returned to us may be higher than our estimates, or we may be unable to resell the used cars in a timely manner, all of which could adversely impact our cash flows. Alternatively, in cases where customers retain their vehicles past the expiration of the guarantee period, the remaining deferred revenues and costs will be recognized at no gross profit.

Based on current market demand for our cars, we estimate the resale prices for our vehicles will continue to be above our resale value guarantee amounts. Should market values of our vehicles or customer demand decrease, these estimates may be impacted materially.

We currently offer leases in the U.S. directly from our captive financing entity, as well as through a leasing partner. Leasing through Tesla Finance is now available in 39 states and the District of Columbia. We also offer financing arrangements through entities in Canada, Germany and the U.K. As of March 31, 2016, we have active leases for approximately 5,060 vehicles through our captive financing entities in the U.S. and Germany and approximately 9,200 vehicles through our leasing partner. Leasing through both our captive financing entities and our leasing partner exposes us to residual value risk and will adversely impact our near-term operating results by requiring the deferral of revenues and costs into future periods under lease accounting. In addition, for leases offered directly from our captive financing entities (but not for those offered through our bank partner), we only receive a limited portion of cash for the vehicle price at delivery and will assume customer credit risk. We plan to continue expanding our financing offerings, including our lease financing options and the financial sources to support them, to support the overall financing needs of our customers. To the extent that we are unable to arrange such options for our customers on terms that are attractive, our sales, financial results and cash flow could be negatively impacted.

### *The Gigafactory*

We are developing the Gigafactory as a facility where we work together with our suppliers to integrate production of battery material, cells, modules and battery packs in one location. We broke ground on the Gigafactory in June 2014 and began assembling our Tesla Energy products in the first portion of the facility in the fourth quarter of 2015. We currently expect to produce cells at the Gigafactory beginning in the fourth quarter of 2016 for use initially in our Tesla Energy products and later for our vehicles. The revision in our vehicle build plan also includes an adjustment of our cell production plans at the Gigafactory.

We continue to invest in construction of the building and utilities at the Gigafactory and in production equipment for battery, module and pack production. We will be responsible for the overall management of the Gigafactory and will engage with partners who have significant experience in battery cell and material production. Panasonic has agreed to partner with us on the Gigafactory with investments in production equipment that it will use to manufacture and supply us with battery cells. Under our arrangement with Panasonic, we plan to purchase the full output from their production equipment located at the Gigafactory at negotiated prices. As these terms convey a right to use the production related assets as defined within ASC 840 – *Leases*, we will consider these leased assets beginning with the start of cell production in 2016. This will result in us recording the value of such assets within property, plant, and equipment in our consolidated balance sheet with a corresponding liability recorded to financing obligations.

Given the size and complexity of this undertaking, the cost of building and operating the Gigafactory could exceed our current expectations and the Gigafactory may take longer to bring online than we anticipate.

### **Critical Accounting Policies and Estimates**

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

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, 2015, as filed with the Securities and Exchange Commission (SEC). In addition, please refer to Note 2, “Summary of Significant Accounting Policies,” to our Consolidated Financial Statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q which also includes discussion of Recent Accounting Pronouncements that may impact us.

## Results of Operations

### *Revenues*

Automotive revenue includes revenues related to deliveries of new Model S and Model X vehicles, including internet connectivity, Supercharging access, and specified software updates for cars equipped with Autopilot hardware, as well as sales of regulatory credits to other automotive manufacturers, amortization of revenue for cars sold with resale value guarantees, and Model S leasing revenue.

Services and other revenue consists of sales of electric vehicle powertrain components and systems to other manufacturers, maintenance and development services, Tesla Energy products, and pre-owned Tesla vehicles.

Automotive revenue during the three months ended March 31, 2016 were \$1.03 billion, an increase from \$893.3 million during the three months ended March 31, 2015. The increase was primarily driven by Model X deliveries and an increase in the active population of cars subject to lease accounting. For the three months ended March 31, 2016, automotive revenue includes \$124.2 million from the accretion of the deferred revenues from our resale value guarantee and other similar programs, as well as Model S leasing, an increase from \$53.7 million during the three months ended March 31, 2015 as a result of a greater number of resale value guarantees.

Service and other revenue during the three months ended March 31, 2016 were \$121.0 million, an increase from \$46.6 million during the three months ended March 31, 2015, related primarily to increases in pre-owned vehicle sales, Tesla Energy sales, and maintenance service revenue.

### *Cost of Revenues and Gross Profit*

Cost of revenues includes direct parts, material and labor costs, manufacturing overhead, including amortized tooling costs, royalty fees, shipping and logistic costs, vehicle connectivity costs, allocations of electricity and infrastructure costs related to our Supercharger network, and reserves for estimated warranty expenses. Cost of revenues also includes adjustments to warranty expense and charges to write down the carrying value of our inventory when it exceeds its estimated net realizable value and to provide for obsolete and on-hand inventory in excess of forecasted demand.

Cost of automotive revenues during the three months ended March 31, 2016 were \$779.3 million, an increase from \$631.7 million for the three months ended March 31, 2015. The increase in cost of automotive revenues was driven primarily by increased Model X deliveries. In the three months ended March 31, 2016, we recognized \$62.3 million in cost of automotive revenues related to cars accounted for as operating leases. In the three months ended March 31, 2015, we recognized \$31.4 million in cost of automotive revenues related to cars accounted for as operating leases.

Cost of services and other revenue during the three months ended March 31, 2016 were \$115.3 million, an increase from \$48.1 million for the three months ended March 31, 2015. The increase in cost of services and other revenues was driven primarily by greater pre-owned vehicle sales, Tesla Energy sales, maintenance services sales.

Gross profit for the three months ended March 31, 2016 was \$252.5 million, a decrease from \$260.1 million during the three months ended March 31, 2015. Gross margin for the three months ended March 31, 2016 was 22.0%, a decrease of 5.7% from the three months ended March 31, 2015. The lower gross margin was primarily due to product mix shift, as a greater percentage of sales were derived from Model X and from Model S vehicle models with lower average selling prices, partially offset by higher ZEV credits revenue. This margin decrease was also offset by an increasing amount of revenues from vehicles accounted for as leases including direct lease vehicles and those under our resale value guarantee programs which have a significantly higher gross margin and from material cost savings. Services and other gross margin improved year over year, primarily driven by a mix shift away from lower margin powertrain sales to Daimler.

### *Research and Development Expenses*

Research and development (R&D) 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 R&D 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.

R&D expenses for the three months ended March 31, 2016 were \$182.5 million, an increase from \$167.2 million for the three months ended March 31, 2015. The increase in R&D expenses consisted primarily of a \$29.2 million increase in employee compensation expenses and a \$21.7 million increase in stock-based compensation expense related to increased headcount and increasing values of awards granted, partially offset by a \$20.4 million decrease in expensed materials related to our Model X development.

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

Selling, general and administrative (SG&A) 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.

SG&A expenses for the three months ended March 31, 2016 were \$318.2 million, an increase from \$195.4 million for the three months ended March 31, 2015. SG&A expenses increased primarily from higher headcount and costs, including stock based compensation, to support an expanded retail, service and Supercharger footprint as well as the general growth of the business. The increase in our SG&A expenses consisted primarily of a \$53.3 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 \$25.0 million increase in stock-based compensation expense related to increased headcount, increased likelihood of achieving operational milestones under performance awards, and increased fair value of awards granted, and a \$32.9 million increase in office, information technology and facilities-related costs to support the growth of our business as well as sales and marketing activities to handle our expanding market presence.

#### ***Interest Expense***

Interest expense for the three months ended March 31, 2016 was \$40.6 million, as compared to \$26.6 million during the three months ended March 31, 2015. The increase as compared to the same period in the prior year was due to an increase in interest expense on vehicles sales that we account for as collateralized borrowing, as well as increased interest expense on build-to-suite leases, and on higher balances of outstanding debt.

#### ***Other Income (Expense), Net***

Other income (expense), net, consists primarily of foreign exchange gains and losses related to 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.

Other income (expense) was \$9.2 million and (\$22.3) million in the three months ended March 31, 2016 and 2015. Fluctuations in other income (expense) are primarily the result of unrealized gains (losses) from foreign currency exchange of \$9.4 million and (\$28.0) million in the three months ended March 31, 2016 and 2015 related to euro, Chinese renminbi, Norwegian krone, British pound, Swiss franc, and Canadian dollar.

#### ***Provision for Income Taxes***

Our provision for income taxes for the three months ended March 31, 2016 was \$3.8 million, compared to \$3.0 million during the three months ended March 31, 2015. The increases in the provision for income taxes were due primarily to an increase in taxable income in our international jurisdictions.

#### ***Liquidity and Capital Resources***

As of March 31, 2016, we had \$1.44 billion in principal sources of liquidity available from our cash and cash equivalents including \$757.9 million of money market funds. This balance also reflects \$565.0 million drawn under our asset based line of credit. As of April 30, 2016, we had repaid \$350.0 million under our asset based line, leaving \$215.0 million outstanding. The cash and cash equivalents balance as of March 31, 2016, does not include cash inflow for Model 3 reservations that were recorded in accounts receivable from our credit card banking partners as of the end of the quarter, the cash inflow from for Model 3 reservations received after the end of the quarter, and cash payments for vehicles in transit to customers as of the end of the quarter. Amounts held in foreign currencies had a U.S. dollar equivalent of \$446.2 million as of March 31, 2016, and consisted primarily of euro, Danish krone, Norwegian krone, Swedish krona, Canadian dollar, and Japanese yen.

Sources of cash are predominately from our deliveries of vehicles, as well as customer deposits, sales of regulatory credits, proceeds from financing activities, sales of Tesla Energy products, and non-warranty repair and maintenance services. We expect that our current sources of liquidity, including cash and cash equivalents, together with our current projections of cash flow from operating activities, will provide us with adequate liquidity based on our current plans through at least the end of the current fiscal year. These current sources of liquidity and cash flows enable us to fund our ongoing operations and research and development projects, the initial investments in tooling and manufacturing capital for our planned Model 3; investments required to continue to ramp up production of Model X and Model S; the continued construction of our Gigafactory; and the expansion of our retail stores, service centers and Supercharger network. We have decided to advance our 500,000 total unit build plan by two years to 2018, which is approximately double our prior growth plan. Given this plan, we are currently in the process of evaluating our capital expenditure needs, but expect it will be approximately 50% higher than the \$1.5 billion we previously estimated for the full year of 2016.

In 2015, we entered into the senior secured asset-based revolving Credit Agreement with a syndicate of banks. Our drawdowns are subject to certain conditions, including a borrowing limit of the lesser of (1) the current total commitment amount of \$1 billion and (2) the value of the secured assets as determined monthly pursuant to the Credit Agreement. As of March 31, 2016, the value of the secured assets was the limiting factor in our ability to borrow under the Credit Agreement. Borrowed funds bear interest, at the Company's option, at an annual rate of (a) 1% plus LIBOR or (b) the highest of (i) the federal funds rate plus 0.50%, (ii) the lenders "prime rate" or (iii) 1% plus LIBOR.

When market conditions are favorable, we may evaluate alternatives to pursue liquidity options to fund capital intensive initiatives. Should prevailing economic, financial, business or other factors adversely affect our ability to meet our operating cash requirements, we could be required to obtain funding through traditional or alternative sources of financing. We cannot be certain that additional funds would be available to us on favorable terms when required, or at all.

### **Summary of Cash Flows (in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net cash provided by (used in) operating activities	\$ (249,605)	\$ (131,794)
Net cash used in investing activities	(233,819)	(432,344)
Net cash provided by financing activities	715,435	186,156

### **Cash Flows from Operating Activities**

Our cash flows from operating activities are significantly affected by our cash investments to support the growth of our business in areas such as manufacturing, 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.

Our operating cash inflows include cash from sales of our vehicles, customer deposits for Model S and Model X, sales of regulatory credits, sales of powertrain components and systems, and Tesla Energy products. These cash inflows are offset by payments we make to our suppliers for production materials and parts used in our manufacturing process, employee compensation, operating leases and interest expense on our financings.

During the three months ended March 31, 2016 and 2015, cash provided by (used in) operating activities was (\$249.6) million and (\$131.8) million. The decrease in operating cash flows was primarily due to an increase in operating lease vehicles, partially offset by proceeds from vehicle sales, including those with residual value guarantees.

### **Cash Flows from Investing Activities**

Cash flows from investing activities primarily relate to capital expenditures to support our growth in operations, including investments in Model S and Model X manufacturing equipment and tooling and our stores, service centers and Supercharger network infrastructure. Cash used in investing activities was \$233.8 million and \$432.3 million for the three months ended March 31, 2016 and 2015. Cash flows from investing activities and variability between each year related primarily to capital expenditures, which were \$216.9 million and \$426.1 million for the three months ended March 31, 2016 and 2015.

In 2014, we began construction of our Gigafactory facility in Nevada. Tesla's contribution to total capital expenditures are expected to be about \$2.0 billion. In the three months ended March 31, 2016 we used cash of \$51.8 million towards Gigafactory construction and expect to spend a total of approximately \$520.0 million during 2016.

### ***Cash Flows from Financing Activities***

During the three months ended March 31, 2016 and 2015, net cash provided by financing activities was \$715.4 million and \$186.2 million. Cash flows from financing activities consisted primarily of draws under our asset backed or warehouse credit lines of \$430.0 million and \$77.7 million during the three months ended March 31, 2016 and 2015 and proceeds received from vehicle sales to our bank leasing partners of \$245.6 million and \$78.0 million during the three months ended March 31, 2016 and 2015.

#### ***0.25% and 1.25% Convertible Senior Notes and Bond Hedge and Warrant Transactions***

In 2014, we issued \$920.0 million principal amount of 0.25% convertible senior notes due 2019 (2019 Notes) and \$1.38 billion principal amount of 1.25% convertible senior notes due 2021 (2021 Notes) in a public offering. The total net proceeds from these offerings, after deducting transaction costs, were approximately \$905.8 million from 2019 Notes and \$1.36 billion from 2021 Notes. The interest rates are fixed at 0.25% and 1.25% per annum for the 2019 and 2021 Notes and are payable semi-annually in arrears on March 1 and September 1 of each year, commencing on September 1, 2014.

In connection with the offering of these notes in 2014, we purchased convertible note hedges for an aggregate \$603.4 million and sold warrants for an aggregate \$389.2 million. Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to reduce potential dilution and/or offset potential cash payments upon the conversion of the 2019 Notes and 2021 Notes.

During the first quarter of 2016, the closing price of our common stock did not meet or exceed 130% of the applicable conversion price of our 2019 Notes and 2021 Notes on at least 20 of the last 30 consecutive trading days of the quarter; furthermore, no other conditions allowing holders of these notes to convert have been met as of March 31, 2016. Therefore, the 2019 Notes and 2021 Notes are not convertible during the second quarter of 2016 and are classified as long-term debt. Should the closing price conditions be met in the second quarter of 2016 or a future quarter, the 2019 Notes and/or the 2021 Notes will be convertible at their holders' option during the immediately following quarter.

#### ***1.50% Convertible Senior Notes and Bond Hedge and Warrant Transactions***

In May 2013, we issued \$660.0 million aggregate principal amount of 1.50% convertible senior notes due 2018 (the 2018 Notes) in a public offering. The net proceeds from the offering, after deducting transaction costs, were approximately \$648.0 million. The interest under the 2018 Notes is fixed at 1.50% per annum and is payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2013.

In connection with the offering of the 2018 Notes, we purchased convertible note hedges for an aggregate \$177.5 million and sold warrants for an aggregate \$120.3 million. Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to reduce potential dilution and/or offset potential cash payments upon the conversion of the 2018 Notes.

During the first quarter of 2016, the closing price of our common stock exceeded 130% of the applicable conversion price of our 2018 Notes on at least 20 of the last 30 consecutive trading days of the quarter; therefore, holders of 2018 Notes may convert their notes during the second quarter of 2016. As such, we classified the \$617.1 million carrying value of our 2018 Notes as current liabilities and classified \$42.6 million, representing the difference between the aggregate principal of our 2018 Notes of \$659.8 million and the carrying value of 2018 Notes, as mezzanine equity on our consolidated balance sheet as of March 31, 2016. Should the closing price conditions be met in the second quarter of 2016 or a future quarter, the 2018 Notes will be convertible at their holders' option during the immediately following quarter.

For more information on the 2018 Notes, 2019 Notes, and 2021 Notes see Note 8 to our Consolidated Financial Statements included under Part 1, Item 1 of this Quarterly Report on Form 10-Q.

### ***Contractual Obligations***

We are party to contractual obligations involving commitments to make payments to third parties, including certain debt financing arrangements and leases, primarily for stores, service centers, certain manufacturing and corporate offices. These also include, as part of our normal business practices, contracts with suppliers for purchases of certain raw materials, components, and services to facilitate adequate supply of these materials and services and capacity reservation contracts.

There have been no other material changes during the three months ended March 31, 2016, from the contractual obligations disclosed in Part II, Item 7, *Contractual Obligations*, of our Annual Report on Form 10-K for the year ended December 31, 2015.

### ***Off-Balance Sheet Arrangements***

During the periods presented, we did not have 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***

We transact business globally in multiple currencies. Our international revenues, as well as costs and expenses denominated in foreign currencies, expose us to the risk of fluctuations in foreign currency exchange rates against the functional currencies of our foreign subsidiaries and against the U.S. dollar. Upon consolidation, as foreign exchange rates vary, revenues and expenses may be significantly impacted and we may record significant gains or losses on the remeasurement of monetary assets and liabilities, including intercompany balances. As of March 31, 2016, our largest currency exposures are from the euro, Chinese yuan, Norwegian and Danish krone, Canadian dollar, Swiss franc, British pound, and Japanese yen. We recorded foreign exchange losses of \$8.0 million in other income (expense), net, for the three months ended March 31, 2016 related to the impact of changes in exchange rates on foreign currency denominated monetary assets and liabilities.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 10% for all currencies could be experienced in the near term. These reasonably possible adverse changes in exchange rates of 10% were applied to total monetary assets and liabilities denominated in currencies other than the local currencies as of March 31, 2016 to compute the adverse impact these changes would have had on our income before income taxes in the near term. These changes would have resulted in an adverse impact on income before income taxes of approximately \$237.5 million, recorded to other income (expense), net, principally from intercompany and cash balances.

In November 2015, we implemented a program to hedge the foreign currency exposure risk related to certain forecasted inventory purchases denominated in Japanese yen. The derivative instruments we use are foreign currency forward contracts and are designated as cash flow hedges with maturity dates of 12 months or less. We do not enter into derivative contracts for trading or speculative purposes. We document each hedge relationship and assess its initial effectiveness at the inception of the hedge contract and we measure its ongoing effectiveness on a quarterly basis using regression analysis. During the term of an effective hedge contract, we record gains and losses within accumulated other comprehensive loss. We reclassify these gains or losses to costs of automotive sales in the period the related finished goods inventory is sold or over the depreciation period for those sales accounted for as leases. Although our contracts are considered effective hedges, we may experience small amounts of ineffectiveness due to timing differences between our actual inventory purchases and the settlement date of the related foreign currency forward contracts. Ineffectiveness related to the hedges is immaterial as of March 31, 2016. As of March 31, 2016 we had recorded a cumulative gain of \$26.8 million to AOCI related to our outstanding foreign currency cash flow hedges. If the U.S. dollar had strengthened by 10% as of March 31, 2016, the amount recorded in accumulated AOCI related to our cumulative foreign exchange contracts before tax effect would have been a loss of approximately \$2.6 million.

### ***Interest Rate Risk***

We had cash and cash equivalents totaling \$1.44 billion as of March 31, 2016. A significant portion of our cash and cash equivalents were invested in money market funds. Cash and cash equivalents 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.

As of March 31, 2016, we had \$2.96 billion aggregate principal amount of convertible senior notes outstanding, which are fixed rate instruments. Therefore, our results of operations are not subject to fluctuations in interest rates. However, the fair value of our debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. Based upon quoted market prices and Level 2 inputs, the fair value of our total debt was \$3.2 billion as of March 31, 2016.

## **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 March 31, 2016. 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 March 31, 2016, 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 was no change in our internal control over financial reporting which occurred during the period covered by this Quarterly Report on Form 10-Q, which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### Securities Litigation

In November 2013, a putative securities class action lawsuit was filed against Tesla in U.S. District Court, Northern District of California, alleging violations of, and seeking remedies pursuant to, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5. The complaint made claims against Tesla and our CEO, Elon Musk, sought damages and attorney's fees on the basis of allegations that, among other things, Tesla and Mr. Musk made false and/or misleading representations and omissions, including with respect to the safety of Model S. This case was brought on behalf of a putative class consisting of certain persons who purchased Tesla's securities between August 19, 2013 and November 17, 2013. On September 26, 2014, the trial court, upon the motion of Tesla and Mr. Musk, dismissed the complaint with prejudice, and thereafter issued a formal written order to that effect. The plaintiffs have appealed from the trial court's order, and that appeal is pending.

#### Other Matters

From time to time, we are subject to various other 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.

### 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

***We have experienced in the past, and may experience in the future, significant delays or other complications in the design, manufacture, launch and production ramp of new vehicles and other products such as our Tesla Energy products, which could harm our brand, business, prospects, financial condition and operating results.***

We have experienced delays or other complications in connection with new vehicle models in the past, such as production ramp delays for Model S in 2012 and the All-Wheel Drive Dual Motor Model S, and the launch and ramp of Model X. For example, while we commenced Model X deliveries late in the third quarter of 2015, we have encountered unanticipated challenges in ramping production of Model X vehicles that forced us to decrease the production of these vehicles from our initial expectations. If these challenges continue or issues that we have previously resolved, such as certain supply chain constraints, recur, we may experience further delays in the Model X production ramp. In addition, since Model X shares certain production facilities with the Model S, the volume or efficiency of Model S production may be impacted by any Model X production ramp issues.

We may experience similar delays or other complications in bringing to market and ramping production of new vehicles, such as Model 3, and other products such as our Tesla Energy products. Any significant additional delay or other complication in the production of our current products or the development, manufacture, launch and production ramp of our future products, including complications associated with expanding our production capacity, supply chain or regulatory approvals, could materially damage our brand, business, prospects, financial condition and operating results.

***We may experience delays in realizing our projected timelines and cost and volume targets for the production, launch and ramp of our Model 3 vehicle, which could harm our business, prospects, financial condition and operating results.***

Our future business depends in large part on our ability to execute on our plans to develop, manufacture, market and sell the Model 3 vehicle, which we intend to offer at a lower price point and to produce at significantly higher volumes than our present production capabilities for the Model S or Model X vehicles. We unveiled a prototype of Model 3 in March 2016 and have announced our goal to achieve volume production and deliveries of this vehicle in late 2017.

We have no experience to date in manufacturing vehicles at the high volumes that we anticipate for Model 3, and to be successful, we will need to develop efficient, automated, low-cost manufacturing capabilities, processes and supply chains necessary to support such volumes. Final designs for the Model 3 are not yet complete. Additionally, plans for the build out of our production facilities for Model 3 at the Tesla Factory are still in process, and various aspects of the Model 3 component procurement and manufacturing plans have not yet been determined. We are currently evaluating, qualifying and selecting our suppliers for the planned production of the Model 3. We will also need to do extensive testing to ensure that the Model 3 is in compliance with our quality standards and applicable regulations prior to beginning mass production and delivery of the vehicles. Moreover, our Model 3 production plan will also require significant investments of cash and management resources.

Our production plan for the Model 3 is based on many key assumptions, including:

- that we will be able to develop, build and equip a new dedicated final assembly line for high volume production of Model 3 at the Tesla Factory without exceeding our projected costs and on our projected timeline;
- that we will be able to build and bring online the Gigafactory in a timely manner to produce high volumes of quality lithium-ion cells and integrate such cells into finished battery packs for the Model 3, all at costs that allow us to sell the Model 3 at our target gross margins;
- that the equipment which we select and install for Model 3 production will be able to accurately manufacture high volumes of Model 3 vehicles within specified design tolerances and with high quality;
- that we will be able to engage suppliers for the necessary components on terms and conditions acceptable to us and that we will be able to obtain components on a timely basis and in the necessary quantities to support high volume production;
- that we will be able to complete our design and engineering plans for Model 3 and deliver final component designs to our suppliers in a timely manner; and
- that we will be able to attract, recruit, hire and train skilled employees, including employees on the production line, to operate our planned high volume Model 3 production facilities at the Tesla Factory and the Gigafactory.

If one or more of the foregoing assumptions turns out to be incorrect, our ability to successfully launch Model 3 on time and at volumes and prices that are profitable, as well as our business, prospects, operating results and financial condition, may be materially and adversely impacted.

***We may be unable to meet our growing vehicle production and delivery plans, both of which could harm our business and prospects.***

Our plans call for significant increases in vehicle production and deliveries to high volumes in a short amount of time. Our ability to achieve these plans will depend upon a number of factors, including our ability to add production lines and capacity as planned while maintaining our desired quality levels and optimize design and production changes, and our suppliers' ability to support our needs. We have limited experience developing, manufacturing, selling and servicing, and allocating our available resources among, multiple products simultaneously. If we are unable to realize our plans, or experience any delays or disruption in our production of our vehicles, our brand, business, prospects, financial condition and operating results could be materially damaged.

In addition, we have used and may introduce in the future a number of new manufacturing technologies and techniques for our vehicles, which we must scale for high volume production. For example, we have introduced aluminum spot welding systems and high-speed blow forming of certain difficult to stamp vehicle parts. Our vehicles also have unique design features, such as a 17 inch display screen, dual motor drivetrain and autopilot hardware introduced in Model S and falcon-wing doors and other unique features introduced in Model X, each of which poses different manufacturing challenges.

Concurrent with the significant planned increase in our vehicle production levels, we will also need to continue to significantly increase deliveries of our vehicles. We have limited experience in delivering a high volume of vehicles, and no experience in delivering vehicles at the significantly higher volumes we anticipate for Model 3, and we may face difficulties meeting our delivery and growth plans into both existing markets as well as new markets into which we expand. If we are unable to ramp up to meet our delivery goals globally, this could have a material adverse effect on our business, prospects, financial condition and operating results.

***Our long-term success will be dependent upon our ability to achieve market acceptance of our vehicles, including Model S and Model X, and new vehicle models such as Model 3.***

There is no guarantee that Model S, Model X or our future vehicles such as Model 3 will continue to be successfully accepted by the general public, especially in the long-term. Although we have successfully grown demand for Model S to date and have seen strong initial demand for Model X and Model 3, and we believe that we will be able to continue to grow demand for these vehicles, there is no guarantee that future demand for Model S, Model X or Model 3 will meet our expectations.

Additionally, we have limited experience in introducing new vehicles. Although our initial reservation conversion rate for Model X has been strong, we have only recently commenced production and deliveries of Model X. Likewise, although we have a substantial number of initial reservations for Model 3, we have only recently unveiled an early prototype of Model 3 and do not expect to achieve volume production and deliveries of Model 3 until late 2017. To the extent that our Model X and Model 3 vehicles do not meet consumer expectations, our future sales could be harmed.

While we believe that there will continue to be separate and strong demand for each of our vehicles, we have limited experience in selling multiple vehicle models at the same time. Although we believe that each of our vehicles and their variants meet a distinct segment of the automotive market, if our vehicles in fact compete with one another in the market, then our ability to sell each vehicle model at planned quantities or prices may be impacted.

***Problems or delays in bringing the Gigafactory online and operating it in line with our expectations could negatively affect the production and profitability of our products, such as Model 3 or Tesla Energy products.***

To lower the cost of cell production and produce cells in high volume, we intend to integrate the production of lithium-ion cells and finished battery packs for our vehicles, including Model 3, and Tesla Energy products at our new Gigafactory. We have no direct experience in the production of lithium-ion cells. The cost and complexity of building and operating the Gigafactory could exceed our current expectations and the Gigafactory may take longer to bring online for lithium-ion cell and battery pack production than we anticipate or need. Also, our recently revised vehicle build plan includes an adjustment of our plans at the Gigafactory. In order to build our Model 3 vehicles at our planned volume and target gross margin, we must have significant battery cell production from our Gigafactory. If we are unable to build the Gigafactory in a timely manner, and attract, hire and retain a substantial number of highly skilled personnel to work there in order to produce high volumes of quality lithium-ion cells at reasonable prices, our ability to supply battery packs to our vehicles, especially Model 3, and other products according to our schedule and/or at a price that allows us to sell them at our target gross margins and in the quantities we estimate could be negatively impacted. Any such problems or delays with the Gigafactory could negatively affect our brand and harm our business, prospects, financial condition and operating results.

***If our vehicles or other products that contain our vehicle powertrains or battery packs fail to perform as expected, our ability to develop, market and sell our electric vehicles could be harmed.***

If our vehicles, vehicles that contain our powertrains or our Tesla Energy products were to contain defects in design and manufacture that cause them not to perform as expected or that require repair, our ability to develop, market and sell our products could be harmed. For example, the operation of our vehicles is highly dependent on software, which is inherently complex and could conceivably contain defects and errors. Issues experienced by customers have included those related to the software for the 17 inch display screen, the panoramic roof and the 12 volt battery in the Model S and the seats and doors in the Model X. Although we attempt to remedy any issues we observe in our vehicles as effectively and as rapidly as possible, such efforts may not be timely, may hamper production or may not be up to the satisfaction of our customers. While we have performed extensive internal testing, we currently have a limited frame of reference by which to evaluate detailed long-term quality, reliability, durability and performance characteristics of our battery packs, powertrains, vehicles and Tesla Energy products. There can be no assurance that we will be able to detect and fix any defects in our products prior to their sale to consumers.

Any product defects or any other failure of our products to perform as expected could harm our reputation and result in delivery delays, product recalls, product liability claims, significant warranty and other expenses, and could have a material adverse impact on our business, financial condition, operating results and prospects. Our Model X vehicles have not yet been evaluated by NHTSA for its 5-Star Safety Ratings, and while based on our internal testing we expect to obtain comparable ratings to those achieved by Model S, there is no assurance this will occur.

***We are dependent on our suppliers, the majority of which are single source suppliers, and the inability of these suppliers to deliver, or their refusal to deliver, necessary components of our vehicles in a timely manner at prices, quality levels, and volumes acceptable to us would have a material adverse effect on our financial condition and operating results.***

Our current products contain numerous purchased parts which we source globally from hundreds of direct suppliers, the majority of whom are currently single source suppliers despite efforts to qualify and obtain components from multiple sources whenever feasible. Furthermore, we do not maintain long-term agreements with a number of our suppliers. This limited supply chain exposes us to multiple potential sources of delivery failure or component shortages for the production of our products. We have experienced in the past and may experience in the future delays due to supply chain disruptions with respect to our current products and future products we may produce, such as those we have experienced in 2012 and 2016 in connection with our slower-than-planned Model S and Model X ramps.

Unexpected changes in business conditions, materials pricing, labor issues, wars, governmental changes, natural disasters such as the March 2011 earthquakes in Japan and other factors beyond our and our suppliers' control, could also affect our suppliers' ability to deliver components to us on a timely basis. Moreover, any significant unanticipated demand may require us to procure additional components in a short amount of time, and in the past we have also replaced certain suppliers because of their failure to provide components that met our quality control standards. While we believe that we will be able to secure additional or alternate sources of supply for most of our components in a relatively short time frame, there is no assurance that we will be able to do so or develop our own replacements for certain highly customized components of our vehicles. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to vehicle design changes and delays in vehicle deliveries to our customers, which could hurt our relationships with our customers and result in negative publicity, damage to our brand and a material and adverse effect on our business, prospects, financial condition and operating results.

Changes in our supply chain have also resulted in the past, and may result in the future, in increased cost. We have also experienced cost increases from certain of our suppliers in order to meet our quality targets and development timelines as well as due to design changes that we made, and we may experience similar cost increases in the future. Certain suppliers, including for Model X, have experienced delays in meeting our demand or quality requirements, or have sought to renegotiate the terms of the supply arrangements. Additionally, we are negotiating with existing suppliers for cost reductions, seeking new and less expensive suppliers for certain parts, and attempting to redesign certain parts to make them less expensive to produce. If we are unsuccessful in our efforts to control and reduce supplier costs, our operating results will suffer.

Moreover, we have signed an agreement with Panasonic to be our partner in the Gigafactory and be responsible for, among other things, manufacturing cells from there for use in our products. If we encounter unexpected difficulties with our current suppliers, including Panasonic, and if we are unable to fill these needs from other suppliers, we could experience production delays and potential loss of access to important technology and parts for producing, servicing and supporting our products, which could have a material adverse effect on our financial condition and operating results.

We expect the foregoing discussion to apply generally to Model 3, for which we are currently finalizing parts design and have begun to evaluate, qualify and select our suppliers. However, because we plan to produce Model 3 at significantly higher volumes than Model S or Model X, the negative impact of any delays or other constraints with respect to our suppliers for Model 3 could be substantially greater than any such issues experienced with respect to Model S, Model X or our Tesla Energy products. As some of our current suppliers may not have the resources, equipment or scalability to provide components for the Model 3 in line with our requirements, we may need to engage a significant number of new suppliers with whom we have relatively little or no experience, and such suppliers may have to ramp to achieve our needs in a short period of time. There is no assurance that these suppliers will ultimately be able to meet our cost, quality and volume needs.

***Our future growth is dependent upon consumers' willingness to adopt electric vehicles, especially in the mass market demographic which we are targeting with Model 3.***

Our growth is highly dependent upon the adoption by consumers of alternative fuel vehicles in general and electric vehicles in particular, especially in the mass market demographic which we are targeting with Model 3.

If the market for electric vehicles in general and Tesla vehicles in particular does not develop as we expect, or develops more slowly than we expect, our business, prospects, financial condition and operating results will be harmed. The market for alternative fuel vehicles is relatively new, rapidly evolving, and could be affected by numerous external factors, such as:

- perceptions about electric vehicle features, quality, safety, performance and cost;
- perceptions about the limited range over which electric vehicles may be driven on a single battery charge;

- competition, including from other types of alternative fuel vehicles, plug-in hybrid electric vehicles, and high fuel-economy internal combustion engine vehicles;
- volatility in the cost of oil and gasoline;
- government regulations and economic incentives; and
- access to charging facilities.

***If we fail to scale our business operations and otherwise manage future growth effectively as we rapidly grow our company, especially internationally, we may not be able to produce, market, sell and service our products successfully.***

Any failure to manage our growth effectively could materially and adversely affect our business, prospects, operating results and financial condition. We continue to expand our operations significantly, especially internationally, including by a planned transition to high volume vehicle production and the worldwide sales and servicing of a significantly higher number of vehicles than our current vehicle fleet in the coming years, with the launch and ramp of Model 3. Furthermore, we are developing and growing our Tesla Energy business worldwide, including in countries where we have limited or no previous operating experience in connection with our vehicle business. Our future operating results depend to a large extent on our ability to manage our expansion and growth successfully. We may not be successful in undertaking this global expansion if we are unable to control expenses and avoid cost overruns and other unexpected operating costs; establish sufficient worldwide sales, service and Supercharger facilities in a timely manner; adapt our products to meet local requirements; implement the required infrastructure, systems and processes; and find and hire a significant number of additional manufacturing, engineering, service and administrative personnel.

***If we are unable to continue to reduce the manufacturing costs of Model S and Model X or control manufacturing costs for Model 3, our financial condition and operating results will suffer.***

As we have gradually ramped production of Model S, manufacturing costs per vehicle have decreased, and we anticipate similar decreases in the manufacturing costs of Model X as we continue to ramp production of that vehicle. While we expect ongoing cost reductions to be realized by both us and our suppliers, there is no guarantee we will be able to achieve sufficient cost savings to reach our gross margin and profitability goals. We incur significant costs related to procuring the raw materials required to manufacture our vehicles, assembling vehicles and compensating our personnel. We may also incur substantial costs or cost overruns in increasing the production capability of our vehicle manufacturing facilities, such as for Model 3. Furthermore, if we are unable to achieve production cost targets on our Model X and Model 3 vehicles pursuant to our plans, we may not be able to meet our gross margin and other financial targets.

Furthermore, many of the factors that impact our manufacturing costs are beyond our control, such as potential increases in the costs of our raw materials and components, such as lithium-ion battery cells or aluminum used to produce body panels. If we are unable to keep our manufacturing costs aligned with the level of revenues we generate, our operating results, business and prospects will be harmed.

***Although we are significantly dependent upon revenue generated from the sale of the Model S and Model X in the near term, our future success will be dependent upon our ability to design and achieve market acceptance of Model 3 and future vehicles with broad public appeal.***

We currently generate a significant percentage of our revenues from the sale of our Model S and Model X vehicles. The Model 3, for which we are planning to achieve volume production and deliveries in late 2017, requires significant investment prior to commercial introduction, and there is no guarantee that it will be commercially successful. The market for vehicles in the price range we expect for Model 3 is larger, but more competitive, than the markets for Model S and Model X. There can be no assurance that we will be able to design the Model 3 or future electric vehicles that will meet the expectations of our customers or of a broad customer base. To the extent that we are not able to build the production Model 3 to the expectations created by the early prototype we unveiled in March 2016, including the announced vehicle specifications and cost to customers, customers may cancel their reservations, our future sales could be harmed and investors may lose confidence in us. Furthermore, 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. To the extent our product cycles do not meet consumer expectations, our future sales may be adversely affected.

***Reservations for Model 3 may be cancelled prior to their sale and are fully refundable to customers, and significant cancellations could harm our financial condition, business, prospects and operating results.***

We have received a significant number of reservations for Model 3, all of which are subject to customer cancellations up until such time that the customer enters into a purchase agreement. As Model 3 will have a significantly lower price point than our previous vehicles and we do not expect to achieve volume production and deliveries of Model 3 before late 2017, we will for a lengthy period of time be subject to a number of factors that may result in cancellations of these reservations, including potential changes in customer financial position and preferences, competitive developments, and any unanticipated deviations from the expected price point, vehicle features or performance characteristics. There can be no assurance that any reservation will ultimately result in the sale of a vehicle, or that our number of reservations at any given time will accurately reflect the future demand for and sales of the Model 3. Furthermore, all amounts received by us in connection with reservations taken prior to the ramp of our vehicles have historically been refundable. Given the substantial number of Model 3 reservations, significant cancellations could harm our financial condition, business, prospects and operating results.

***We may fail to meet our publicly announced guidance or other expectations about our business, which would cause our stock price to decline.***

We occasionally provide guidance regarding our expected financial and business performance, such as projections regarding sales and production, as well as anticipated future revenues, gross margins, profitability and cash flows. Correctly identifying key factors affecting business conditions and predicting future events is inherently an uncertain process and our guidance may not ultimately be accurate. Our guidance is based on certain assumptions such as those relating to anticipated production and sales volumes and average sales prices, supplier and commodity costs, and planned cost reductions. If our guidance is not accurate or varies from actual results due to our inability to meet our assumptions or the impact on our financial performance that could occur as a result of various risks and uncertainties, the market value of our common stock could decline significantly.

***Our vehicles make use of lithium-ion battery cells, which have been observed to catch fire or vent smoke and flame, and such events have raised concerns, and future events may lead to additional concerns, about the batteries used in automotive applications.***

The battery packs that we produce make use of lithium-ion cells. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion cells.

While we have designed the battery pack to passively contain any single cell's release of energy without spreading to neighboring cells, there can be no assurance that a field or testing failure of our vehicles or other battery packs that we produce will not occur, which could subject us to lawsuits, product recalls, or redesign efforts, all of which would be time consuming and expensive. Also, negative public perceptions regarding the suitability of lithium-ion cells for automotive applications or any future incident involving lithium-ion cells such as a vehicle or other fire, even if such incident does not involve our vehicles, could seriously harm our business.

In addition, we store a significant number of lithium-ion cells at the Tesla Factory and plan to produce high volumes of cells and battery modules and packs at our Gigafactory. Any mishandling of battery cells may cause disruption to the operation of our facilities. While we have implemented safety procedures related to the handling of the cells, there can be no assurance that a safety issue or fire related to the cells would not disrupt our operations. Such damage or injury would likely lead to adverse publicity and potentially a safety recall. Moreover, any failure of a competitor's electric vehicle or energy storage product may cause indirect adverse publicity for us and our products. Such adverse publicity would negatively affect our brand and harm our business, prospects, financial condition and operating results.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial results.***

Our revenues and costs denominated in foreign currencies are not completely matched. As we have increased Model S deliveries in markets outside of the United States, we have much higher revenues than costs denominated in other currencies such as the euro, Chinese renminbi, Norwegian kroner, British pound, Swiss franc and Canadian dollar. Any strengthening of the U.S. dollar would tend to reduce our revenues as measured in U.S. dollars, as we have historically experienced. In addition, a portion of our costs and expenses have been, and we anticipate will continue to be, denominated in foreign currencies, including the Japanese yen. If we do not have fully offsetting revenues in these currencies and if the value of the U.S. dollar depreciates significantly against these currencies, our costs as measured in U.S. dollars as a percent of our revenues will correspondingly increase and our margins will suffer. Moreover, while we undertake limited hedging activities intended to offset the impact of currency translation exposure, it is impossible to predict or eliminate such impact. As a result, our operating results could be adversely affected.

***Our resale value guarantee and leasing programs for our vehicles expose us to the risk that the resale values of vehicles returned to us are lower than our estimates and may result in lower revenues, gross margin, profitability and liquidity.***

We offer resale value guarantees to many of our customers, under which such customers may sell their vehicles back to us at certain points in time at pre-determined resale values. Customers can lease our vehicles through both leasing partners and from us directly, through our captive finance companies. The resale values of any vehicles resold or returned to us pursuant to these programs may be lower than our estimates, which are based on a limited secondary market for our vehicles. If the volume of vehicles returned to us is higher than our estimates and/or we are not able to resell them timely or at all, our liquidity could be negatively impacted. In cases where customers retain their vehicles past the guarantee period, our gross margin will be negatively impacted as all remaining revenues and costs related to the vehicle will be recognized at no gross profit.

We apply lease accounting on sales of vehicles with a resale value guarantee and on leases made directly by us or by our leasing partners. Under lease accounting, we recognize the associated revenues and costs of the vehicle sale over time rather than fully upfront at vehicle delivery. As a result, these programs generate lower revenues in the period the car is delivered and higher gross margins during the period of the resale value guarantee as compared to purchases in which the resale value guarantee does not apply. A higher than anticipated uptake under these programs could therefore have an adverse impact on our near term revenues and operating results. Moreover, unlike the resale value guarantee program or programs with leasing partners which do not impact our cash flows and liquidity at the time of vehicle delivery, under a lease held directly by us, we may receive only a very small portion of the total vehicle purchase price at the time of lease, followed by a stream of payments over the term of the lease. To the extent we expand our leasing program without securing external financing or business partners to support such expansion, our cash flow and liquidity could also be negatively impacted.

***If we fail to effectively grow and manage the residual, financing and credit risks related to our direct vehicle leasing programs, our business may suffer.***

We offer vehicle financing arrangements through our local subsidiaries in the United States, Canada, Germany and the UK, including leasing directly through certain of those subsidiaries. The profitability of the leasing program depends on our ability to accurately project residual values, secure adequate financing and/or business partners to fund and grow this program, and manage customer credit risk. If actual residual values of our vehicles are below our estimates, we may suffer lower profitability or potentially have losses. If we are unable to adequately fund our leasing program with internal funds, or partners or other external financing sources, and compelling alternative financing programs are not available for our customers, we may be unable to grow our sales. For example, in certain cases purchasing lease contracts from us is at the discretion of our partners and there is no guarantee that our partners will accept such contracts at the volumes and times requested by us. Additionally, if we do not properly screen customers for their creditworthiness, we may be exposed to excessive credit risks and associated losses. Furthermore, if our leasing business grows substantially, our business may suffer if we cannot effectively manage the greater levels of residual and credit risks resulting from growth. Finally, if we do not successfully monitor and comply with applicable national, state and/or local financial regulations and consumer protection laws governing lease transactions, we may become subject to enforcement actions or penalties, either of which may harm our business.

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

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

- the inability or unwillingness of current battery manufacturers to build or operate battery cell manufacturing plants to supply the numbers of lithium-ion cells we require;
- disruption in the supply of cells due to quality issues or recalls by battery cell manufacturers;
- an increase in the cost of raw materials used in the cells; and
- fluctuations in the value of the Japanese yen against the U.S. dollar as our battery cell purchases for Model S and Model X are currently denominated in Japanese yen.

Our business is dependent on the continued supply of battery cells for the battery packs used in our vehicles and energy storage products. While we believe several sources of the battery cells are available for such battery packs, we have fully qualified only a very limited number of suppliers for the cells used in such battery packs and have very limited flexibility in changing cell suppliers. In particular, we have fully qualified only one supplier for the cells used in battery packs for our production vehicles. Any disruption in the supply of battery cells from such vendors could disrupt production of our vehicles and of the battery packs we produce for other automobile manufacturers until such time as a different supplier is fully qualified. Furthermore, fluctuations or shortages in petroleum and other economic conditions may cause us to experience significant increases in freight charges and raw material costs. Substantial increases in the prices for our raw materials or prices charged to us, such as those charged by our battery cell manufacturers, would increase our operating costs, and could reduce our margins if we cannot recoup the increased costs through increased vehicle prices. Any attempts to increase vehicle prices in response to increased raw material costs could result in cancellations of vehicle orders and reservations and therefore materially and adversely affect our brand, image, business, prospects and operating results.

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

Product liability claims could harm our business, prospects, operating results and financial condition. The automobile industry experiences significant product liability claims and we face inherent risk of exposure to claims in the event our vehicles do not perform as expected resulting in personal injury or death. We also may face similar claims related to any misuse or failures of new technologies that we are pioneering, including autopilot in our vehicles and our Tesla Energy products. A successful product liability claim against us with respect to any aspect of our products could require us to pay a substantial monetary award. Our risks in this area are particularly pronounced given the limited number of vehicles and energy storage products delivered to date and limited field experience of our products. Moreover, a product liability claim could generate substantial negative publicity about our products and business and would have material adverse effect on our brand, business, prospects and operating results. We self-insure against the risk of product liability claims, meaning that any product liability claims will have to be paid from company funds, not by insurance.

***The automotive market is highly competitive, and we may not be successful in competing in this industry. We currently face competition from new and established U.S. and international competitors and expect to face competition from others in the future, including competition from companies with new technology.***

The worldwide automotive market, particularly for alternative fuel vehicles, is highly competitive today and we expect it will become even more so in the future. There is no assurance that our vehicles will be successful in the respective markets in which they compete. Many established and new automobile manufacturers have entered or have announced plans to enter the alternative fuel vehicle market. For example, BMW, Daimler, Nissan and many other large companies have announced or are reported to be developing electric vehicles. In addition, several manufacturers, including General Motors, Toyota, Ford and Honda, are selling hybrid vehicles, including plug-in hybrid vehicles. Most of our current and potential competitors have significantly greater financial, technical, manufacturing, marketing and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products. Virtually all of our competitors have more extensive customer bases and broader customer and industry relationships than we do and almost all of these companies have longer operating histories and greater name recognition than we do. Increased competition could result in lower vehicle unit sales, price reductions, revenue shortfalls, loss of customers and loss of market share, which could harm our business, prospects, financial condition and operating results. In addition, upon the launch of our Model 3 vehicle, we will face competition from existing and future automobile manufacturers in the extremely competitive entry-level premium sedan market, including Audi, BMW, Lexus and Mercedes.

***Demand in the automobile industry is volatile, which may lead to lower vehicle unit sales and adversely affect our operating results.***

Volatility of demand in the automobile industry may materially and adversely affect our business, prospects, operating results and financial condition. The markets in which we currently compete and plan to compete in the future have been subject to considerable volatility in demand in recent periods. As a current low volume vehicle producer, we have less financial resources than more established automobile manufacturers to withstand changes in the market and disruptions in demand, and there is no guarantee that we will be able to successfully transition to a high volume producer with the production of the Model 3. Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in further downward price pressure and adversely affect our business, prospects, financial condition and operating results. These effects may have a more pronounced impact on our business given our relatively smaller scale and financial resources as compared to many incumbent automobile manufacturers.

***If we are unable to establish and maintain confidence in our long-term business prospects among consumers, analysts and within our industry, then our financial condition, operating results, business prospects and stock price may suffer materially.***

Consumers may be less likely to purchase our products now if they are not convinced that our business will succeed or that our operations will continue for many years. Similarly, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with us if they are not convinced that our business will succeed. Accordingly, in order to build and maintain our business, we must maintain confidence among customers, suppliers, analysts and other parties in our liquidity and long-term business prospects. Maintaining such confidence may be particularly complicated by certain factors, such as our limited operating history, unfamiliarity with our products, competition and uncertainty regarding the future of electric vehicles and our quarterly production and sales performance compared with market expectations. Many of these factors are largely outside our control, and any negative perceptions about our long-term business prospects, even if exaggerated or unfounded, would likely harm our business and make it more difficult to raise additional funds if needed.

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

Servicing electric vehicles is different than servicing vehicles with internal combustion engines and requires specialized skills, including high voltage training and servicing techniques. If we are unable to satisfactorily service our vehicles, our ability to generate customer loyalty, grow our business and sell additional vehicles could be impaired.

We service our vehicles through our company-owned Tesla service centers, certain of our stores, and through our mobile service technicians known as the Tesla Rangers. We will need to open new standalone service centers in locations around the world and hire and train significant numbers of new employees to staff these service centers and act as Tesla Rangers in order to successfully maintain our fleet of delivered vehicles. If we do not continue to adequately address the service requirements of our customers to their satisfaction, particularly as the volume of vehicles we are able to deliver annually increases, our business would be harmed.

***Our plan to expand our network of Tesla stores and galleries, service centers and Superchargers will require significant cash investments and management resources and may not meet expectations with respect to additional sales of our electric vehicles or availability of Superchargers.***

Our plan to expand our network of Tesla stores, galleries, service centers and Superchargers will require significant cash investments and management resources and may not meet our expectations with respect to additional sales of our vehicles. This ongoing global expansion, which includes planned entry into markets in which we have limited or no experience selling, delivering or servicing vehicles, and which may pose legal, regulatory, cultural and political challenges that we have not previously encountered, may not have the desired effect of increasing sales and expanding our brand presence to the degree we are anticipating. Furthermore, the increasing number of Model S and Model X vehicles, as well as the significant increase in our vehicle fleet size that we expect from Model 3, will require us to continue to increase the number our Supercharger stations significantly. If we fail to do so, our customers could become dissatisfied, which could adversely affect sales of our vehicles. We will also need to ensure we are in compliance with any regulatory requirements applicable to the sale and service of our vehicles in those jurisdictions, which could take considerable time and expense. If we experience any delays or cannot meet customer expectations in expanding our network of Tesla stores, galleries, service centers and Superchargers, this could lead to a decrease in sales of our vehicles and could negatively impact our business, prospects, financial condition and operating results.

***We face risks associated with our international operations and expansion, including unfavorable regulatory, political, tax and labor conditions and establishing ourselves in new markets, all of which could harm our business.***

We currently have international operations and subsidiaries in various countries and jurisdictions that are subject to the, legal, political, regulatory and social requirements and economic conditions in these jurisdictions. Additionally, as part of our growth strategy, we will continue to expand our sales, service and Supercharger locations internationally. We have limited experience, however, selling and servicing our products internationally, as well as limited experience installing and operating Superchargers internationally. Furthermore, international expansion requires us to make significant expenditures, including the establishment of local operating entities, hiring of local employees and establishing facilities in advance of generating any revenue.

We are subject to a number of risks associated with international business activities that may increase our costs, impact our ability to sell our electric vehicles and require significant management attention. These risks include conforming our vehicles to various international regulatory and safety requirements, difficulty in establishing, staffing and managing foreign operations, challenges in attracting customers, foreign government taxes, regulations and permit requirements, our ability to enforce our contractual rights; trade restrictions, customs regulations, tariffs and price or exchange controls, and preferences of foreign nations for domestically produced vehicles.

Additionally, as we have expanded into new international markets, we historically faced challenges with ensuring that our charging equipment works successfully with the charging infrastructure in such markets, including in Norway and China. If customers experience problems with the way our charging equipment works with the local charging infrastructure, or we are unable to adapt our equipment to resolve such problems, then the viability and acceptance of our vehicles in such markets could be materially and adversely affected. If we fail to successfully address these risks, our business, prospects, operating results and financial condition could be materially harmed.

***The unavailability, reduction or elimination of government and economic incentives in the U.S. and abroad supporting the development and adoption of electric vehicles could have some impact on demand for our vehicles.***

We currently benefit from certain government and economic incentives supporting the development and adoption of electric vehicles. In the United States and abroad, such incentives include, among other things, tax credits or rebates that encourage the purchase of electric vehicles. In Norway, for example, the purchase of electric vehicles is not currently subject to import taxes, taxes on non-recurring vehicle fees, the 25% value added tax or the purchase taxes that apply to the purchase of gas-powered vehicles. Notably, the quantum of incentive programs promoting electric vehicles is a tiny fraction of the amount of incentives that are provided to gas-powered vehicles through the oil and gas industries, notwithstanding that the former promotes social good while the latter contributes to significant social harm. Nevertheless, even the limited benefits from such programs could be reduced, eliminated or exhausted. For example, on January 1, 2016, a previously available incentive in Denmark that favored the purchase of electric vehicles expired and was replaced with a newly phased-in incentive that is less generous than the incentive that it replaced. Moreover, under current regulations, a \$7,500 federal tax credit available in the United States for the purchase of qualified electric vehicles with at least 17 kWh of battery capacity, such as our vehicles, will begin to phase out with respect to any vehicles delivered in the second calendar quarter following the quarter in which we deliver our 200,000th qualifying vehicle in the United States. In addition, California implemented regulations phasing out a \$2,500 cash rebate on qualified electric vehicles for high-income consumers, which became effective in March 2016. In certain circumstances, there is pressure from the oil and gas lobby or related special interests to bring about such developments, which could have some negative impact on demand for our vehicles.

***If we are unable to attract and/or retain key employees and hire qualified personnel, our ability to compete could be harmed.***

The loss of the services of any of our key employees could disrupt our operations, delay the development and introduction of our vehicles and services, and negatively impact our business, prospects and operating results. In particular, we are highly dependent on the services of Elon Musk, our Chief Executive Officer, and JB Straubel, our Chief Technical Officer.

None of our key employees is bound by an employment agreement for any specific term and we may not be able to successfully attract and retain senior leadership necessary to grow our business. Our future success depends upon our ability to attract and retain executive officers and other key technology, sales, marketing, engineering, manufacturing and support personnel and any failure to do so could adversely impact our business, prospects, financial condition and operating results.

Key talent may leave Tesla due to various factors, such as a very competitive labor market for talented individuals with automotive experience. Currently in California, there is increasing competition for talented individuals with the specialized knowledge of electric vehicles, software engineers, manufacturing engineers and other skilled employees. This competition affects both our ability to retain key employees and hire new ones. Our continued success depends upon our continued ability to hire new employees in a timely manner and retain current employees. Additionally, we compete with both mature and prosperous companies that have far greater financial resources than we do and start-ups and emerging companies that promise short-term growth opportunities. Any difficulties in retaining current employees or recruiting new ones would have an adverse effect on our performance.

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

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

***We are subject to various environmental and safety laws and regulations that could impose substantial costs upon us and negatively impact our ability to operate our manufacturing facilities.***

As an automobile manufacturer, we are subject to complex environmental, health and safety laws and regulations at numerous levels, including laws relating to the use, handling, storage, disposal and human exposure to hazardous materials, both in the United States and abroad. The costs of compliance, including remediating contamination if any is found on our properties and any changes to our operations mandated by new laws or amendments to existing laws, may be significant. We may also face unexpected delays in obtaining the necessary permits and approvals required by such laws in connection with our manufacturing facilities, which would hinder our operation of these facilities. Such costs and delays may adversely impact our business prospects and operating results. Furthermore, any violations of these laws may result in substantial fines and penalties, remediation costs, third party damages, or a suspension or cessation of our operations.

***Our business may be adversely affected by any disruptions caused by union activities.***

It is common for employees at automobile companies to belong to a union, which can result in higher employee costs and increased risk of work stoppages. Moreover, regulations in some jurisdictions outside of the United States mandate employee participation in industrial collective bargaining agreements and work councils with certain consultation rights with respect to the relevant companies' operations. Although we work diligently to provide the best possible work environment for our employees, they may still decide to join or seek recognition to form a labor union, or we may be required to become a union signatory. Furthermore, we are directly or indirectly dependent upon companies with unionized work forces, such as parts suppliers and trucking and freight companies, and work stoppages or strikes organized by such unions could have a material adverse impact on our business, financial condition or operating results. If a work stoppage occurs, it could delay the manufacture and sale of our products and have a material adverse effect on our business, prospects, operating results or financial condition.

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

Motor vehicles are subject to substantial regulation under international, federal, state, and local laws. We incur significant costs in complying with these regulations, and may be required to incur additional costs to comply with any changes to such regulations. Also, we are subject to laws and regulations applicable to the import, sale and service of automobiles internationally. For example, in countries outside of the United States, we are required to meet vehicle-specific safety standards that are often materially different from U.S. requirements, thus resulting in additional investment into the vehicles and systems to ensure regulatory compliance in those countries. This process may include official review and certification of our vehicles by foreign regulatory agencies prior to market entry, as well as compliance with foreign reporting and recall management systems requirements.

Additionally, our vehicles are equipped with a range of autopilot features that assist drivers, relieving them of certain tedious and potentially dangerous aspects of road travel. Autopilot is a completely new feature with which U.S. and foreign regulators have limited experience. Any current or future proposed regulations in this area, if passed, could impact whether and how our customers are able to use our vehicles equipped for autopilot, which could adversely affect our business.

***We are subject to various privacy and consumer protection laws.***

Our privacy policy is posted on our website, and any failure by us or our vendor or other business partners to comply with it or with federal, state or international privacy, data protection or security laws or regulations could result in regulatory or litigation-related actions against us, legal liability, fines, damages and other costs. Although we take steps to protect the security of our customers' personal information, we may be required to expend significant resources to comply with data breach requirements if third parties improperly obtain and use the personal information of our customers or we otherwise experience a data loss with respect to customers' personal information. A major breach of our network security and systems could have negative consequences for our business and future prospects, including possible fines, penalties and damages, reduced customer demand for our vehicles, and harm to our reputation and brand.

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

Any product recall in the future may result in adverse publicity, damage our brand and adversely affect our business, prospects, operating results and financial condition. For example, we recently initiated a Model S recall in November 2015 after we discovered a single field unit with a front seat belt issue, and a Model X recall in April 2016 after an internal test revealed unintended movement in the third row seats during a collision. None of our past recalls or corrective measures have been related to our electric powertrain, and none of the underlying issues have resulted in a vehicle crash or personal injury reported to us. In the future, we may at various times, voluntarily or involuntarily, initiate a recall if any of our vehicles or our electric powertrain components that we provide to other OEMs, including any systems or parts sourced from our suppliers, prove to be defective or noncompliant with applicable federal motor vehicle safety standards. Such recalls, whether voluntary or involuntary or caused by systems or components engineered or manufactured by us or our suppliers, involve significant expense and diversion of management attention and other resources, and could adversely affect our brand image in our target markets, as well as our business, prospects, financial condition and results of operations.

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

If our warranty reserves are inadequate to cover future warranty claims on our vehicles, our business, prospects, financial condition and operating results could be materially and adversely affected. Warranty reserves include management's best estimate of the projected costs to repair or to replace items under warranty. These estimates are based on actual claims incurred to-date and an estimate of the nature, frequency and costs of future claims. These estimates are inherently uncertain and changes to our historical or projected experience may cause material changes to our warranty reserves in the future. Subject to separate limited warranties for the supplemental restraint system and battery, we provide four year or 50,000 mile limited warranties for the purchasers of new Model S and Model X vehicles and pre-owned Model S vehicles certified and sold by us. These limited warranties also cover the drive unit for eight years and the battery for a period of eight years or 125,000 miles or unlimited miles, depending on the size of the vehicle's battery, although the battery's charging capacity is not covered under these warranties or any Extended Service plan.

In addition, customers of new Model S and Model X vehicles have the opportunity to purchase an Extended Service plan for the period after the end of the limited warranty for their new vehicles to cover additional services for an additional four years or 50,000 miles, provided it is purchased within a specified period of time. The limited warranties and Extended Service plans we offer for the Model S and Model X are subject to certain limitations, exclusions or separate warranties, including certain wear items, such as tires, brake pads, paint and general appearance, and battery performance, and is intended to cover parts and labor to repair defects in material or workmanship in the vehicle including the body, chassis, suspension, interior, electronic systems, powertrain and brake system. Additionally, in 2013, as part of our ongoing efforts to improve the customer ownership experience, we expanded the battery pack warranty and also eliminated the annual service requirement that was needed to keep the limited warranty on new Model S and Model X vehicles in effect. Should this change in warranty coverage lead to an increase in warranty claims, we may need to record additional warranty reserves, which would negatively affect our profitability.

***We are currently expanding and improving our information technology systems and use security measures designed to protect our systems against breaches and cyber-attacks. If these efforts are not successful, our business and operations could be disrupted and our operating results and reputation could be harmed.***

We are currently expanding and improving our information technology systems, including implementing new internally developed systems, to assist us in the management of our business. In particular, our volume production of multiple vehicles necessitates continued development, maintenance and improvement of our information technology systems in the U.S. and abroad, which include product data management, procurement, inventory management, production planning and execution, sales, service and logistics, dealer management, financial, tax and regulatory compliance systems. The implementation, maintenance and improvement of these systems require significant management time, support and cost. Moreover, there are inherent risks associated with developing, improving and expanding our core systems as well as implementing new systems, including the disruption of our data management, procurement, manufacturing execution, finance, supply chain and sales and service processes. These risks may affect our ability to manage our data and inventory, procure parts or supplies or manufacture, sell, deliver and service vehicles, or achieve and maintain compliance with, or realize available benefits under, tax laws and other applicable regulations. We also maintain information technology measures designed to protect us against system security risks, data breaches and cyber-attacks.

We cannot be sure that these systems or their required functionality will be effectively implemented, maintained or expanded as planned. If we do not successfully implement, maintain or expand these systems as planned, our operations may be disrupted, our ability to accurately and/or timely report our financial results could be impaired, and deficiencies may arise in our internal control over financial reporting, which may impact our ability to certify our financial results. Moreover, our proprietary information could be compromised and our reputation may be adversely affected. If these systems or their functionality do not operate as we expect them to, we may be required to expend significant resources to make corrections or find alternative sources for performing these functions.

***Our insurance strategy may not be adequate to protect us from all business risks.***

We may be subject, in the ordinary course of business, to losses resulting from products liability, accidents, acts of God and other claims against us, for which we may have no insurance coverage. While we currently maintain general liability, automobile, property, workers' compensation, and directors' and officers' insurance policies, as a general matter, we do not maintain as much insurance coverage as many other companies do, and in some cases, we do not maintain any at all. Additionally, the policies that we do have may include significant deductibles, and we cannot be certain that our insurance coverage will be sufficient to cover all future claims against us. A loss that is uninsured or which exceeds policy limits may require us to pay substantial amounts, which could adversely affect our financial condition and operating results.

***Our financial results may vary significantly from period-to-period due to fluctuations in our operating costs.***

We expect our period-to-period operating results to vary based on our operating costs which we anticipate will increase significantly in future periods as we, among other things, design, develop and manufacture Model 3, Tesla Energy products and other future products, increase the production capacity at our manufacturing facilities to produce vehicles at higher volumes, including ramping up the production of Model X, develop the Gigafactory, open new Tesla service centers with maintenance and repair capabilities, open new Supercharger locations, increase our sales and marketing activities, and increase our general and administrative functions to support our growing operations. As a result of these factors, we believe that quarter-to-quarter comparisons of our operating results, especially in the short-term, are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, our operating results may not meet expectations of equity research analysts or investors. If any of this occurs, the trading price of our stock could fall substantially, either suddenly or over time.

***Any unauthorized control or manipulation of our vehicles' systems could result in loss of confidence in us and our vehicles and harm our business.***

Our vehicles contain complex information technology systems. For example, our vehicles are designed with built-in data connectivity to accept and install periodic remote updates from us to improve or update the functionality of our vehicles. We have designed, implemented and tested security measures intended to prevent unauthorized access to our information technology networks, our vehicles and their systems. However, hackers have reportedly attempted, and may attempt in the future, to gain unauthorized access to modify, alter and use such networks, vehicles and systems to gain control of, or to change, our vehicles' functionality, user interface and performance characteristics, or to gain access to data stored in or generated by the vehicle. We encourage reporting of potential vulnerabilities in the security of our vehicles via our security vulnerability reporting policy, and we aim to remedy any reported and verified vulnerabilities. Accordingly, we have received reports of potential vulnerabilities in the past and have attempted to remedy them. However, there can be no assurance that vulnerabilities will not be identified in the future, or that our remediation efforts are or will be successful.

Any unauthorized access to or control of our vehicles or their systems or any loss of data could result in legal claims or proceedings. In addition, regardless of their veracity, reports of unauthorized access to our vehicles, their systems or data, as well as other factors that may result in the perception that our vehicles, their systems or data are capable of being "hacked," could negatively affect our brand and harm our business, prospects, financial condition and operating results. We have been the subject of such reports in the past.

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

The design, manufacture, sale and servicing of automobiles is a capital intensive business. We expect that our principal sources of liquidity will provide us adequate liquidity based on our current plans. However, until we are consistently generating positive free cash flows, if the costs for developing and manufacturing our current or future vehicles exceed our expectations or if we incur any significant unplanned expenses or embark on or accelerate new significant strategic investments, we may need to raise additional funds through the issuance of equity, equity-related or debt securities or through obtaining credit from government or financial institutions. We need sufficient capital to fund our ongoing operations, continue research and development projects, establish sales and service centers, build and deploy Superchargers and to make the investments in tooling and manufacturing capital required to

introduce new vehicles. We cannot be certain that additional funds will be available to us on favorable terms when required, or at all. If we cannot raise additional funds when we need them, our financial condition, results of operations, business and prospects could be materially adversely affected.

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

We sell our vehicles from our Tesla stores as well as over the internet. We may not be able to sell our vehicles through this sales model in each state in the United States as some states have laws that may be interpreted to impose limitations on this sales model, including laws that prohibit manufacturers from selling vehicles directly to consumers without the use of an independent dealership or without a physical presence in the state. In certain states in which we are not able to obtain dealer licenses, we have opened galleries, which are not full retail locations.

The application of these state laws to our operations continues to be difficult to predict. Laws in some states have limited our ability to obtain dealer licenses from state motor vehicle regulators and may continue to do so.

In addition, decisions by regulators permitting us to sell vehicles may be subject to challenges as to whether such decisions comply with applicable state motor vehicle industry laws. For example, vehicle dealer associations in various states have filed lawsuits to revoke dealer licenses issued to us. We have prevailed in many of these lawsuits and such results have reinforced our continuing belief that state laws were not designed to prevent our distribution model. Possible additional challenges in other states, if successful, could restrict or prohibit our ability to sell our vehicles to residents in such states. In some states, there have also been regulatory and legislative efforts by vehicle dealer associations to propose bills and regulations that, if enacted, would prevent us from obtaining dealer licenses in their states given our current sales model. A few states have passed legislation that clarifies our ability to operate, but at the same time limits the number of dealer licenses we can obtain or stores that we can operate.

Internationally, there may be laws in jurisdictions we have not yet entered or laws we are unaware of in jurisdictions we have entered that may restrict our sales or other business practices. Even for those jurisdictions we have analyzed, the laws in this area can be complex, difficult to interpret and may change over time.

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

Others, including our competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop, sell or market our products and services, which could make it more difficult for us to operate our business. From time to time, we may receive communications from holders of patents or trademarks regarding their proprietary rights. Companies holding patents or other intellectual property rights may bring suits alleging infringement of such rights or otherwise assert their rights and urge us to take licenses. In addition, if we are determined to have infringed upon a third party's intellectual property rights, we may be required to cease making, selling or incorporating certain components or intellectual property into the goods and services we offer, pay substantial damages, seek a license, if available, from the holder of the infringed intellectual property right, redesign our products; and/or establish and maintain alternative branding for our products and services.

In the event that we were required to take one or more such actions, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs, negative publicity and diversion of resources and management attention.

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

Our corporate headquarters, the Tesla Factory and the Gigafactory are located in seismically active regions in Northern California and Nevada. If major disasters such as earthquakes or other events occur, or our information system or communications network breaks down or operates improperly, our headquarters and production facilities may be seriously damaged, or we may have to stop or delay production and shipment of our products. We may incur expenses relating to such damages, which could have a material adverse impact on our business, operating results and financial condition.

***Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness.***

We incurred \$660.0 million, \$920.0 million and \$1.38 billion, respectively, in aggregate principal amount of senior indebtedness when we issued, in registered public offerings, the 2018 Notes in 2013 and the 2019 Notes and 2021 Notes in 2014. In addition, we have established a senior secured asset based revolving credit agreement (the Credit Agreement) that allows us to borrow, under certain circumstances, up to \$1.0 billion. As of March 31, 2016, we had \$535.0 million in borrowings under the credit facility pursuant to the Credit Agreement and \$30.0 million in borrowings under the swing-line loan sub-facility pursuant to the Credit Agreement. Our substantial indebtedness may increase our vulnerability to any generally adverse economic and industry conditions.

Our ability to make scheduled payments of the principal and interest when due or to make payments upon conversion of the notes, or to refinance the notes or our borrowings under the Credit Agreement, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under the notes or the Credit Agreement, and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance the notes or existing or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the notes, the Credit Agreement or future indebtedness.

Pursuant to their terms, holders may convert their Notes at their option at any time prior to the final three-month period of the scheduled term of the respective Notes only under certain circumstances. For example, holders may generally convert their Notes at their option during a quarter (and only during such quarter) if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding quarter is greater than or equal to 130% of the conversion price for such series of Notes on each applicable trading day. As a result of this conversion feature, the 2018 Notes have been convertible at their holders' option during each quarter commencing with the fourth quarter of 2013, except the first quarter of 2014. Neither this nor any other conversion feature has been met with respect to the 2019 Notes and 2021 Notes, and consequently the 2019 Notes and 2021 have not been convertible at their holders' option. Upon conversion of the notes, we will be obligated to make cash payments in respect of the principal amounts thereof, and we may also have to deliver cash and/or shares of our common stock, in respect of the conversion value in excess of such principal amounts on the notes. Any conversion of the notes prior to their maturity, or acceleration of the repayment of the notes or future indebtedness after any applicable notice or grace periods could have a material adverse effect on our business, results of operations and financial condition.

In addition, holders of the notes will have the right to require us to purchase their Notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if any, to, but not including, the fundamental change purchase date. However, we may not have enough available cash or be able to obtain financing at the time we are required to make purchases of notes surrendered therefor or notes being converted. In addition, our ability to purchase the notes or to pay cash upon conversions of the notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to purchase notes at a time when the purchase is required by the indenture or to pay cash payable on future conversions of the notes as required by the indenture would constitute a default under the indenture. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and purchase the notes or make cash payments upon conversions thereof.

***Our debt agreements contain covenant restrictions that may limit our ability to operate our business.***

The terms of our Credit Facility contain, and any of our other future debt agreements may contain, covenant restrictions that limit our ability to operate our business, including restrictions on our ability to, among other things, incur additional debt or issue guarantees, create liens, repurchase stock or make other restricted payments, and make certain voluntary prepayments of specified debt. In addition, under certain circumstances we are required to comply with a fixed charge coverage ratio.

As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, our failure to comply with our debt covenants could result in a default under our debt agreements, which could permit the holders to accelerate our obligation to repay the debt. If any of our debt is accelerated, we may not have sufficient funds available to repay it.

***We may still incur substantially more debt or take other actions, which would intensify the risks discussed immediately above.***

We and our subsidiaries may, subject to the limitations in the terms of our Credit Facility, incur additional debt, secure existing or future debt, recapitalize our debt or take a number of other actions that are not limited by the terms of the indenture governing our convertible senior notes that could have the effect of diminishing our ability to make payments on the notes and under the Credit Agreement when due. If we incur any additional debt, the related risks that we and our subsidiaries face could intensify.

***The classification of our convertible senior notes may have a material effect on our reported financial results.***

As described in the Risk Factor “*Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness,*” our 2018 Notes have been historically, and our 2019 Notes and 2021 Notes may become in the future, convertible at the option of their holders prior to their scheduled terms under certain circumstances. Even if holders do not elect to convert their notes, the notes become convertible prior to their scheduled maturity dates, we would be required to reclassify such notes and the related debt issuance costs as current liabilities and certain portions of our equity outside of equity to mezzanine equity, which would have an adverse impact on our reported financial results for such quarter, and could have an adverse impact on the market price of our common stock.

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

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

The trading price of our common stock has been highly volatile and could continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control. Our common stock has experienced an intra-day trading high of \$286.65 per share and a low of \$141.05 per share over the last 52 weeks. The stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry factors may seriously affect the market price of companies’ stock, including ours, regardless of actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company’s securities, securities class action litigation has often been instituted against these companies. For example, a shareholder litigation like this was filed against us in 2013. While the trial court dismissed the plaintiffs’ complaint with prejudice, this litigation (if the trial court’s order is successfully appealed) or others like it could result in substantial costs and a diversion of our management’s attention and resources.

***Conversion of our convertible senior notes may dilute the ownership interest of existing stockholders, including holders who had previously converted their notes, or may otherwise depress the price of our common stock.***

The conversion of some or all of our convertible senior notes will dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the notes. As described in the Risk Factor “*Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt,*” our convertible senior notes have been historically, and may become in the future, convertible at the option of their holders prior to their scheduled terms under certain circumstances. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our common stock could depress the price of our common stock.

***The convertible note hedge and warrant transactions we entered into in connection with the issuance of our convertible senior notes may affect the value of the notes and our common stock.***

In connection with each issuance of our convertible senior notes, we entered into convertible note hedge transactions with the hedge counterparties. The convertible note hedge transactions cover, subject to customary anti-dilution adjustments, the number of shares of our common stock that initially underlay the applicable notes. The convertible note hedge transactions are expected to reduce the potential dilution and/or offset potential cash payments we are required to make in excess of the principal amount upon conversion of the applicable notes. We also entered into warrant transactions with the hedge counterparties relating to the same number of shares of our common stock, subject to customary anti-dilution adjustments. However, the warrant transactions could separately have a dilutive effect on our common stock to the extent that the market price per share of our common stock exceeds the applicable strike price of the warrants on the applicable expiration dates.

In addition, the hedge counterparties or their affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the applicable notes (and are likely to do so during any observation period related to a conversion of notes). This activity could also cause or prevent an increase or a decrease in the market price of our common stock or the notes.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the prices of the notes or the shares of our common stock. In addition, we do not make any representation that the hedge counterparties have engaged or will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

***Mr. Musk borrowed funds from affiliates of certain underwriters in our public offerings and/or private placements and has pledged shares of our common stock to secure these borrowings. The forced sale of these shares pursuant to a margin call could cause our stock price to decline and negatively impact our business.***

Beginning in June 2011, banking institutions that are affiliated with certain underwriters of our completed public offerings of common stock and our convertible senior notes made extensions of credit to Elon Musk, our Chief Executive Officer, and the Elon Musk Revocable Trust dated July 22, 2003 (the Trust), a portion of which Mr. Musk used to purchase shares of common stock in our public offerings in May 2013 and August 2015 and private placements in June 2011 and June 2013. We are not a party to these loans, which are full recourse against Mr. Musk and the Trust and are secured by pledges of a portion of the Tesla common stock currently owned by Mr. Musk and the Trust and other shares of capital stock of unrelated entities owned by Mr. Musk and the Trust.

If the price of our common stock declines, Mr. Musk may be forced by one or more of the banking institutions to provide additional collateral for the loans or to sell shares of Tesla common stock in order to remain within the margin limitations imposed under the terms of his loans. The loans between these banking institutions on the one hand, and Mr. Musk and the Trust on the other hand, prohibit the non-pledged shares currently owned by Mr. Musk and the Trust from being pledged to secure any other loans. These factors may limit Mr. Musk's ability to either pledge additional shares of Tesla common stock or sell shares of Tesla common stock as a means to avoid or satisfy a margin call with respect to his pledged Tesla common stock in the event of a decline in our stock price that is large enough to trigger a margin call. Any sales of common stock following a margin call that is not satisfied may cause the price of our common stock to decline further.

***Anti-takeover provisions contained in our certificate of incorporation and bylaws, the provisions of Delaware law, and the terms of our convertible senior notes could impair a takeover attempt.***

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

- creating a classified board of directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by the board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;
- controlling the procedures for the conduct and scheduling of board and stockholder meetings; and
- providing the board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings.

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

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

In addition, the terms of the convertible senior notes require us to repurchase the notes in the event of a fundamental change. A takeover of our company would trigger an option of the holders of the notes to require us to repurchase the notes. This may have the effect of delaying or preventing a takeover of our company that would otherwise be beneficial to our stockholders.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

On May 4, 2016, after being with us for over five years and leading our production team for the past three years, Greg Reichow, Tesla's Vice President, Production, notified us of his intention to take a leave of absence for an indeterminate amount of time so that he can have a well-earned break. However, to ensure a smooth handoff and provide continuity, Mr. Reichow will remain at Tesla as long as necessary until his successor is in place. Mr. Reichow will work closely with the Tesla leadership team to help with the search process and ultimately to make an effective transition to his successor.

**ITEM 6. EXHIBITS**

See Index to Exhibits at end of this Quarterly Report on Form 10-Q for the information required by this Item.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Tesla Motors, Inc.

Date: May 10, 2016

*/s/ Jason Wheeler*  
\_\_\_\_\_  
Jason Wheeler  
Chief Financial Officer  
(Principal Financial Officer, Principal Accounting Officer and  
Duly Authorized Officer)

**INDEX TO EXHIBITS**

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1†	Amendment to Gigafactory General Terms, dated March 1, 2016, by and among Tesla Motors, Inc., Panasonic Corporation and Panasonic Energy Corporation of North America.	—	—	—	—	X
10.2	Amendment to Gigafactory Documents, dated April 5, 2016, by and among Tesla Motors, Inc., Panasonic Corporation, Panasonic Corporation of North America and Panasonic Energy Corporation of North America	—	—	—	—	X
31.1	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Executive Officer	—	—	—	—	X
31.2	Rule 13a-14(a) / 15(d)-14(a) Certification of Principal Financial Officer	—	—	—	—	X
32.1*	Section 1350 Certifications	—	—	—	—	X
101.INS	XBRL Instance Document	—	—	—	—	X
101.SCH	XBRL Taxonomy Extension Schema Document	—	—	—	—	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	—	—	—	—	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	—	—	—	—	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	—	—	—	—	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	—	X

\* Furnished herewith

† Confidential treatment has been requested for portions of this exhibit



AMENDMENT TO GIGAFACTORY GENERAL TERMS

This amendment ("Amendment") is entered into effective as of December 1, 2015 (the "Effective Date"), by and between Tesla Motors, Inc. ("Tesla"), on the one hand, and Panasonic Corporation and Panasonic Energy Corporation of North America (collectively, "Panasonic"), on the other hand (Tesla and Panasonic are referred to collectively herein as the "Parties") in connection with the General Terms and Conditions dated October 1, 2014, by and between the Parties (the "General Terms") and the Production Pricing Agreement dated September 30, 2014, by and between the Parties (the "Pricing Agreement"). Terms used herein with initial capitalization have the meanings specified where used or in the General Terms. In consideration of the mutual promises and mutual covenants set forth below and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree to amend the General Terms as follows:

1. Section 6.4 (Debarment) of the General Terms is amended and restated in its entirety as follows:

6.4 Debarment. During the Term, Seller represents and warrants that: (a) it (and its Affiliates) shall not be debarred, suspended, excluded or disqualified from doing business with the United States Government or listed on the Excluded Parties List System maintained by the General Services Administration of the United States Government (found at [www.epils.gov](http://www.epils.gov)); (b) Seller and, unless Seller is a listed entity in a stock exchange market in the US or Japan (or any country with similar listing requirements), each person or entity owning an interest in Seller shall not be at any time during the term of the Contract, and each has never been, a Person with which U.S. Persons are prohibited from transacting business of the type contemplated by the Contract or with which U.S. Persons must either limit their interactions to types approved by the Office of Foreign Assets Control, Department of the Treasury ("OFAC"), whether by Law, executive order, trade embargo, economic sanction, lists published by OFAC, or otherwise (such Persons are "Specially Designated Nationals and Blocked Persons"); (c) none of the funds or other assets of Seller constitute property of, or are beneficially owned, directly or indirectly, by any Embargoed Person; (d) unless Seller is a listed entity in a stock exchange market in the US or Japan (or any country with similar listing requirements), no Embargoed Person has any interest of any nature, direct or indirect, in Seller; (e) none of the funds of Seller have been derived from any unlawful activity with the result that either business with Seller is prohibited by Law or the Contract is in violation of Law; (f) Seller has implemented procedures, and will consistently apply those procedures, to ensure, using best efforts, the foregoing representations and warranties remain true and correct at all times; (g) Seller will not use funds from any "Prohibited Person" (as such term is defined in the September 24, 2001 Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism) to make any payment due to Tesla under these General Terms, the Factory Lease, or any Contract Document, and shall take such measures as are necessary to ensure that any funds used to pay amounts due to Tesla hereunder are derived (i) from transactions that do not violate United States Law and, to the extent such funds originate outside the United States, do not violate the Laws of the jurisdiction in which they originated, and (ii) from permissible sources under United States Law and, to the extent such funds originate outside the United States, under the Laws of the jurisdiction in which they originated; and (h) Seller: (i) is not under investigation by any governmental authority for, nor has it been charged with, or convicted of, money laundering, drug trafficking, terrorist-related activities, any crimes which in the United States would be predicate crimes to money laundering, or any violation of any Anti-Money Laundering Laws; (ii) has not been assessed civil or criminal penalties under any Anti-Money Laundering Laws; or (iii) has not had any of its funds seized or forfeited in any action under any Anti Money Laundering Laws. Seller agrees to immediately notify Tesla in writing in the event Seller breaches any of the preceding representations and warranties or has reason to

believe that it will become in breach of any of the preceding representations and warranties. A breach of any representation or warranty under this Section shall be deemed a Default under the Contract for which Tesla may immediately terminate the Contract without being required to provide notice or permit Seller to cure such Default.

2. Section 11.1(a) (Factory Lease) of the General Terms is amended and restated in its entirety as follows:

(a) Tesla shall, at its cost and expense and as a Tesla Responsibility, procure the land and construct buildings thereon to be used as the Factory. Upon completion of construction of the Factory, the Parties shall negotiate in good faith, finalize and sign a lease setting forth the terms and conditions of Seller's lease rights at the Factory (the "Factory Lease"). The Factory Lease shall: (i) provide that Tesla will provide Seller with sufficient space and utilities for Seller to enable to perform its obligations under these General Terms and the Contract(s); (ii) specify [\*\*\*] pursuant to the Pricing Agreement; (iii) [\*\*\*]; (iv) specify that [\*\*\*], unless otherwise provided in this General Terms; (v) describe the area(s) leased to Seller to be used for Seller's manufacturing of Goods at the Factory; (vi) define each Party's financial and other responsibilities for utilities (e.g. gas, electric, water and treatment of waste water); (vii) specify that the Factory Lease will be subject to any restrictions generally applicable to the Factory and/or Tesla's real property; (viii) allocate responsibility between the Parties for environmental aspects of the Utilities (defined below); and (ix) include terms and conditions consistent with those set forth in this Section 11 and in the Pricing Agreement. If Tesla does not tender possession of the Premises (as that term is defined in the Factory Lease) to Seller on or prior to the Commencement Date (as that term is defined in the Factory Lease), Seller may terminate these General Terms and the remaining portion(s) of any Contract and the Factory Lease without any liability whatsoever to Tesla. The Parties may extend the Commencement Date by mutual written agreement.

3. A new Section 11.1(g) is added to the General Terms as follows:

(g) The terms and conditions of Seller's lease at the Factory (the "Factory Lease") are attached as Exhibit 2 – Factory Lease to these General Terms.

4. Section 11.3 (Extension of Lease) of the General Terms is deleted and replaced in its entirety as follows:

11.3 *Extension of Lease.* Following expiration or termination of these General Terms, Seller shall be entitled to extend the duration of the Factory Lease as follows:

- (a) If Tesla terminates these General Terms for Seller's Default or the Factory Lease for Tenant's Lease Default, Seller may continue its lease rights for [\*\*\*]. Seller shall [\*\*\*] in accordance with the Factory Lease [\*\*\*] and Seller shall [\*\*\*].
- (b) If (i) these General Terms expire; or (ii) in the event of a termination of these General Terms and/or the Factory Lease for force majeure by either Party or termination for a Change of Control Event affecting the other Party, Seller may continue its lease rights for the longer of the remaining Lease Term (if applicable) or [\*\*\*]. Seller shall [\*\*\*] in accordance with the Factory Lease [\*\*\*] and the Parties shall negotiate in good faith a potential extension of the Factory Lease. In case of termination for force majeure or for Change of Control by either Party, Tesla shall be responsible for [\*\*\*]; provided, however, that Tesla will have sole financial responsibility with respect to any Tesla-Supplied Items and/or Utilities which were installed by Tesla (including the construction activities for which Tesla is solely responsible pursuant to the mutually-agreed matrix described in Section 11.1(c)). The Parties shall also, in connection with any such expiration or termination, discuss in good faith [\*\*\*]. In the case of expiration (but not in case of termination for force majeure or for Change of Control), Tesla acknowledges that it will be responsible for [\*\*\*] provided that (i) Seller has used best efforts to [\*\*\*], (ii) [\*\*\*] are mutually agreed in writing and in advance; provided, however, that such Tesla's approval shall not be unreasonably withheld, delayed or conditioned, and (iii) Tesla shall not be responsible for any such [\*\*\*]. Tesla will provide an estimated cost or profit for [\*\*\*], and Seller will

determine whether to [\*\*\*]. Seller shall have financial responsibility for [\*\*\*] if it chooses to [\*\*\*]; provided, however, that Tesla shall pay Seller [\*\*\*]. If Seller chooses to [\*\*\*], Seller shall not be obligated to [\*\*\*]. If Seller chooses to [\*\*\*], Tesla shall bear [\*\*\*], and if [\*\*\*], Tesla will [\*\*\*]. If Seller fails to [\*\*\*], Seller will be deemed to have [\*\*\*] and Tesla will [\*\*\*] in its sole discretion and at Tesla's sole expense or profit. For avoidance of doubt, Seller shall have no liability for Tesla's failure to [\*\*\*] in connection with any such [\*\*\*]. In no event shall Tesla sell, lease, assign or otherwise transfer such Seller's Property to any third party other than for [\*\*\*]. Except as set forth in this paragraph, each Party shall be responsible for its own costs and expenses related to such expiration or termination.

- (c) If Seller terminates these General Terms for Tesla's Default or the Factory Lease for Tesla's Lease Default, Seller may: (i) elect to continue its lease rights for [\*\*\*] without [\*\*\*] and Seller may [\*\*\*] and, if applicable, [\*\*\*]; and (ii) [\*\*\*] the following [\*\*\*], which will be considered [\*\*\*] for purposes of Section 12.1(f) to these General Terms: [\*\*\*].
- (d) If Seller terminates these General Terms and the Contract(s) due to a Change of Control Event with respect to Tesla, Seller may, in its sole discretion and in addition to the remedies contemplated in Section 11.3(b), choose to continue its lease rights for [\*\*\*].

5. Section 13.3(a) (Termination) of the General Terms is amended and restated in its entirety as follows:

(a) if the other Party breaches a material obligation under these General Terms, the Factory Lease, and/or the Contract and fails to cure the breach within [\*\*\*] days after receipt of notice of such breach expressly stating the non-breaching Party's intent to terminate ("Notice of Termination") or, if the breach cannot reasonably be cured within such [\*\*\*]-day period, [\*\*\*] days after receipt of Notice of Termination;

6. A new Section 13.3(f) (Termination) of the General Terms is added as follows:

(f) Subject to [\*\*\*] of these General Terms, [\*\*\*].

7. Section 16.17 (Defined Terms) is amended to include the following as new subsections:

(bb) "Anti-Money Laundering Laws" shall mean all applicable Laws that: (a) limit the use of and/or seek the forfeiture of proceeds from illegal transactions; (b) limit commercial transactions with designated countries or individuals believed to be terrorists, narcotics dealers or otherwise engaged in activities contrary to the interests of the United States; (c) require identification and documentation of the parties with whom a Financial Institution conducts business; or (d) are designed to disrupt the flow of funds to terrorist organizations. Such Laws, regulations and sanctions shall be deemed to include, without limitation, the USA PATRIOT Act of 2001, Pub. L. No. 107-56, the Bank Secrecy Act of 1970, as amended, 31 U.S.C. Section 5311 et seq., the Trading with the Enemy Act, 50 U.S.C. App. Section 1 et seq., the International Emergency Economic Powers Act, 50 U.S.C. Section 1701 et seq., and the sanction regulations promulgated pursuant thereto by the OFAC, as well as Laws relating to prevention and detection of money laundering in 18 U.S.C. Sections 1956 and 1957.

(cc) "Embargoed Person" means any person, entity or government subject to trade restrictions under U.S. Law, including any Anti-Money Laundering Laws and any Executive Orders or regulations promulgated thereunder, with the result that either business with Seller is prohibited by Law or the Contract is in violation of Law.

8. The attachment hereto entitled, "Exhibit 2 – Factory Lease," shall be added as Exhibit 2 to the General Terms and become an integral part thereof.

9. The following Section in the General Terms shall be amended and restated as follows:

<i>Section</i>	<i>Text</i>
12.1(f)(vi)	*amounts for which a Party is expressly responsible pursuant to these General Terms (including Sections 2.4 (Tesla Responsibilities), 11.3 (Extension of Lease), and 13.4 (Obligations Upon Termination), the then-current Pricing Agreement, the Factory Lease, and/or each Contract;”

10. A new Section 1(e) is added to the Pricing Agreement as follows:

(e) As a Tesla Responsibility and during the Term, Tesla shall hold a safety stock consisting of [\*\*\*], the “Safety Stock”). Tesla may use the Safety Stock to accommodate fluctuations in Tesla’s actual requirements, to mitigate potential damages resulting from Seller’s failure or inability to deliver Goods in accordance with the Contract, and for other reasons as determined by Tesla from time to time. [\*\*\*].

11. This Amendment, together with the General Terms and all documents referenced or incorporated therein, constitutes the entire agreement between the Parties and supersedes all prior agreements and understandings, both oral and written, between the Parties. This Amendment may be executed in counterparts, each of which when so executed and delivered will be deemed an original, and all of which taken together will constitute one and the same instrument.

*[Remainder of page is intentionally left blank]*

IN WITNESS WHEREOF, the Parties have executed this Amendment by persons duly authorized below:

<b>Tesla Motors, Inc.</b>	
By:	<u>/s/ Jeffrey B. Straubel</u>
Printed:	<u>Jeffrey B. Straubel</u>
Title:	<u>CTO &amp; Co-Founder</u>
Date:	<u>March 1, 2016</u>

<b>Panasonic Corporation</b>	
By:	<u>/s/ Kenji Tamura</u>
Printed:	<u>Kenji Tamura</u>
Title:	<u>Vice President, AIS Company</u>
Date:	<u>February 23, 2016</u>

<b>Panasonic Energy Corporation of North America</b>	
By:	<u>/s/ Masayuki Kitabayashi</u>
Printed:	<u>Masayuki Kitabayashi</u>
Title:	<u>President</u>
Date:	<u>January 19, 2016</u>

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**EXHIBIT 2 – FACTORY LEASE**

This Factory Lease (“Lease”) is entered into effective as of December 1, 2015 (the “Effective Date”) by and between Tesla Motors, Inc., a Delaware corporation located at 3500 Deer Creek Road, Palo Alto, California 94304 (“Tesla”), on the one hand, and Panasonic Energy Corporation of North America (“Tenant”), on the other hand, with reference to the General Terms and Conditions entered into effective as of October 1, 2014 (“General Terms”) and the Production Pricing Agreement dated September 30, 2014 (“Pricing Agreement”), each by and between Tesla, Panasonic Corporation (“Panasonic”) and Tenant. Terms used herein with initial capitalization have the meanings given where used, or in Section 13.19 hereof, in the General Terms, or in the Pricing Agreement.

**Basic Information**

**Factory:** The manufacturing facility owned by Tesla in Storey County, Nevada, as depicted in Appendix A-1, located at Electric Ave, Sparks, NV 89434.

**Land:** The real property on which the Factory is located, as described in Appendix A-1.

**Premises:** The portion of the Factory leased to Tenant hereunder, as more specifically set forth in Appendix A-2.

**Commencement Date:** December 1, 2015

**Production Date:** The date that Tenant begins to produce Goods in the Premises for the Purpose, which is currently forecast to occur on or around [\*\*\*].

**Expiration Date:** As set forth in Section 11.1 below.

[\*\*\*] [\*\*\*]

**Purpose:** The manufacture, supply, and support of lithium-ion battery cells.

The Parties have executed this Lease by persons duly authorized below:

<b>Tesla Motors, Inc.</b>	
By:	<u>/s/ Jeffrey B. Straubel</u>
Printed:	<u>Jeffrey B. Straubel</u>
Title:	<u>CTO &amp; Co-Founder</u>
Date:	<u>March 1, 2016</u>

<b>Panasonic Energy Corporation of North America</b>	
By:	<u>/s/ Masayuki Kitabayashi</u>
Printed:	<u>Masayuki Kitabayashi</u>
Title:	<u>President</u>
Date:	<u>January 19, 2016</u>

Whereas, Tesla, Panasonic and Tenant have entered into the General Terms, the Pricing Agreement, and certain other agreements with respect to the Purpose (collectively, the “Commercial Agreements”), which Commercial Agreements contemplate that Panasonic and/or its Affiliates, including without limitation Tenant, will perform the Purpose; and

Whereas, Tesla has purchased the Land, is currently constructing a manufacturing facility on the Land, and intends to provide to Tenant sufficient space and utilities at such facility for the Purpose;

Now, therefore, the Parties agree as follows:

**1. Lease Rights and Obligations.**

1.1 Grant of Lease.

- (a) Tesla leases to Tenant, and Tenant takes from Tesla, the Premises, to have and to hold for the Lease Term, subject to any superior liens or encumbrances and subject to the terms of this Lease and reserving and excepting to Tesla the roof and provided that this Lease confers no rights either with regard to the subsurface of the Land below the ground level of the building or with regard to airspace above the roof of the Factory. Tenant’s rights under this Lease include an exclusive right to use the Premises and a non-exclusive right to use all parking and other areas and all easements and rights benefiting the Premises. Tenant and its employees and business invitees shall be entitled to the non-exclusive use of the Common Areas during the Lease Term, in common with Tesla and with other persons authorized by Tesla from time to time to use the Common Areas. Tesla shall tender possession of the Premises to Tenant in its “as-is” condition as of the Commencement Date and, as a Tesla Responsibility, cause the Premises, the portions of the Factory pertinent to the Premises (including, without limitation, the Common Areas) and the corresponding exterior portions of the Factory (including the parking areas and the driveways, alleys, landscape and grounds surrounding such portions of the Factory) to be in compliance with all applicable Laws as of the Production Date and during the Lease Term (except to the extent of Tenant’s obligations with respect to the Premises).
- (b) The Parties shall discuss in good faith the general configuration of the Premises within the Factory as required for Tenant to accomplish the Purpose. On or after the Commencement Date: (i) Tenant may access the Premises for (A) planning, measurement, construction and installation of improvements, fixtures, and customizations to the Premises including Factory Systems (collectively, the “Tenant Improvements”) which are approved in writing by Tesla from time to time and required for Tenant to accomplish the Purpose, such approval to not unreasonably be withheld, delayed or conditioned, and (B) delivery, installation, and preparation of inventory and equipment as required for Tenant to accomplish the Purpose; and (ii) (A) Tesla will provide reasonable, temporary restroom facilities for Tenant’s agents, contractors and employees; and (B) Tesla will provide without charge reasonable space for temporary parking facilities for Tenant’s contractors and/or subcontractors for planning, measurement, construction and installation of Tenant Improvements and/or Tenant’s Property to the Premises, on the Land and/or within the Factory. Tenant may, subject to Tesla’s reasonable safety instructions and policies, also access the Premises at no cost and expense to Tenant after the Effective Date but before the Commencement Date (the “Pre-Commencement Date”), from time to time upon Tesla’s prior consent (which shall not be unreasonably withheld, delayed or conditioned) for the purpose of planning, measurement and other necessary preparation for Tenant Improvements and/or other Tenant’s Property. Tenant shall complete and maintain all Tenant Improvements in a professional and workmanlike manner with reasonable quality materials.
- (c) Tenant acknowledges that this Lease and all rights granted hereunder are subject to any and all restrictions generally applicable to the Factory and/or the Land, including the CCR Rules.
- (d) Notwithstanding anything to the contrary, Tesla shall not, during the Lease Term, lease the Premises to Tesla’s Affiliates or any other third party without Tenant’s prior written consent.

- (e) During the Lease Term, Tenant shall: (i) maintain a valid business license in the State of Nevada and all Permits required by the county, city, and/or town in which the Factory is located; and (ii) maintain the Premises as its primary place of business for the Purpose.

1.2 Use. During the Lease Term, Tenant shall: (a) use and occupy the Premises solely for the Purpose and for no other purpose whatsoever, unless otherwise agreed in writing by Tesla; (b) not use the Premises in any manner that is disreputable, creates extraordinary fire or other hazards (with reference to the Purpose), or results in an increased rate of insurance on the Factory or its contents (with reference to the Purpose); and (c) subject to Section 9.2, cause the Premises to comply with all applicable Laws (for avoidance of doubt, this obligation does not extend to areas of the Land or Factory outside the Premises, except to the extent such areas are or become under Tenant's control). Tenant may have access to the Premises 24 hours per day, 7 days per week. The Parties shall discuss in good faith and sign a mutually-agreed matrix to describe each Party's responsibility during the Lease Term for certain operational activities and/or maintenance in or around the Premises and/or Factory (hereinafter referred to as the "Responsibilities Matrix").

1.3 Utilities.

- (a) Factory Utilities. Tesla shall, as a Tesla Responsibility, install, configure, maintain in good working order, and furnish the utilities and services to the Premises identified in Appendix B (including installation, hook-up, delivery, and repair) (collectively, the "Factory Utilities"). Tesla may monitor Tenant's use of the Factory Utilities, and Tenant shall [\*\*\*] pursuant to [\*\*\*] of the General Terms, which is hereby incorporated by reference into, and forms an integral part of, this Lease provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease. The Parties shall discuss Tenant's use of the Factory Utilities in good faith as requested by Tesla, and the Parties shall discuss in good faith any requests by Tenant that Tesla assume responsibility for additional utilities and services to the Premises.
- (b) Tenant Utilities. Tenant shall, at its expense, install, configure, maintain, and/or procure the utilities and services to be solely used by Tenant and required for Tenant to accomplish the Purpose as reasonably determined by Tenant (collectively, "Tenant Utilities"). As of the date of this Agreement, the Tenant Utilities shall be the utilities and services set forth in Appendix B as the Tenant Utilities. Tesla will use Commercially Reasonable Efforts not to interfere with Tenant's use of Tenant Utilities. Tesla shall not be responsible for providing any Tenant Utilities to Tenant. Tesla shall not be liable to Tenant for any interruption or failure of service of any Tenant Utilities to the Premises from any cause whatsoever, except to the extent of Tesla's gross negligence or willful misconduct, nor shall such interruption or failure constitute a constructive eviction or [\*\*\*] or affect the obligations of Tenant under this Lease or the General Terms in any other way whatsoever. If Tesla and/or any of its other tenants at the Factory desire to use any portion of the Tenant Utilities, the Parties shall discuss in good faith the terms and conditions of the use, including but not limited to Tenant's charges for such use.

1.4 Maintenance and Repairs.

- (a) Tesla Responsibilities. During the Lease Term and as a Tesla Responsibility at no cost and expense to Tenant, Tesla will maintain, repair and, as necessary, replace: (i) the structure of the Factory (including the structural elements of the roof, the roof membrane, the slab, the foundation, structural elements of the Factory (e.g. column, beam), and exterior walls of the Factory); and (ii) all portions of the Premises and/or Factory not required to be maintained by Tenant under this Lease including the exterior portions of the Premises (e.g. the parking areas and the driveways, alleys, landscape and grounds surrounding the Factory), the Common Areas, Factory Systems not installed by Tenant, and Factory Systems installed by Tenant for which Tesla is responsible for maintenance, repairs and/or replacement, if any and as agreed in writing by the Parties. The Tesla Responsibilities include, without limitation, the following aspects of the Premises: utility lines serving the Premises inside the Premises; floor coverings; lighting; wiring; electrical; plumbing; HVAC ducts and related equipment; all locks and closing devices; all trade fixtures

and similar equipment; plate glass, all window sash, casement or frames, window cases, window frames, security grilles or similar enclosures; doors and door frames; Factory Systems as agreed in the Responsibilities Matrix (which may include fire alarms, sprinkler systems for fire, fire proof doors; general air conditioning systems); and all items of repair, maintenance and improvement or reconstruction as may at any time or from time to time be required with respect to the Premises by any governmental agency having jurisdiction. [\*\*\*]. Tesla will use Commercially Reasonable Efforts not to interfere with Tenant's use of the Premises during any such maintenance and repairs.

- (b) Tenant Responsibilities. During the Lease Term and at its cost and expense, Tenant shall repair, replace, and maintain the Premises and every part thereof in good and tenable condition, subject to reasonable wear and tear, including Tenant Improvements, air handling units in the dry room area(s) in the Premises, and all of Tenant's signs; provided, however, that (i) the foregoing excludes the structural aspects of exterior walls, roof, structural portions of the Premises and structural floor, and (ii) Tesla shall conduct maintenance and repairs as contemplated in Section 1.4(a) above. Tenant shall complete all maintenance and repair for which it is responsible in a professional and workmanlike manner, with reasonable quality materials and in compliance with applicable Laws and insurance requirements. Tenant shall deposit all trash in a covered trash container. Tenant waives the benefits of any current or future Law giving Tenant any rights or remedies as a result of the physical condition of the Premises and any and all rights to make repairs at Tesla's expense or to terminate this Lease, except as expressly provided herein.

1.5 Signs. Tenant may, at its cost, place its standard signs within the Premises, subject to applicable Laws and Tesla Policies. At the end of the Lease Term, Tenant will remove its signs and spot repair, paint, and/or replace the Factory walls or surfaces to which its signs are attached. Tenant shall not place any other signs on or in the Factory (other than the Premises) or any other portion of the Land without Tesla's express, prior written consent.

1.6 Quiet Enjoyment. For so long as Tenant is not in default under this Lease beyond any applicable cure period, Tenant will have, subject to the terms of this Lease, peaceful and quiet enjoyment of the Premises.

1.7 Tenant Personnel. Section 11.2 (Seller Personnel) of the General Terms is hereby incorporated by reference into, and forms an integral part of, this Lease, provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease and such provision shall be deemed to include, for purposes of this Lease, any and all visitors, employees, directors, officers, agents, servants, contractors, subcontractors and/or subtenants of Tenant or any Tenant Affiliate (collectively "Tenant Personnel") when they are at the Factory, and assignees, and/or successors of Tenant; provided, however, that: (a) Tenant shall not be obligated to comply with Section 11.2(a)(i) (legal right to work) for visitors who do not perform any work when they visit at the Factory; and (b) Tenant shall not be obligated to comply with Section 11.2(b) (background checks) of the General Terms for visitors who do not perform any work when they visit at the Factory or for any employees, directors, or officers of a Tenant Affiliate. Tenant shall require all Tenant Personnel who enter the Factory to agree in writing to maintain confidentiality of Tesla's Confidential Information under terms no less protective than the terms of the NDA.

1.8 Insurance.

- (a) General. The Parties each agree that insurance policies obtained pursuant to this Section shall: (i) be held with one or more insurance companies rated A or better and having a financial size category of VII or larger (both as determined by A.M. Best & Company), and licensed to do business in Storey County, Nevada; (ii) be primary and not contributory with any liability coverage held by the other Party or any Affiliate of the other Party; (iii) provide for severability of interests; and (iv) to the extent possible, provide for a waiver of subrogation. Each Party shall provide the other with certificates of insurance and copies of insurance policies upon request by the other Party. Each Party will use Commercially Reasonable Efforts to give the other Party at least [\*\*\*] days' prior written notice of any restrictive

change, non-renewal or cancellation of any policy obtained pursuant to this Section. Each Party will be responsible for all deductibles and retentions with regard to their respective insurance policies.

- (b) **Landlord Insurance.** During the Lease Term, Landlord shall obtain and maintain at its cost the following types and amounts of insurance coverage. Landlord may insure the Premises through a blanket policy and, if Landlord does so, Landlord will allocate a reasonable portion of the premium to the Premises based on the insurer's cost calculations. Further, subject to applicable Laws, Landlord may self-insure any of the foregoing insurance requirements.
- (i) "special form" Property Insurance insuring the Factory and improvements to the Factory (including the Premises, but excluding Tenant's Property and Tenant Improvements) at full replacement cost;
  - (ii) Commercial General Liability in an amount of \$5 million per occurrence covering the Common Areas of the Factory (but expressly excluding the Premises); and
  - (iii) Worker's Compensation & Employers' Liability in an amount equal to the greater of \$1 million per person and accident or the amount(s) required by applicable Laws of the State of Nevada.
- (c) **Tenant Insurance.** During the Lease Term, Tenant (i) shall obtain and maintain at its cost the types and amounts of insurance that are required by applicable Law or reasonably required by Landlord's insurance provider(s), and (ii) may obtain and maintain, in its sole discretion and at its sole cost and expense, the following types and amounts of insurance coverage.
- (i) "special form" Property Insurance covering Tenant's Property and Tenant Improvements, at full replacement cost;
  - (ii) Commercial General Liability in an amount of [\*\*\*] covering the Premises, [\*\*\*];
  - (iii) Worker's Compensation & Employers' Liability with respect to Tenant Personnel in an amount equal to [\*\*\*] or the amount(s) [\*\*\*]; and
  - (iv) Automobile Liability covering hired, owned and non-owned vehicles using standard ISO Business Auto policy or similar form, in an amount of [\*\*\*].

## 2. Tesla Responsibilities

2.1 Section 2.4 (Tesla Responsibilities) of the General Terms is incorporated by reference into, and forms an integral part of, this Lease, provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease.

2.2 As a Tesla Responsibility, Tesla shall: (a) maintain the Land; (b) construct the Factory; and (c) procure items for the Premises and/or the Purpose as may be agreed in writing by the Parties.

3. [\*\*\*]

## 4. Representations and Warranties.

4.1 **General.** Each Party represents and warrants that it (and its Affiliates to the extent applicable): (a) will perform all of its obligations under this Lease in a professional and workmanlike manner, consistent with industry standards and in accordance with all of the terms of this Lease; and (b) has the right and ability to enter into, perform the obligations under and agree to the covenants contained in this Lease. Tenant further represents that: (c) each obligation of any Tenant entity under this Lease is binding on all Tenant entities which are Parties to this Lease as if each such Tenant entity had agreed to the obligation. Tesla further represents that: (d) each obligation of any Tesla entity under this Lease is binding on all Tesla entities which are Parties to this Lease as if each such Tesla entity had agreed to the obligation.

4.2 Compliance with Laws and Tesla Policies.

- (a) Tenant will, at its cost and expense, obtain all necessary regulatory approvals, licenses, and permits (collectively, “Permits”) applicable to its business and comply with all Laws and Factory Requirements applicable to its business or the performance of its obligations under this Lease, the General Terms, and/or the Contract Documents, as such Laws and/or Factory Requirements may be revised from time to time; provided, however, that the Parties shall consult in good faith and reasonably cooperate to obtain the Permits required for Tenant’s business operations at the Premises. The foregoing includes all Laws pertaining to any of the following: (i) occupational safety and health; (ii) protection of persons and property from death, injury or damage; (iii) the environment, including all applicable Environmental Requirements; (iv) the use, handling, storage, labeling and disposal of toxic or Hazardous Materials; (v) labor and employment, including equal employment opportunity; (vi) tax; (vii) workmen’s compensation and unemployment insurance, (viii) money laundering, anti-terrorism, trade embargos, and economic sanctions; (ix) anti-bribery and anti-corruption; and (x) to the extent relevant to Tenant’s obligations, Laws with respect to data privacy, data protection, and consumer privacy. Tenant will, if reasonably requested by Tesla, submit to Tesla evidence of such compliance. Each Party will also provide the other Party with all information reasonably required in order for the other Party to comply with Laws applicable to it.
- (b) Tesla will, at its cost and expense, comply with all Laws applicable to the performance of its obligations under this Lease, as such Laws may be revised from time to time, in any of the following areas: (i) occupational safety and health; (ii) protection of persons and property from death, injury or damage; (iii) the environment, including all applicable Environmental Requirements; and (iv) the use, handling, storage, labeling and disposal of toxic or Hazardous Materials.
- (c) To the extent not prohibited by Law, each Party will promptly notify the other Party in writing of any investigation or inquiry by a governmental authority into whether such Party (or any of its Personnel) is charged with failing to comply with any Laws that may or will impact its performance under this Lease.
- (d) Tenant will comply with any Tesla policies, standards, rules, and procedures (collectively, “Tesla Policies”) applicable to performance of Tenant’s obligations under this Lease and/or to the Factory which are disclosed to Tenant in writing and approved by Tenant, as such Tesla Policies may be revised from time to time subject to Tenant’s approval, and Tenant shall not unreasonably withhold, condition, or delay its approval for any such Tesla Policy or any changes thereto. Without limiting the foregoing, Tenant shall also cause Tenant Personnel to sign Tesla’s Visitor Safety and Non-Disclosure Agreement when entering the Factory.

4.3 Debarment. Section 6.4 (Debarment) of the General Terms is incorporated by reference into, and forms an integral part of, this Lease, provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease.

4.4 Disclaimer. THE WARRANTIES SET FORTH HEREIN ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER WARRANTIES WITH RESPECT TO THIS LEASE, THE PREMISES, THE FACTORY, AND/OR THE LAND, WHETHER ARISING FROM A COURSE OF DEALING, COURSE OF PERFORMANCE OR TRADE USAGE, OR WHETHER ORAL, WRITTEN, EXPRESS, IMPLIED OR STATUTORY, ALL OF WHICH ARE HEREBY WAIVED BY TESLA AND TENANT.

**5. Indemnification.**

5.1 Indemnification by Tenant. Notwithstanding Section 12.1(d) of the General Terms, to the extent permitted by Law but subject to Section 5.3 (Procedure; Limitations), Tenant agrees to indemnify, defend and hold harmless Tesla, its Affiliates, and their respective directors, officers, employers and agents (collectively, “Tesla Indemnitees”) from and against any and all costs, fees, penalties, expenses, third-party damages, reasonable attorneys’ fees and all other liabilities to any third party whatsoever (“Losses”), arising out of any

Claim against any Tesla Indemnitee which arises from or relates to any actual or alleged: (a) personal injury (including death) or property damage to the extent caused by the negligence or willful misconduct of Tenant, any Tenant Personnel, or any of Tenant's visitors, licensees, employees, directors, officers, agents, servants, contractors and/or subcontractors in connection with this Lease; (b) breach of a Tenant obligation under this Lease with respect to, or violation of, one or more Environmental Requirements for which Tenant is responsible under this Lease; (c) challenge (for example, through a lien or similar impairment) to Tesla's right, title and interest in the Premises, Factory, Land, Goods, or Tesla Property, or right to possession of any of the foregoing, in each case brought by any third party supplier to Tenant or any Tenant Personnel, including toolmakers, subcontractors, and lending institutions; or (d) Claims as contemplated in Section 13.4 (Brokers).

5.2 **Indemnification by Tesla.** Notwithstanding the provisions of Section 12.1(d) of the General Terms, to the extent permitted by Law but subject to Section 5.3 (Procedure; Limitations), Tesla agrees to indemnify, defend and hold harmless Tenant, its Affiliates, and their respective directors, officers, employers and agents (collectively, "**Tenant Indemnitees**") from and against any and all Losses arising out of any Claim against any Tenant Indemnitee which arises from or relates to any actual or alleged: (a) personal injury (including death) or property damage to the extent caused by the negligence or willful misconduct of Tesla or any of Tesla's visitors, licensees, employees, directors, officers, agents, servants, contractors and/or subcontractors in connection with this Lease; (b) breach of a Tesla obligation under this Lease with respect to, or violation of, one or more Environmental Requirements for which Tesla is responsible under this Lease; (c) challenge to Tenant's sole right, title and interest in materials, work-in-process, Goods or Tenant's Property, or right to possession of any of the foregoing, in each case brought by any third party supplier to Tesla or agent to Tesla, including toolmakers, subcontractors, and lending institutions; or (d) Claims as contemplated in Section 13.4 (Brokers).

5.3 **Procedure; Limitations.** Sections 7.3 (Procedure) and 7.4 (Limitations) of the General Terms are incorporated by reference into, and form an integral part of, this Lease, provided that such provisions shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease.

6. **Casualty.** If all or substantially all of the Factory or the Premises are damaged, or a part of the Factory is damaged so that the operation of Tenant at the Premises is adversely affected by a fire or other casualty (a "**Casualty Event**"), Tesla will notify Tenant promptly in writing of the occurrence of the Casualty Event, and will use Commercially Reasonable Efforts to give the notice within [\*\*\*] days, which notice shall include an estimate as to the amount of time to restore the Premises (such notice is the "**Casualty Notice**"). In case of the occurrence of a Casualty Event, the Parties shall discuss in good faith regarding the restoration of the Factory or the Premises, and Tesla shall use Commercially Reasonable Efforts to restore them as soon as practicable but in any event within [\*\*\*]; provided, however, that, if Tesla reasonably determines after such good-faith discussion with Tenant that it cannot restore the Premises or such damaged portion of the Factory within a period of [\*\*\*], then the Casualty Event will be deemed to be a Force Majeure Event and either Party may terminate this Lease upon written notice, provided that such Party was not grossly negligent in causing or failing to prevent the Casualty Event. If neither Party exercises the foregoing termination right, or less than all or substantial all of the Premises are damaged by a Casualty Event, then Tesla will, as a Tesla Responsibility, use Commercially Reasonable Efforts to restore the Premises and/or such damaged portion of the Factory in a commercially reasonable period of time if and to the extent that Tesla deems it is commercially reasonable and feasible to do so. [\*\*\*] while Tesla restores the Premises and/or such damaged portion of the Factory adversely affecting Tenant's operation (and for any additional period reasonably required for Tenant's restoration of any improvements or equipment installed by Tenant and time reasonably required for Tenant to be fully operational at the Premises) in the proportion which the area of the Premises, if any, affected by the casualty or related restoration work bears to the total area of the Premises.

7. **CONDEMNATION.** Tesla will promptly notify Tenant of any threatened Taking known to Tesla and will allow Tenant to participate in any negotiations with public authorities. If all or substantially all of the Premises is taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu of any condemnation (collectively, a "**Taking**" or "**Taken**"), or if any part

of the Premises, the Factory, or the Land is Taken and the partial Taking would prevent or materially interfere with Tenant's access to or use of the Premises, then Tenant may, at its option, terminate this Lease by giving written notice to Tesla. Such termination will be effective as of the effective date of the Taking and will be deemed to be a termination due to a Force Majeure Event by either Party under the General Terms and this Lease. If part of the Premises is Taken and Tenant does not terminate the Lease, (a) Tesla will, as a Tesla Responsibility, restore the Premises within a commercially reasonable period of time, and (b) [\*\*\*]. If any Taking occurs, then Tesla will be entitled to the entire award for the Premises but Tesla shall have no right to any award for the value of Tenant's Property, Tenant Improvements, and/or Tenant's moving costs. Tenant may separately pursue a claim against the condemning authority in connection with a Taking for the value of Tenant's property, moving costs, loss of business, and other claims it may have.

#### **8. Subordination, Estoppel Certificates and Liens.**

8.1 Mortgages. At Tesla's written request, Tenant will subordinate this Lease and Tenant's interest and rights under this Lease to any existing or future deed of trust, security deed, mortgage, security assignments and any other similar encumbrances (each, a "Mortgage"), provided that the holder of the Mortgage has executed, acknowledged and delivered to Tenant a commercially reasonable Subordination, Attornment and Non-Disturbance Agreement that provides that: (a) Tenant's possession of the Premises and other rights under the Lease will not be disturbed in any proceeding to foreclose the Mortgage or in any other action instituted in connection with such Mortgage, (b) Tenant will not be named as a defendant in any foreclosure action or proceeding which may be instituted by the holder of such Mortgage, and (c) if the holder of the Mortgage or any other person acquires title to the Premises through foreclosure or otherwise, the Lease will continue in full force and effect as a direct lease between Tenant and the new owner, and the new owner will assume and perform Tesla's obligations under this Lease. The holder of any Mortgage may, at any time, subordinate its Mortgage to this Lease, without Tenant's consent, by giving written notice to Tenant.

8.2 Estoppel Certificates. Tenant shall, within [\*\*\*] days of Tesla's request, execute and deliver to Tesla estoppel certificate(s) to: (a) certify that this Lease is unmodified and in full force and effect or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect and the date to which [\*\*\*], if any; (b) acknowledge that there are not, to Tenant's knowledge, any uncured defaults on the part of Tesla hereunder, or stating the nature of defaults if such exist; and (c) evidence the status of this Lease. If Tenant fails to timely respond to a request for an estoppel certificate, Tesla may deliver an additional request accompanied by a second copy of the same estoppel certificate. If Tenant does not respond within [\*\*\*] Business Days after such second request, Tenant will be deemed to have agreed to all matters set forth in good faith in the estoppel certificate, except to the extent that Tesla has actual knowledge to the contrary.

8.3 Mechanic's Liens. Tenant will not allow any person working on behalf of either Tenant or any Tenant Personnel to place any lien or similar impairment on the Land, Factory, or Premises.

#### **9. Environmental Requirements.**

9.1 Responsibilities Matrix. Unless expressly provided otherwise in the Responsibilities Matrix, Tenant shall install, operate, and maintain the Tenant Utilities in full compliance with all applicable Environmental Requirements and Tesla will have such responsibility with respect to the Factory Utilities.

9.2 Tesla Obligations. Tesla will, as a Tesla Responsibility and during the Lease Term: (a) cause the Land and Factory to comply with all Environmental Requirements, except (i) to the extent of Tenant's obligations under Section 9.3, or (ii) to the extent that non-compliance with an Environmental Requirement is or was caused by Tenant, any Tenant Personnel, or any of Tenant's visitors, licensees, employees, directors, officers, agents, servants, contractors and/or subcontractors; (b) be responsible for (i) coordination and arrangements with Tenant and all other entities located at the Land and permitted by Tesla, if any, for compliance with all Environmental Requirements with respect to the entire site, and (ii) any and all filings and permits with respect to the entire site

as required under any Environmental Requirements, and Tesla will discuss in good faith such filings as related to Tenant's operations in the Premises.

9.3 Tenant Obligations.

- (a) Tenant shall not transport, store, use, generate, manufacture, or release any Hazardous Materials in or about the Premises, Land, or Factory, nor shall Tenant permit any Tenant Personnel to do any of the foregoing, except if and to the extent such activity is: (i) related to the Purpose; (ii) in compliance with all Environmental Requirements; and (iii) notified in advance in writing by Tenant. Further, except as expressly provided otherwise in the Responsibilities Matrix, Tenant shall cause the Premises (as distinct from the Factory and Land) to comply with all Environmental Requirements during the Lease Term, including as applicable by conducting remediation, cleanup and repairs as required by applicable Law and/or any Environmental Requirements; provided, however, that Tesla shall conduct such remediation, cleanup and repairs at its expense if and to the extent that the non-compliance with one or more Environmental Requirements was caused by Tesla or any of Tesla's visitors, licensees, employees, directors, officers, agents, servants, contractors and/or subcontractors. Further, Tenant shall conduct remediation, cleanup and repairs with respect to the Land and Factory if and to the extent that the non-compliance with one or more Environmental Requirements was caused by Tenant, any Tenant Personnel, or any of Tenant's visitors, licensees, employees, directors, officers, agents, servants, contractors and/or subcontractors.
- (b) Tenant shall provide all information that is requested by Tesla in connection with, and required for, Tesla's performance of its obligations under Section 9.2 above, and access to the Premises and Tenant's records as required to confirm and evaluate the accuracy and thoroughness of such information. Tenant shall not contest any findings or remediation (proposed or required) identified in a filing by Tesla in connection with any Environmental Requirements applicable to the site. Tesla will use Commercially Reasonable Efforts to discuss in good-faith with Tenant any such findings or remediation, but only to the extent that (i) the finding(s) and/or remediation pertain to the Premises, and (ii) such discussion will not, in Tesla's sole but reasonable determination, result in a breach of confidentiality or waiver of applicable privilege.

9.4 Pre-Existing Issues. Notwithstanding anything to the contrary herein or in the General Terms, Tenant shall not be liable for any non-compliance with any Environmental Requirements or any other environmental issue which existed in the Land, Factory and/or Premises before the Commencement Date and was not caused by Tenant.

10. **Liability.**

10.1 Limitations of Liability and Exclusions. Section 12.1 (Limitations of Liability and Exclusions) of the General Terms is incorporated by reference into, and forms an integral part of, this Lease, provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease. The foregoing provision governs each Party's liability pursuant to this Lease; provided, however, that the following shall also be deemed to be direct damages for purposes of this Lease:

- (a) actual and reasonable damages and liability incurred by a Party with respect to environmental conditions or issues (including actual and reasonable costs of remediation, if applicable), either (a) to the extent caused by the other Party and/or (b) to the extent such conditions or issues are the legal responsibility of the other Party; the foregoing includes, without limitation, any and all losses, fines, penalties, liabilities, damages (including punitive damages), remedial costs and expenses (including investigation, remediation, removal, repair, corrective action, and/or cleanup expenses), and costs (including actual and reasonable attorneys' fees, consultant fees and/or expert witness fees) suffered or incurred by a Party arising from any of the following to the extent caused by acts or omissions of the other Party or any employee or agent thereof: (i) the presence of any Hazardous Materials in, under, on or from the

Premises, Factory, and/or Land (e.g. in connection with any spills or the transfer of chemicals from a tanker to storage for use in production activities at the Factory); or (ii) failure to comply with any applicable Environmental Requirement;

- (b) if Tesla terminates for Tenant's Lease Default, the [\*\*\*];
- (c) if Tesla terminates for Tenant's Lease Default, the actual and reasonable costs and expenses to Tesla of soliciting new tenants during [\*\*\*], including any costs and expenses for re-fixturing, alterations and other costs in connection with the Premises for any reasonable or necessary alterations to bring the Premises back to the condition as of the Commencement Date subject to reasonable wear and tear;

10.2 Force Majeure. Section 12.2 (Force Majeure) of the General Terms is incorporated by reference into, and forms an integral part of, this Lease, provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease.

## 11. Term and Termination.

11.1 Term. The term of this Lease (the "Lease Term") will begin on the Effective Date and end on [\*\*\*] (the "Expiration Date").

11.2 Termination, Generally. This Lease may only be terminated as provided in this Section 11 (Term and Termination). Termination by a Party will be without prejudice to any other rights and remedies available to a Party. Neither Party will be obliged to pay any termination charges or demobilization fees to the other Party in connection with any termination of this Lease, except as may be expressly set forth in this Lease.

11.3 Termination.

- (a) Subject to Sections 2.1 (Tesla Responsibilities) above, the Party who is not in Lease Default may terminate this Lease as follows: (i) if the other Party breaches a material obligation under the Lease and fails to cure the breach within [\*\*\*] days after receipt of notice of such breach expressly stating the non-breaching Party's intent to terminate ("Notice of Termination") or, if the breach cannot reasonably be cured within such [\*\*\*]-day period, [\*\*\*] days after receipt of Notice of Termination provided the Party in Lease Default commences and diligently pursues a cure within the [\*\*\*]-day period; (ii) if the other Party becomes a debtor in a bankruptcy, insolvency, receivership, or similar proceeding commenced by a third party that is not dismissed within a reasonable time after commencement; or (iii) immediately upon Notice of Termination in the event of an incurable material breach, including (A) a Party's repudiation of this Lease, (B) in case of Section 4.3 (Debarment), or (C) if the other Party makes an assignment for the benefit of creditors in violation of this Lease or voluntarily institutes proceedings in bankruptcy or insolvency. Each of the foregoing types of breach shall be deemed to be a "Lease Default." The Party that issues the Notice of Termination may approve a longer cure period with respect to any Lease Default in its sole discretion. For purposes of this subsection, each of the following will be deemed to be a material breach of this Lease: (x) Tenant's abandonment of the Premises; (y) [\*\*\*]; and (z) either Party's assignment, encumbrance or subletting in violation of the provisions hereof.
- (b) The Parties may also terminate this Lease: (i) as provided in Section 10.2 (Force Majeure); (ii) as provided in Section 6 (Casualty); (iii) as provided in Section 7 (Condemnation); or (iv) [\*\*\*].
- (c) Tenant may terminate this Lease pursuant to Section 11.1 of the General Terms.
- (d) Subject to Section 11.3 (Extension of Lease) of the General Terms, this Lease shall also automatically terminate [\*\*\*].

11.4 Obligations Upon Termination or Expiration.

- (a) Immediately upon the date of expiration or termination of the Lease and in addition to any actions or payments expressly required hereunder but subject to Section 11.3 (Extension of Lease) of the General

Terms, Tenant shall vacate and deliver to Tesla possession of the Premises (i) free and clear of all liens, charges, or encumbrances thereon resulting from any act or omission on Tenant's part, (ii) free and clear of all violations of applicable Laws excluding any violation for which Tenant is not responsible, including any violation of the Environmental Requirements which existed prior to the Commencement Date, (iii) broom clean, in good condition, normal wear and tear excepted, free of all toxic or Hazardous Materials and waste materials of any nature brought onto the Premises or caused by Tenant or for which Tenant is otherwise responsible, but excluding any of them for which Tenant is not responsible, and (iv) having removed all Tenant Improvements so that the Premises are in substantially the same condition as they are in at Commencement Date and/or Production Date or when installed, if later, normal wear and tear excepted.

- (b) Prior to such delivery but subject to Section 11.3 (Extension of Lease) of the General Terms, Tenant shall remove all Tenant's Property and Tenant Improvements that Tenant has the right to remove or is obligated to remove under this Lease and shall repair all damage caused by and perform all restoration made necessary by the removal of any Tenant Improvements or Tenant's Property normal wear and tear excepted. If and to the extent that Tenant does not comply with the foregoing when it surrenders the Premises, (i) Tesla may elect to retain or dispose of Tenant Improvements and dispose of Tenant's Property in any manner, and (ii) Tenant shall reimburse Tesla upon demand for Tesla's costs for storing, removing, and disposing of any Tenant Improvements or Tenant's Property.

11.5 Holding Over.

- (a) If Tenant remains in possession of the Premises after the effective date of termination or after expiration of the Lease Term (and provided that the Preparation Period has expired), unless otherwise provided in Section 11.3 (Extension of Lease) of the General Terms (the "Holding Over"), such possession by Tenant shall be deemed to be a month-to-month tenancy which is subject to termination by either Party by providing [\*\*\*] days' prior written notice to the other Party. All provisions of this Lease, except those pertaining to Lease Term and option to extend, shall apply to such month-to-month tenancy, unless otherwise provided in Section 11.3 (Extension of Lease) of the General Terms; provided that [\*\*\*] in case of expiration or termination of this Lease or the General Terms for any reason other than as set forth in subparagraph (i) above.
- (b) If the Holding Over continues more than [\*\*\*] days, then Tenant will be liable to Tesla for the rental revenue lost by Tesla as a result of the holdover (other than as a result of a termination of any executed lease for any portion of the Premises) and for any amounts Tesla is required to pay to any new tenant (whether in the form of rent abatement, monetary damages, or otherwise) as a result of the holdover. If Tenant wishes to extend its occupation of the Premises after the effective date of expiration or termination of this Lease, Tenant may request an extension in writing and Tesla will discuss such extension with Tenant in good faith but Tesla shall have no obligation to grant an extension.
- (c) If the Holding Over continues more than [\*\*\*] days, then upon [\*\*\*] day prior written notice to Tenant: (A) Tesla shall have an unconditional right of entry to the Premises and may use such reasonable force as it may deem necessary for the purpose of gaining admittance to and retaking possession of the Premises without any liability in trespass; (B) Tesla may expel and remove Tenant, those claiming under Tenant, and their effects, as allowed by Law, without any liability in trespass; (C) if Tesla removes any Tenant's Property from the Premises, Tesla may either store such property in a public warehouse or at a place selected by Tesla in the State of Nevada at Tenant's expense or scrap or recycle such property in its sole discretion and use the resulting funds (if any) towards any indebtedness of Tenant to Tesla, in each case without any liability to Tenant other than to provide any remaining balance of proceeds from scrap or recycling to Tenant; (D) Tesla may remove any and all Tenant Improvements in the Premises at Tenant's expense; and (E) Tenant hereby releases Tesla from all actions, proceedings, claims, and demands whatsoever for and in respect of Tesla's exercise of any of the foregoing rights except in case

that such action, proceeding, claim and/or demand are raised based on Tesla's intentional torts, willful misconduct or gross negligence.

**12. Dispute Resolution.**

12.1 Governing Law. This Lease will be interpreted and construed in accordance with the following substantive Laws and the Laws of the United States generally applicable therein, without regard to any provisions of choice of law rules that would result in a different outcome: (a) the Laws of California with respect to contract matters; and (b) the Laws of Nevada with respect to leasehold matters. The UN Convention on Contracts for the International Sale of Goods will not apply to this Lease.

12.2 Dispute Resolution. In the event any disputes, differences or controversies arise between the Parties, out of or in relation to or in connection with the provisions of this Lease, the Parties shall thoroughly explore all possibilities for an amicable settlement. Section 15.3 (Arbitration) of the General Terms is incorporated by reference into, and forms an integral part of, this Lease, provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease. Each Party agrees to continue performing its obligations under this Lease while a dispute is being resolved unless and until such obligations are terminated by the termination or expiration thereof.

**13. Miscellaneous.**

13.1 Assignment and Subcontracting.

- (a) Without prior written consent of the other Party, neither Party may assign this Lease and Tenant may not sublet its rights hereunder, and any attempt to do so shall be void; provided, however, that: (i) each Party may, by a written notice but without requiring the other Party's consent or meeting any other condition, add an Affiliate which operates in the Factory as a co-party to this Lease; and (ii) Tesla may, with Tenant's prior written consent, which shall not be unreasonably withheld, conditioned or delayed, assign any or all of its rights, benefits or remedies to an Affiliate which assumes all of Tesla's obligations hereunder.
- (b) Tenant may not subcontract any of its obligations under this Lease without Tesla's prior written consent (such consent will not be unreasonably withheld, conditioned, or delayed by Tesla), and any attempt to do so shall be void. If Tenant subcontracts any of its obligations under this Lease to a third party, Tenant will: (i) be solely responsible for payments to the subcontractor; (ii) include in its purchase order or any other contract with the subcontractor a waiver of subcontractor liens on the Premises and Factory to the maximum extent permitted by applicable Law; (iii) before permitting any subcontractor to use Tesla Property and/or access the Factory, obtain Tesla's prior written consent, which shall not be unreasonably withheld, conditioned, or delayed by Tesla; and (iv) replace any subcontractor used by Tenant in connection with this Lease as reasonably requested by Tesla within a reasonable time after receipt of notice from Tesla and following a good faith discussion. Tesla has no obligation with respect to any subcontractor of Tenant. Any subcontracting, assignment or delegation by Tenant does not relieve Tenant of any responsibility under this Lease, and Tenant remains responsible to the same extent as if the subcontracted, assigned or delegated responsibilities were retained by Tenant. [\*\*\*] shall not be deemed to be a waiver by Tesla of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of default by any assignee, subtenant or any other successor of Tenant under this Lease, in the performance of any of the terms hereof, Tesla may proceed directly against Tenant without the necessity of exhausting remedies against such assignee, subtenant or successor. If and to the extent that Tesla unreasonably withholds, conditions or delays its consent to any proposed subcontractor, Tesla will be deemed to have failed to perform a Tesla Responsibility and Section 2.4(b) of the General Terms will apply.

- (c) In the event of a Change of Control Event affecting a Party, the person or entity which acquires Control of the Party shall be subject to the terms and conditions of, and shall assume all of the acquired Party's obligations under, this Lease.
- (d) If Tesla sells, transfers, assigns or otherwise disposes of any portion of the Land and Factory covered by this Lease and/or the Factory Utilities to a Tesla Affiliate or a third party, any such sale, transfer, assignment or disposal shall be subject to any and all of Tenant's rights under this Lease. Tesla shall first notify in writing to and discuss with Tenant in good faith if Tesla intends to sell, transfer, assign or otherwise dispose of any portion of the Land and Factory covered by this Lease and/or the Factory Utilities to any third party.
- (e) This Lease shall be binding upon the respective successors and permitted assigns of the Parties.

13.2 Audit and Inspection.

- (a) Tenant will permit Tesla and its agents and representatives to enter the Premises if reasonably required for any of the following:
  - (i) an emergency at any time;
  - (ii) a law enforcement or government inspection at any time;
  - (iii) employee health & safety (EHS);
  - (iv) security;
  - (v) audit (e.g., PPAP);
  - (vi) evaluation of compliance with Environmental Requirements and/or for purposes of any Tesla filings or obligations under one or more Environmental Requirements;
  - (vii) as separately approved in writing by Tenant following a good faith discussion with Tesla; and/or
  - (viii) maintenance or repair of Tesla Property used by or for Tenant in the Premises.
- (b) Tesla and its authorized representatives shall have the right, from time to time with reasonable prior written notice and subject to the NDA and compliance with Tenant's reasonable security procedures, to access the Premises as approved by Tenant (such approval will not be unreasonably withheld, conditioned, or delayed by Tenant) for any of the following purposes: (i) to determine whether the Premises are in good condition and whether Tenant is complying with its obligations under this Lease; (ii) to do any necessary or appropriate maintenance and to make any restoration to the Premises or the Factory and other improvements in which the Premises are located that Tesla has under the Lease the right or obligation to perform; (iii) to serve, post, or keep posted any notices required or allowed under the provisions of this Lease; and/or (iv) to shore the foundations, footings, and walls of the Factory and to erect scaffolding and protective barricades around and about the Factory or Premises (but without preventing entry to the Premises), and to do any other act or thing necessary for the safety or preservation of the Premises or the building and the other improvements in which the Premises are located if any excavation or other construction is undertaken or is about to be undertaken on any adjacent property or nearby street.
- (c) Tenant will maintain records as required to demonstrate its compliance with the terms of this Lease. Tesla and its representatives may audit Tenant's records for the three-year period prior to the audit date using reasonable efforts not to interrupt Tenant's operations in the Premises, to the extent needed to verify compliance with this Lease, and Tenant will make such records available to Tesla and its auditors for examination and copying upon their reasonable request; provided that Tenant is not obliged to make available any technical or engineering records, data and/or information which is confidential or proprietary to Tenant and which is owned or controlled by Tenant without the prior written agreement

between the Parties. Each Party shall bear its own expenses in connection with any such audit. Tesla shall not be liable in any manner for any inconvenience, disturbance, loss of business, nuisance, or other damage arising out of Tesla's entry on the Premises, nor shall any such entry constitute a constructive eviction or in any way affect Tenant's obligations under this Lease or [\*\*\*].

13.3 Authority. Each Party represents to the other that it has the full right and authority to bind itself without the consent or approval of any other person or entity and that it has full power, capacity, authority and legal right to execute and deliver this Lease and to perform all of its obligations hereunder.

13.4 Brokers. Each Party represents and warrants that it has dealt with no broker, agent or other person in connection with this Lease, and agrees to indemnify and hold the other Party harmless from and against any claims by any broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with such Party with regard to this Lease.

13.5 Confidentiality. The Amended and Restated Non-Disclosure Agreement for Battery Factory by and between Tesla, Tenant, and Panasonic with an effective date of October 23, 2013 ("NDA") sets forth the Parties' respective confidentiality obligations hereunder. The NDA is hereby incorporated by reference in this Lease, and the terms and conditions of the NDA will continue in force during the Lease Term and thereafter during the Confidentiality Period (as defined in the NDA).

13.6 Counterparts. This Lease may be executed in counterparts, each of which shall be an original and together which shall constitute one and the same instrument.

13.7 Covenant of Good Faith. Each Party, in its respective dealings with the other Party under or in connection with this Lease, shall act in good faith and with fair dealing.

13.8 Environmentally Friendly Practices. In addition to complying with all Environmental Requirements, to the maximum extent practicable, each Party will use environmentally conscious materials and practices in connection with this Lease.

13.9 Entire Agreement. This Lease (including its accompanying addenda and exhibits, the recitals and Basic Information at the beginning hereof, and together with applicable provisions in the General Terms, the Pricing Agreement, and any documents incorporated or referenced in either of the foregoing) constitutes the entire agreement between the Parties with respect to its subject matter, and supersedes all prior oral or written representations or agreements by the Parties with respect thereto. No subsequent terms, conditions, understandings, or agreements purporting to modify the terms of this Lease will be binding unless in writing and signed by Tesla and Tenant.

13.10 Memorandum of Lease. If requested by Tenant and during the Lease Term, Tesla will execute a memorandum of lease with respect to this Lease. Tenant shall be responsible for recording such memorandum of lease at its expense if Tenant elects to do so.

13.11 No Third Party Beneficiaries. This Lease is entered into solely between Tesla and Tenant and, except for the Parties' indemnification obligations hereunder, will not be deemed to create any rights in any third parties or to create any obligations of either Tesla or Tenant to any third parties.

13.12 No Waiver. The failure of either Party to enforce on a particular occasion any right or remedy provided in this Lease or by law or in equity will not be deemed a waiver of that right or remedy on a subsequent occasion or a waiver of any other right or remedy.

13.13 Notices. Section 16.1 (Notices) of the General Terms is hereby incorporated by reference into, and forms an integral part of, this Lease provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease. Copies of all notices to Tenant shall also be sent to Panasonic Corporation of North America, Two Riverfront Plaza, Newark, NJ 07102, Attn: General Counsel.

13.14 Relationship of Parties. The Parties are independent contractors under this Lease and no other relationship is intended, including a partnership, franchise, joint venture, agency, employer/employee, fiduciary, master/servant relationship, tenancy-in-common, joint tenancy, financing, or other special relationship, express or implied. Neither Party shall act in a manner that expresses or implies a relationship other than that of independent contractor, nor bind the other Party. Tesla and Tenant will treat this Lease (including its accompanying addenda and exhibits) as a lease in their separate books and records and in any reports to any third party.

13.15 Rules of Interpretation. Section 16.7 (Rules of Interpretation) of the General Terms is hereby incorporated by reference into, and forms an integral part of, this Lease provided that such provision shall be deemed amended and modified *mutatis mutandi* solely for purposes of applicability to this Lease.

13.16 Severability. If for any reason a court of competent jurisdiction finds any provision of this Lease to be unenforceable, that provision of this Lease will be enforced to the maximum extent permissible so as to implement the intent of the Parties, and the remainder of this Lease will continue in full force and effect.

13.17 Survival. Any provision of this Lease that contemplates or governs performance or observance subsequent to termination or expiration will survive the expiration or termination hereof for any reason.

13.18 Time. Time is of the essence as to the performance of each Party's obligations under this Lease.

13.19 Defined Terms.

- (a) "Business Day" means any day that is not a Saturday, Sunday, or federal holiday.
- (b) "CCR Rules" means all policies, procedures, rules and regulations applicable to the Factory and/or the Land (collectively, the "CCR Rules").
- (c) "Common Areas" shall mean all areas of the Factory intended or designated by Tesla from time to time as for the common use or benefit of the tenants of the Factory and their employees, agents, and other invitees, including all parking areas, pedestrian walkways, driveways and access roads, entrances and exits, and landscaped areas.
- (d) "Environmental Requirements" means all applicable present and future Laws regulating or relating to human health, safety, or environmental conditions on, under, or about the Premises, Factory, Land, or the environment, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA); the Resource Conservation and Recovery Act; and all state and local counterparts.
- (e) "Factory Requirements" means, collectively, all CCR Rules and insurance requirements applicable to the Factory and/or the Land.
- (f) "Factory Systems" means, collectively, HVAC systems, fire suppression systems, lighting systems, electrical systems, plumbing systems, or other mechanical and building systems.
- (g) "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant listed or defined as hazardous or toxic under any Environmental Requirements.
- (h) "Law(s)" means any statute, regulation, ordinance, rule, order, decree or governmental requirement enacted, promulgated or imposed by any governmental authority at any level (e.g., municipal, county, province, state or national). For the avoidance of doubt, the term "Laws" includes any and all applicable Anti-Bribery Laws and Anti-Money Laundering Laws.
- (i) [\*\*\*]
- (j) "Party" refers to either Tesla or Tenant and "Parties" refers collectively to Tesla and Tenant.
- (k) "Tenant's Property" has the same meaning as the term Seller's Property, as defined in Section 9.1 of the General Terms.

- (l) “Taxes” means, for purposes of this Lease, all real estate taxes, assessments and governmental charges. Taxes do not include any estate taxes or inheritance taxes, transfer, gift or franchise taxes, or gross receipts taxes of Tesla, any “roll back” or similar taxes attributable to periods before the Commencement Date, or any federal, state or local income taxes, any tax in lieu of net income tax, any penalties or interest other than those attributable to Tenant’s failure to comply timely with its obligations under this Lease, nor any special assessments incurred as a result of the initial construction or subsequent enlargement of the Premises.
- (m) “Tesla Property” has the meaning set forth in Section 9.1 of the General Terms.
- (n) “Tesla Responsibility” (including its derivations) has the meaning set forth in Section 2.4 (Tesla Responsibilities) of the General Terms.
- (o) “Tesla-Supplied Items” means, collectively, the raw materials, components, supplies, and/or services to be provided by Tesla hereunder as a Tesla Responsibility.

**Exhibits**

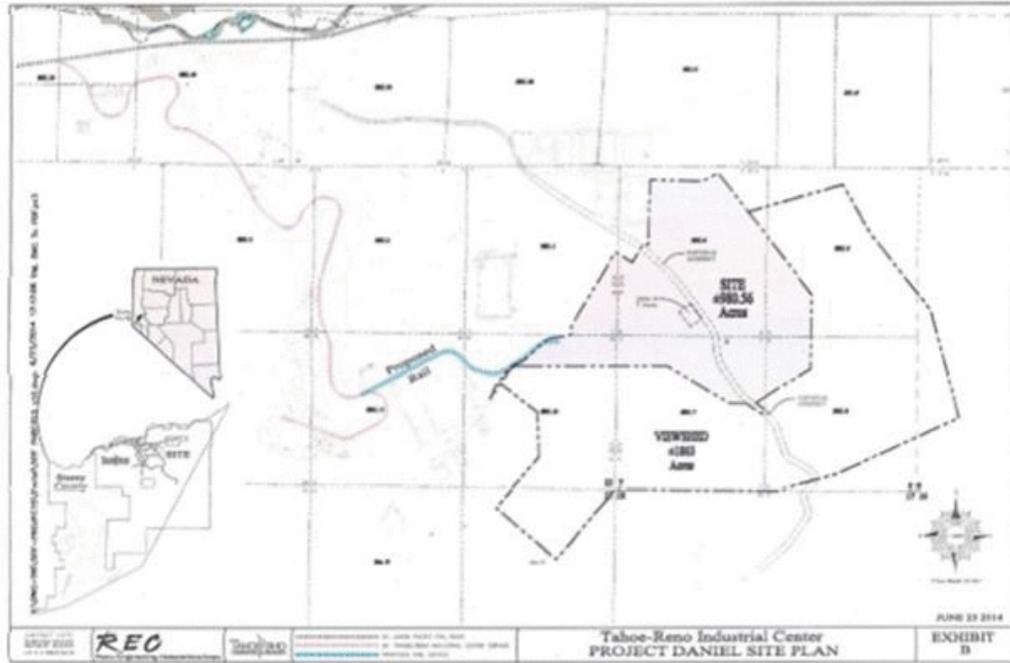
Appendix A-1: Legal Description of Land

Appendix A-2: Site Plan for Premises

Appendix B: Factory Utilities and Tenant Utilities

**Appendix A-1: Legal Description of Land**

Overview Map of Land:



Legal Description of Land: attached.

Factory Lease

Appendix A-1

\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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Form No. 1068-2  
ALTA Plain Language Commitment

Commitment No. 121-2466598  
Page Number: 5  
Property Address: 005-091-17, 18, 29 & 34, 005-011-22 & 24 McCarran,  
NV

**SCHEDULE A**

- 1. Commitment Date: September 3, 2014 at 7:30 A.M.
- 2. Policy or Policies to be issued: Amount
  - a. ALTA 2006 Extended Coverage Owner Policy \$To Be Determined

Proposed Insured:  
Tesla Motors, Inc., a Delaware Corporation

- 3. (A) The estate or interest in the land described in this Commitment is:
  - Fee as to Parcels 1, 3, 6, 9, 13 and 14
  - Easement as to Parcel 21

(B) Title to said estate or interest at the date hereof is vested in:  
Tahoe-Reno Industrial Center, LLC, a Nevada limited liability company

- 4. The land referred to in this Commitment is situated in the County of Storey, State of Nevada, and is described as follows:

PARCEL 1:

PARCEL 2009-6 OF RECORD OF SURVEY MAP NO. 111167, FILED IN THE OFFICE OF THE COUNTY RECORDER OF STOREY COUNTY, STATE OF NEVADA ON MAY 13, 2009, AS FILE NO. 111167, OF OFFICIAL RECORDS, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATE WITHIN THE SOUTH ONE-HALF (1/2) OF SECTION 6, TOWNSHIP 19 NORTH, RANGE 23 EAST, MOUNT DIABLO MERIDIAN, STOREY COUNTY, STATE OF NEVADA BEING A PORTION OF PARCEL 2008-87, AS SHOWN ON THAT "RECORD OF SURVEY FOR TAHOE-RENO INDUSTRIAL CENTER, LLC", FILED IN THE OFFICE OF THE STOREY COUNTY RECORDER, JANUARY 15, 2009, FILE NO. 110530, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT, FROM WHICH POINT THE SOUTHWEST CORNER OF SAID SECTION 6 BEARS SOUTH 83°34'52" WEST, 2553.29 FEET;

THENCE NORTH 52°49'21" EAST, 468.75 FEET TO THE NORTH LINE OF SAID PARCEL 2008-87;

THENCE, ALONG SAID NORTH LINE, SOUTH 37°10'39" EAST, 214.33 FEET;

*First American Title Insurance Company*

Addendum 2

\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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NV

THENCE, ALONG A NON-TANGENT CURVE TO THE RIGHT, FROM A TANGENT WHICH BEARS SOUTH 26°31'44" EAST HAVING A RADIUS OF 1450.00 FEET, A CENTRAL ANGLE OF 10°38'55", AND AN ARC LENGTH OF 269.49 FEET;

THENCE, LEAVING SAID NORTH LINE, SOUTH 52°49'21" WEST, 335.86 FEET;

THENCE NORTH 80°55'36" WEST, 156.06 FEET;

THENCE NORTH 37°10'39" WEST, 369.53 FEET TO THE POINT OF BEGINNING.

THE ABOVE METES AND BOUNDS DESCRIPTION APPEARED PREVIOUSLY IN THAT CERTAIN DOCUMENT RECORDED MAY 13, 2009, AS DOCUMENT NO. 111168 OF OFFICIAL RECORDS.

PARCEL 2:

INTENTIONALLY DELETED

PARCEL 3:

PARCEL 2009-5 OF RECORD OF SURVEY MAP NO. 111167, FILED IN THE OFFICE OF THE COUNTY RECORDER OF STOREY COUNTY, STATE OF NEVADA ON MAY 13, 2009, AS FILE NO. 111167, OF OFFICIAL RECORDS, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATE WITHIN THE SOUTH ONE-HALF (1/2) OF SECTION 6, TOWNSHIP 19 NORTH, RANGE 23 EAST, MOUNT DIABLO MERIDIAN, STOREY COUNTY, STATE OF NEVADA BEING A PORTION OF PARCEL 2008-87, AS SHOWN ON THAT "RECORD OF SURVEY FOR TAHOE-RENO INDUSTRIAL CENTER, LLC", FILED IN THE OFFICE OF THE STOREY COUNTY RECORDER, JANUARY 15, 2009, FILE NO. 110530, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT, FROM WHICH POINT THE SOUTHWEST CORNER OF SAID SECTION 6 BEARS SOUTH 83°34.52. WEST, 2553.29 FEET;

THENCE NORTH 37°10.39. WEST, 650.50 FEET;

THENCE NORTH 52°49.21. EAST, 468.75 FEET TO THE NORTH LINE OF SAID PARCEL 2008-87;

THENCE, ALONG SAID NORTH LINE, SOUTH 37°10.39. EAST, 650.50 FEET;

THENCE, LEAVING SAID NORTH LINE, SOUTH 52°49.21. WEST, 468.75 FEET TO THE POINT OF BEGINNING.

THE ABOVE METES AND BOUNDS DESCRIPTION APPEARED PREVIOUSLY IN THAT CERTAIN DOCUMENT RECORDED MAY 13, 2009, AS DOCUMENT NO. 111168 OF OFFICIAL RECORDS.

PARCEL 4:

INTENTIONALLY DELETED

PARCEL 5:

*First American Title Insurance Company*

Addendum 2

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\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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NV

INTENTIONALLY DELETED

PARCEL 6:

PARCEL 2014-4 OF RECORD OF SURVEY MAP NO. 120562, FILED IN THE OFFICE OF THE COUNTY RECORDER OF STOREY COUNTY, STATE OF NEVADA ON JUNE 30, 2014, AS FILE NO. 120562, OF OFFICIAL RECORDS, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATED WITHIN A PORTION OF THE NORTH ONE-HALF (1/2) OF SECTION TWELVE (12), TOWNSHIP 19 NORTH, RANGE 22 EAST, MOUNT DIABLO MERIDIAN, STOREY COUNTY, STATE OF NEVADA, BEING A PORTION OF PARCEL 2009-39 AS SHOWN ON THAT "RECORD OF SURVEY FOR TAHOE-RENO INDUSTRIAL CENTER, LLC", RECORDED IN THE OFFICE OF THE STOREY COUNTY RECORDER, DECEMBER 04, 2009, AS DOCUMENT NO. 112341, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA. MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHEAST CORNER OF SAID PARCEL 2009-39, BEING THE NORTHEAST CORNER OF SAID SECTION TWELVE (12), THENCE, ALONG THE EAST LINE OF SAID PARCEL, SOUTH 00°56'57" WEST, 988.90 FEET;

THENCE, LEAVING SAID EAST LINE, SOUTH 89°54'15" WEST, 3358.63 FEET;

THENCE, SOUTH 71°09'26" WEST, 116.44 FEET;

THENCE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 570.00 FEET, A CENTRAL ANGLE OF 35°24'30", AND AN ARC LENGTH OF 352.26 FEET;

THENCE, SOUTH 35°44'56" WEST, 560.61 FEET;

THENCE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 810.00 FEET, A CENTRAL ANGLE OF 19°09'56", AND AN ARC LENGTH OF 270.95 FEET;

THENCE, SOUTH 16°35'00" WEST, 20.98 FEET;

THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 870.00 FEET, A CENTRAL ANGLE OF 06°39'25", AND AN ARC LENGTH OF 101.08 FEET, TO THE NORTH LINE OF EAST SYDNEY DRIVE, AS DESCRIBED PER DEDICATION DOCUMENT NO. 107605, OFFICIAL RECORDS OF STOREY COUNTY;

THENCE, ALONG SAID NORTH LINE, ALONG A NON-TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 90.00 FEET, A CENTRAL ANGLE OF 55°45'04", WITH A RADIAL LINE IN OF SOUTH 01°30'00" WEST AND A RADIAL LINE OUT OF NORTH 54°15'04" WEST FOR AN ARC LENGTH OF 87.57 FEET, TO THE WEST LINE OF SAID EAST SYDNEY DRIVE;

THENCE, ALONG SAID WEST LINE OF EAST SYDNEY DRIVE, SOUTH 35°44'56" WEST, 114.04 FEET;

THENCE, LEAVING SAID WEST LINE OF EAST SYDNEY DRIVE, ALONG THE WEST LINE OF SAID PARCEL 2009-39, ALONG A NON-TANGENT CURVE TO THE LEFT, HAVING A TANGENT BEARING OF NORTH 35°44'56" EAST HAVING A RADIUS OF 810.00 FEET, A CENTRAL ANGLE OF 19°09'56", AND AN ARC LENGTH OF 270.95 FEET;

*First American Title Insurance Company*

Addendum 2

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\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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NV

THENCE, CONTINUING ALONG SAID WEST LINE OF PARCEL 2009-39, NORTH 16°35'00" EAST, 20.98 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 870.00 FEET, A CENTRAL ANGLE OF 19°09'56", AND AN ARC LENGTH OF 291.02 FEET,  
THENCE, NORTH 35°44'56" EAST, 560.61 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 630.00 FEET, A CENTRAL ANGLE OF 35°24'30", AND AN ARC LENGTH OF 389.33 FEET;  
THENCE, NORTH 71°09'26" EAST, 118.20 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 620.00 FEET, A CENTRAL ANGLE OF 23°29'47", AND AN ARC LENGTH OF 254.26 FEET;  
THENCE, NORTH 47°39'39" EAST, 417.70 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 620.00 FEET, A CENTRAL ANGLE OF 04°41'29", AND AN ARC LENGTH OF 50.77 FEET;  
THENCE, NORTH 42°58'10" EAST, 184.32 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 850.00 FEET, A CENTRAL ANGLE OF 36°27'03", AND AN ARC LENGTH OF 540.76 FEET;  
THENCE, NORTH 79°25'13" EAST, 484.95 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 850.00 FEET, A CENTRAL ANGLE OF 11°12'48", AND AN ARC LENGTH OF 166.35 FEET;  
THENCE, NORTH 00°38'01" EAST, 14.69 FEET, TO THE NORTH LINE OF SAID PARCEL 2009-39;  
THENCE, ALONG SAID NORTH LINE, SOUTH 89°21'59" EAST, 1596.78 FEET, THE POINT OF BEGINNING.  
THE ABOVE METES AND BOUNDS DESCRIPTION APPEARED PREVIOUSLY IN THAT CERTAIN DOCUMENT RECORDED JUNE 30, 2014, AS DOCUMENT NO. 120563 OF OFFICIAL RECORDS.

PARCEL 7:

INTENTIONALLY DELETED

PARCEL 8:

INTENTIONALLY DELETED

PARCEL 9:

PARCEL 2014-9 OF RECORD OF SURVEY MAP NO. 120564, FILED IN THE OFFICE OF THE

*First American Title Insurance Company*

Addendum 2

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\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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Form No. 1068-2  
ALTA Plain Language Commitment

Commitment No. 121-2466598  
Page Number: 9  
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COUNTY RECORDER OF STOREY COUNTY, STATE OF NEVADA ON JUNE 30, 2014, AS FILE NO. 120564, OF OFFICIAL RECORDS, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATED WITHIN A PORTION OF THE EAST ONE-HALF (1/2) OF SECTION ONE (1), TOWNSHIP 19 NORTH, RANGE 22 EAST, AND PORTIONS OF SECTIONS SIX (6), AND THE NORTH ONE-HALF (1/2) OF SECTION SEVEN (7), TOWNSHIP 19 NORTH, RANGE 23 EAST, MOUNT DIABLO MERIDIAN, STOREY COUNTY, STATE OF NEVADA, BEING A PORTION OF PARCEL 2009-7 AS SHOWN ON THAT "RECORD OF SURVEY FOR TAHOE-RENO INDUSTRIAL CENTER, LLC", RECORDED IN THE OFFICE OF THE STOREY COUNTY RECORDER, MAY 13, 2009, AS DOCUMENT NO, 111167, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA, MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT THE SOUTHWEST CORNER OF SAID PARCEL 2009-7, BEING THE WEST ONE-QUARTER (1/4) CORNER OF SAID SECTION SEVEN (7), THENCE, ALONG THE WEST LINE OF SAID PARCEL,

BEGINNING AT A POINT ON THE SOUTHERLY LINE OF SAID PARCEL 2009-7, ALSO BEING THE SOUTHEAST CORNER OF SAID SECTION SEVEN (7);

THENCE, ALONG SAID SOUTHERLY LINE OF PARCEL 2009-7, NORTH 89°21'59" WEST, 1596.76 FEET;

THENCE, LEAVING SAID SOUTHERLY LINE, NORTH 00°38'01" EAST, 282.77 FEET;

THENCE NORTH 31°23'52" EAST, 2934.29 FEET;

THENCE, SOUTH 58°36'24" EAST, 672.98 FEET;

THENCE, NORTH 31°23'36" EAST, 512.57 FEET;

THENCE ALONG A NON-TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 1340.00 FEET, A CENTRAL ANGLE OF 12°34'29", WITH A RADIAL LINE IN OF SOUTH 31°23'36" WEST AND A RADIAL LINE OUT OF NORTH 43°58'05" EAST FOR AN ARC LENGTH OF 294.09 FEET;

THENCE, SOUTH 46°01'55" EAST, 1323.58 FEET;

THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 1350.00 FEET, A CENTRAL ANGLE OF 08°51'16", AND AN ARC LENGTH OF 208.63 FEET;

THENCE, SOUTH 37°10'39" EAST, 691.35 FEET;

THENCE, SOUTH 52°49'21" WEST, 468.75 FEET;

THENCE, SOUTH 37°10'39" EAST, 1020.03 FEET;

THENCE, SOUTH 80°55'36" EAST, 156.06 FEET;

THENCE, NORTH 52°49'21" EAST, 335.86 FEET;

THENCE, ALONG A NON-TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 1450.00 FEET, A CENTRAL ANGLE OF 24°27'22", WITH A RADIAL LINE IN OF SOUTH 63°28'16" WEST AND A

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Addendum 2

\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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RADIAL LINE OUT OF NORTH 87°55'38" EAST FOR AN ARC LENGTH OF 618.92 FEET;  
THENCE, ALONG A REVERSE CURVE TO THE LEFT HAVING A RADIUS OF 1550.00 FEET, A CENTRAL ANGLE OF 32°44'13", AND AN ARC LENGTH OF 885.62 FEET;  
THENCE, SOUTH 34°48'36" EAST, 742.52 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 2550.00 FEET, A CENTRAL ANGLE OF 13°08'50", AND AN ARC LENGTH OF 585.13 FEET;  
THENCE, NORTH 89°39'48" WEST, 602.80 FEET;  
THENCE, NORTH 59°18'09" WEST, 2571.38 FEET;  
THENCE, SOUTH 89°54'15" WEST, 1622.76 FEET;  
THENCE, NORTH 00°56'57" EAST, 988.90 FEET, TO THE POINT OF BEGINNING.

THE ABOVE METES AND BOUNDS DESCRIPTION APPEARED PREVIOUSLY IN THAT CERTAIN DOCUMENT RECORDED JUNE 30, 2014, AS DOCUMENT NO. 120565 OF OFFICIAL RECORDS.

PARCEL 10:  
INTENTIONALLY DELETED

PARCEL 11:  
INTENTIONALLY DELETED

PARCEL 12:  
INTENTIONALLY DELETED

PARCEL 13:

PARCEL 2014-13 OF RECORD OF SURVEY MAP NO. 120567, FILED IN THE OFFICE OF THE COUNTY RECORDER OF STOREY COUNTY, STATE OF NEVADA ON JUNE 30, 2014, AS FILE NO. 120567, OF OFFICIAL RECORDS, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATED WITHIN PORTIONS OF THE WEST ONE-HALF (1/2) OF SECTION FIVE (5), SECTION SIX (6), THE NORTHEAST ONE-QUARTER (1/4) OF SECTION SEVEN (7), AND THE NORTHWEST ONE-QUARTER (1/4) OF SECTION 8, TOWNSHIP 19 NORTH, RANGE 23 EAST, MOUNT DIABLO MERIDIAN, STOREY COUNTY, STATE OF NEVADA, BEING ALL OF PARCEL 2014-1 AS SHOWN ON THAT "RECORD OF SURVEY FOR TAHOE-RENO INDUSTRIAL CENTER, LLC", RECORDED IN THE OFFICE OF THE STOREY COUNTY RECORDER, ON JUNE 30, 2014, AS DOCUMENT NO. 0120559.

BEING A PORTION OF PARCEL 2012-7 AS SHOWN ON THAT "RECORD OF SURVEY TO SUPPORT A BOUNDARY LINE ADJUSTMENT FOR TAHOE-RENO INDUSTRIAL CENTER, LLC", RECORDED IN THE OFFICE OF THE STOREY COUNTY RECORDER, OCTOBER 02, 2012, AS DOCUMENT NO. 117414, BEING ALL OF PARCELS 2012-11 AND 2012-12 AS SHOWN ON THAT "RECORD OF

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Addendum 2

**\*\*\*] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.**

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SURVEY FOR TAHOE- RENO INDUSTRIAL CENTER, LLC”, RECORDED IN THE OFFICE OF THE STOREY COUNTY RECORDER. DECEMBER 04, 2012, AS DOCUMENT NO. 117725, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA, AND BEING ALL OF PARCELS 2012-15 AND 2012-16, AND A PORTION OF PARCELS 2012- 14 AND 2012-17 AS SHOWN ON THAT “RECORD OF SURVEY FOR TAHOE- RENO INDUSTRIAL CENTER, LLC”, RECORDED IN THE OFFICE OF THE STOREY COUNTY RECORDER, DECEMBER 04, 2012, AS DOCUMENT NO. 117727, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA MORE PARTICULARLY DESCRIBED AS FOLLOWS;

BEGINNING AT THE NORTHWEST CORNER OF SAID PARCEL 2012-11, SAID POINT BEING ON THE SOUTH LINE OF MILAN DRIVE AS DESCRIBED IN DEDICATION DEED DOCUMENT NO. 110596, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA;

THENCE, ALONG SAID SOUTH LINE OF MILAN DRIVE AND ITS EXTENSION THEREOF, SOUTH 88°40’40” EAST, 1605.31 FEET;

THENCE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 910.00 FEET, A CENTRAL ANGLE OF 30°56’06”, AND AN ARC LENGTH OF 491.33 FEET;

THENCE, NORTH 60°23’14” EAST, 317.00 FEET;

THENCE, LEAVING THE SOUTH LINE OF MILAN DRIVE, SOUTH 37°51’40” EAST, 5271.04 FEET;

THENCE, SOUTH 00°38’30” WEST, 2540.48 FEET;

THENCE, SOUTH 59°39’43” WEST, 2246.95 FEET;

THENCE, SOUTH 53°46’10” EAST, 580.76 FEET;

THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 1150.00 FEET, A CENTRAL ANGLE OF 03°17’21”, WITH A RADIAL LINE IN OF SOUTH 36°13’50” WEST AND A RADIAL LINE OUT OF NORTH 39°31’11” EAST FOR AN ARC LENGTH OF 66.02 FEET, TO THE SOUTH LINE OF SAID PARCEL 2012-14, ALSO BEING THE SOUTH LINE OF SAID SECTION 8;

THENCE, CONTINUING ALONG SAID SOUTH LINE OF PARCEL 2012-14, NORTH 89°14’53” WEST, 163.12 FEET, TO THE WEST ONE- QUARTER (1/4) CORNER OF SAID SECTION 8;

THENCE, NORTH 89°39’48” WEST, 176.42 FEET;

THENCE, LEAVING THE SOUTH LINE OF SAID PARCEL 2012-14, ALONG ITS WESTERLY LINE, NORTH 53°46’10 “WEST, 370.99 FEET;

THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 2550.00 FEET, A CENTRAL ANGLE OF 18°57’34”, AND AN ARC LENGTH OF 843.81 FEET;

THENCE, NORTH 34°48’36” WEST, 742.52 FEET;

THENCE, ALONG A TANGENT CURVE TO THE RIGHT HAVING A RADIUS OF 1550.00 FEET, A CENTRAL ANGLE OF 32°44’13”, AND AN ARC LENGTH OF 885.62 FEET;

THENCE, ALONG A REVERSE CURVE TO THE LEFT HAVING A RADIUS OF 1450.00 FEET, A CENTRAL ANGLE OF 35°06’16”, AND AN ARC LENGTH OF 888.40 FEET;

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Addendum 2

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\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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THENCE, NORTH 37°10'39" WEST, 1556.18 FEET, TO A POINT ON THE WESTERLY LINE OF SAID PARCEL 2012-7;  
THENCE, ALONG SAID WESTERLY LINE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 1350.00 FEET, A CENTRAL ANGLE OF 08°51'16", AND AN ARC LENGTH OF 208.63 FEET;  
THENCE, NORTH 46°01'55" WEST, 1323.58 FEET;  
THENCE, ALONG A TANGENT CURVE TO THE LEFT HAVING A RADIUS OF 1340.00 FEET, A CENTRAL ANGLE OF 12°34'29", AND AN ARC LENGTH OF 294.09 FEET;  
THENCE, LEAVING SAID WESTERLY LINE OF PARCEL 2012-7, NORTH 31°23'36" EAST, 200.00 FEET, TO THE MOST WESTERLY CORNER OF SAID PARCEL 2012-12;  
THENCE, ALONG THE WESTERLY LINE OF SAID PARCEL 2012-12, NORTH 88°42'42" EAST, 188.30 FEET, TO THE SOUTHWEST CORNER OF SAID PARCEL 2012-11;  
THENCE, ALONG THE WEST LINE OF SAID PARCEL 2012-11, NORTH 01°19'20" EAST, 2228.00 FEET, TO THE POINT OF BEGINNING.  
THE ABOVE METES AND BOUNDS DESCRIPTION APPEARED PREVIOUSLY IN THAT CERTAIN DOCUMENT RECORDED JUNE 30, 2014, AS DOCUMENT NO. 120568 OF OFFICIAL RECORDS.

PARCEL 14:

PARCEL 2014-15 OF RECORD OF SURVEY MAP NO. 120567, FILED IN THE OFFICE OF THE COUNTY RECORDER OF STOREY COUNTY, STATE OF NEVADA ON JUNE 30, 2014, AS FILE NO. 120567, OF OFFICIAL RECORDS, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

ALL THAT CERTAIN REAL PROPERTY SITUATED WITHIN A PORTION OF THE NORTHEAST ONE-QUARTER (1/4) OF SECTION SEVEN (7), TOWNSHIP 19 NORTH, RANGE 23 EAST, MOUNT DIABLO MERIDIAN, STOREY COUNTY, STATE OF NEVADA, BEING A PORTION OF PARCEL 2012-14 AS SHOWN ON THAT "RECORD OF SURVEY FOR TAHOE-RENO INDUSTRIAL CENTER, LLC", RECORDED IN THE OFFICE OF THE STOREY COUNTY RECORDER, DECEMBER 04, 2012, AS DOCUMENT NO. 117727, OFFICIAL RECORDS OF STOREY COUNTY, NEVADA MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT, FROM WHICH POINT THE NORTHEAST CORNER OF SAID SECTION SEVEN BEARS NORTH 83°59'07" EAST, 1294.45 FEET;  
THENCE, SOUTH 09°20'51" WEST, 100.00 FEET;  
THENCE, NORTH 80°39'09" WEST, 80.00 FEET;  
THENCE, NORTH 09°20'51" EAST, 100.00 FEET;  
THENCE, SOUTH 80°39'09" EAST, 80.00 FEET, THE POINT OF BEGINNING.  
THE ABOVE METES AND BOUNDS DESCRIPTION APPEARED PREVIOUSLY IN THAT CERTAIN

*First American Title Insurance Company*

Addendum 2

\*\*\* Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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DOCUMENT RECORDED JUNE 30, 2014, AS DOCUMENT NO. 120568 OF OFFICIAL RECORDS.

PARCEL 15:

INTENTIONALLY DELETED

PARCEL 16:

INTENTIONALLY DELETED

PARCEL 17:

INTENTIONALLY DELETED

PARCEL 18:

INTENTIONALLY DELETED

PARCEL 19:

INTENTIONALLY DELETED

PARCEL 20:

INTENTIONALLY DELETED

PARCEL 21:

A NON-EXCLUSIVE EASEMENT FOR ACCESS AND UTILITIES AS SET FORTH IN DOCUMENT RECORDED MAY 13, 1999 AS DOCUMENT NO. 111166 OF OFFICIAL RECORDS.

*First American Title Insurance Company*

Addendum 2

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**\*\*\*] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.**

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Appendix A-2

[\*\*\*]

[\*\*\*] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

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**APPENDIX B TO FACTORY LEASE:**

**Factory Utilities, Tenant Utilities, and Certain Factory Systems and Tenant Improvements**

- a. Factory Utilities. Tesla is responsible for procuring the following as Factory Utilities:  
[\*\*\*]
- b. Certain Factory Systems. Tesla is responsible for procuring, installing, and maintaining the following Property:  
[\*\*\*]
- c. Tenant Utilities. Tenant is responsible for procuring the following as Tenant Utilities:  
[\*\*\*]
- d. Certain Tenant Improvements. Tenant is responsible for procuring and installing, but Tesla is responsible for maintaining, the following Property:  
[\*\*\*]
- e. Certain Tenant Improvements. Tenant is responsible for procuring, installing, and maintaining the following Property:  
[\*\*\*]



### Amendment to Gigafactory Contract Documents

Tesla Motors, Inc. ("Tesla") and the Panasonic corporations identified below (collectively, "Panasonic") hereby agree as of the date last entered below to amend the Gigafactory-related contract documents by and between them as set forth in this Amendment to Gigafactory Contract Documents ("Amendment"), in consideration of the mutual promises and agreements contained herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged.

1. Tesla, on the one hand, and Panasonic Corporation and Panasonic Energy Corporation of North America ("PENA"), on the other hand, are parties to the General Terms and Conditions dated October 1, 2014 (as amended, the "General Terms"), the Production Pricing Agreement dated September 30, 2014 (as amended, the "Pricing Agreement"), the Investment Letter Agreement dated October 1, 2014 (the "First Investment Letter"), and the Amended and Restated Non-Disclosure Agreement dated October 23, 2013 (as amended, the "NDA"). Tesla and PENA are parties to the Factory Lease dated December 1, 2015 ("Lease"). The General Terms, Pricing Agreement, First Investment Letter, NDA, and Lease are, collectively, the "Gigafactory Contract Documents."
2. PENA is an Affiliate of Panasonic Corporation of North America ("PNA"). PNA intends to merge with and acquire PENA in its entirety, with PNA as the surviving legal entity. Tesla hereby approves such acquisition and merger, which PNA shall complete no later than April 30, 2016. As of the date that such acquisition and merger is complete, PNA shall assume all of PENA's rights and obligations under the Gigafactory Contract Documents and PNA shall replace PENA as a party to each of the Gigafactory Contract Documents. In the event that PENA is not acquired and merged in its entirety by PNA by midnight on March 31, 2016, PENA hereby assigns to PNA all of PENA's responsibilities and commitments under the Gigafactory Contract Documents on April 1, 2016, with the result that Panasonic Corporation and PNA are the sole surviving Panasonic entities which are party to Gigafactory Contract Documents.
3. This Amendment, together with the Gigafactory Contract Documents, constitutes the entire agreement between the Parties with respect to its subject matter and supersedes all prior agreements and understandings, both oral and written, between the Parties with respect thereto. This Agreement may be executed in counterparts, each of which when so executed and delivered will be deemed an original, and all of which taken together will constitute one and the same instrument.

Intending to be legally bound, each of the undersigned parties has caused its duly authorized representative to execute this Amendment as of the date last entered below.

<b>Tesla Motors, Inc.</b>	
By:	<u>/s/ Kurt Kelty</u>
Printed:	<u>Kurt Kelty</u>
Title:	<u>Director, Battery Technology</u>
Date:	<u>April 5, 2016</u>

<b>Panasonic Corporation</b>	
By:	<u>/s/ Yoshio Ito</u>
Printed:	<u>Yoshio Ito</u>
Title:	<u>Senior Managing Director</u>
Date:	<u>March 28, 2016</u>

<b>Panasonic Corporation of North America (PNA)</b>	
By:	<u>/s/ Joseph Taylor</u>
Printed:	<u>Joseph Taylor</u>
Title:	<u>President</u>
Date:	<u>February 19, 2016</u>

<b>Panasonic Energy Corporation of North America (PENA)</b>	
By:	<u>/s/ Masayuki Kitabayashi</u>
Printed:	<u>Masayuki Kitabayashi</u>
Title:	<u>President</u>
Date:	<u>March 2, 2016</u>

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Elon Musk, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tesla Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

/s/ Elon Musk  
\_\_\_\_\_  
Elon Musk  
Chief Executive Officer  
(Principal Executive Officer)

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Jason Wheeler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tesla Motors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

/s/ Jason Wheeler  
Jason Wheeler  
Chief Financial Officer  
(Principal Financial Officer)

**SECTION 1350 CERTIFICATIONS**

I, Elon Musk, certify, pursuant to 18 U.S.C. Section 1350, that, to my knowledge, the Quarterly Report of Tesla Motors, Inc. on Form 10-Q for the quarterly period ended March 31, 2016, (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Tesla Motors, Inc.

Date: May 10, 2016

/s/ Elon Musk  
Elon Musk  
Chief Executive Officer  
(Principal Executive Officer)

I, Jason Wheeler, certify, pursuant to 18 U.S.C. Section 1350, that, to my knowledge, the Quarterly Report of Tesla Motors, Inc. on Form 10-Q for the quarterly period ended March 31, 2016, (i) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Tesla Motors, Inc.

Date: May 10, 2016

/s/ Jason Wheeler  
Jason Wheeler  
Chief Financial Officer  
(Principal Financial Officer)