

Tesla raises production but falls short of Model 3 goals (Update)

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In this March 31, 2016, file photo, Tesla Motors unveils the new lower-priced Model 3 sedan at the Tesla Motors design studio in Hawthorne, Calif. Electric car maker Tesla Inc. increased production of its Model 3 mass-market car in the first quarter but still fell far short of the numbers it promised last summer. (AP Photo/Justin Pritchard, File)

Electric car maker Tesla Inc. increased production of its Model 3 mass-market car in the first quarter but still fell far short of the numbers it

promised last summer.

The Palo Alto, California, company says it made just under 9,800 Model 3s from January through March. That's four times what it made in the fourth quarter. But it's still only a fraction of the 20,000 per month that CEO Elon Musk promised when Tesla first started making the car.

The news, released just before the markets opened Tuesday, pushed Tesla's shares up about 3 percent to \$259.54 in early trading. Still, they have fallen nearly 15 percent since the start of the year on a string of bad news for the 15-year-old company.

Tesla says it made just under 35,000 vehicles total in the quarter including the Models S and X. That's a 40 percent increase from last year's fourth quarter.

But the Model 3, with a starting price of around \$35,000, is the car that's most important to Tesla's future. It's the company's first lower-cost, high-volume car and is crucial to its goal of becoming a profitable, mainstream automaker. Tesla at one point had more than 500,000 potential buyers on the waiting list for the Model 3. But in a statement Tuesday, the company conceded that some had canceled, without giving numbers. Tesla said Model 3 reservations "remained stable" through the first quarter.

The cancelations, it said, were "almost entirely due to delays in production in general and delays in availability of certain planned options," including dual motor all-wheel-drive versions and a smaller battery pack.

Tesla said it doubled the weekly production rate of the Model 3 last quarter by addressing production and parts supply bottlenecks, including several short factory shutdowns to upgrade equipment.

The company said it delivered 29,980 vehicles during the quarter.

The increased production comes after a succession of bad news for the company this year, which started with low production numbers in the fourth quarter when the company made only 2,425 Model 3s. Then, two federal agencies opened investigations into crashes of two of its models on California freeways, including one that killed a man near Mountain View.

In the Mountain View-area crash, Tesla said last weekend that the Model X SUV was operating on the company's semi-autonomous "Autopilot" system when it hit a freeway barrier. The company hasn't said whether a Model S sedan that crashed near Los Angeles earlier in the year was operating on Autopilot.

Late in March, Moody's Investor Service downgraded Tesla's corporate debt further into junk status. Unsecured notes are now "subject to very high credit risk."

The agency said future ratings will depend on whether Tesla can meet Model 3 production targets. Moody's also wrote in a note that Tesla likely will need to raise capital soon. Its liquidity isn't enough to cover \$3.7 billion it needs for operations, capital expenses and convertible debt maturities through early 2019, Moody's wrote.

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