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June 10, 2011

Dear Newsletter Subscribers,

We hope you have not been adversely impacted by the recent bouts of horrible weather this spring. Having personally survived the "little" tornado at Sun N Fun this year in an outdoor tent, I can only imagine the impact this weather is having on those of you who may be even more directly affected by it.

I would like to give you a personal update as to the progress of the Transition® program. A lot has been accomplished at Terrafugia over the past year. Terrafugia has grown substantially. In June of 2010 Terrafugia employed 12 people. Today, thanks to a combination of winning the DARPA TX contract and additional investment, Terrafugia has doubled in size to 24 people. In August of 2010, we moved into a 19,000 sq. ft. facility which enabled the construction of a full set of production tools. In addition to the fabrication of prototype production molds and jigs, the team has invested in internal processes and procedures for the fabrication of every part of the Transition® which we expect will give us a significant advantage as we move through the process of bringing the Transition® to full compliance with all applicable ASTM Light Sport Aircraft and Federal Motor Vehicle Safety Standards.

I have been very pleased with the quality of the progress that has been made, and I look forward to continued positive developments in the coming year. Unfortunately, we are not as far along this summer as we had hoped to be a year ago. We have encountered a number of the challenges that are common in aircraft development programs, including problems with third party suppliers. The good news is that our team has done a fantastic job of minimizing the impact of these problems, and we continue to work through the issues. However, we have been forced to adjust our expected roll-out schedule in light of these challenges.

It remains our goal to show one of the two production prototypes at EAA AirVenture in Oshkosh, WI this July, but the vehicle will not be ready to fly at the show. This is similar to the stage that the Proof of Concept (POC) vehicle was in at Oshkosh 2008 (i.e. mostly complete but untested). If we extrapolate from our experience with the POC, the first test flights would be expected in March of next year. To appropriately set expectations and adjust our scheduling

margins based on recent experience with suppliers and other key third party contributors, we feel it is necessary to extend our anticipated first delivery date to late 2012.

Despite these challenges Terrafugia's investor base and order book remains strong and we continue to attract new interest thanks to the potential for the Transition® to revolutionize general aviation. Our team continues to be committed to pushing the schedule forward as quickly as possible, but safety and quality must remain our top priorities – particularly as we begin our rigorous testing program. We will continue to focus our efforts on developing the safest, most convenient, and most fun personal aircraft the aviation world has ever seen.

I believe that the Transition® will be worth the wait, and we sincerely appreciate your support as we continue to overcome the challenges associated with bringing this revolutionary product to market. I look forward to sharing our progress first hand with those of you who will be at Oshkosh. I think the Transition® is going to knock peoples' socks off!

Thank you for your continued interest and support of Terrafugia.

Carl Dietrich, CEO/CTO
Terrafugia Inc.