

Just wondering if you can give us any additional color on how you've gotten confident in 50,000 Model S deliveries in 2015?

Elon Musk

Actually, I don't think 50,000 is going to be super hard because if you look at sort of how we're exiting the year in production and demand, I think 50,000 seems like a pretty solid number. We don't want to overreach, but I think 50,000 is pretty achievable number. That's more or less a modest extrapolation for where we will be at the end of this quarter.

Dan Galves - Credit Suisse

Can you give us any kind of hard numbers on what you've seen in terms of order flow either geographically or just -- it sounds like since the product announcements, there's been an uptick. Is there any kind of numbers that you can provide on that in terms of percentage increase quarter-over-quarter or something like that?

Elon Musk

I think what we've seen is -- it's difficult to extrapolate too much based on the announcement of the dual motor and auto pilot. There's some amount of people that were waiting for an all-wheel drive car and that kind of thing, so that's why we're being sort of conservative. If you just extrapolated the demand since the announcement, it would be like 70,000 cars a year, but that's in terms of demand. But I think that would probably be unwise to state that as a steady state prediction.

So we're like more considering around 50,000, but it's 50,000 with high confidence just over half of those are North America and Europe and Asia are the remaining half.

Dan Galves - Credit Suisse

Just a follow-up, the leasing program with your partners is it too early to get any sense of kind of how that's being received by the consumers or any estimates on kind of how much you see a leasing program like that in the addressable market for the car?

Elon Musk

I really tried to make the point in this shareholder letter that it's not a question of demand. Articles and of course out there are questioning demand. In the last quarter call, I really tried to emphasize it is not a question of demand because that sort of 70,000 order number, that's net

orders, net of cancellations, that's with no advertising, no endorsements. So we don't pay anyone to pretend that they like our product. If you see our car in a movie, we didn't pay for it to be there. It's just there. We have a fairly small number of stores. In a lot of places, we don't even have service centers.

Deepak Ahuja

And our dual motor cars are not there in any of the stores.

Elon Musk

Right, there is no dual motor cars for test drives. So obviously, there's a whole bunch of things that we could do to stimulate demand if that were our problem. It is not our problem, but people don't quite appreciate how hard it is to manufacture something. It is really hard. I have great respect for people who manufacture large numbers of complex objects because there's like several thousand unique parts in a car.

Model S is quite a complicated car and you need all of them, that whole supply chain and whole internal production process marching at the same cadence in order to produce those cars. We're growing our production by like 50% a year, year-over-year as far into the future as we can reasonably project. That's quite a big percentage growth for manufacturing a large, complex object. We would like to grow faster of course, but it's also worth bearing in mind we have got one factory.

In some cases, when we upgrade the factory, it's like trying to change the wheels on the bus while it's going down the freeway, it's challenging. There are things where like we need readily to do better which is like manufacturing growth and maybe not being too perfectionist about future product and things like that.

Operator

Our next question comes from John Murphy with Bank of America Merrill Lynch. Your line is open.

John Lovallo - Bank of America Merrill Lynch

It's John Lovallo. Okay, first question and I missed Dan's question, so I apologize if any of this is repetitive. But first question is, you guys have done a very good job open sourcing your patents and showing all your cards to your competitors. With that in mind, I guess the question is would you consider providing more information to the analysts and investor community in the form of monthly sales data for one? Maybe showing the backlog again

for two? Also maybe reinstating the regional mix that you guys used to give us on a quarterly basis.

Elon Musk

No, sorry. The last question was sort of a demand-related question as well and it really took pains to emphasize demand is not our issue. Production is our issue and being too perfectionist about future products those are legitimate things to be concerned about, but not demand. We have more demand than we can really address and there is a lot of things, levers we could pull to increase that demand which we're not pulling. So, it's really not an issue.

Part of the reason why we don't release the monthly deliveries number is just because it varies quite a lot by region and then the media tends to read all sorts of nonsense into deliveries. We'll have like 1000 cars reach a country one month and none the next month and then people -- or like 100 the next month trickle in or something because those were the numbers that were registered in one month versus the next and people say Tesla sales dropped by a factor of 10.

The boat arrived in January and not all the cars got registered in January and some got registered in February, then in March, it's back up again and so people read in all these things which are -- they assume deliveries are proxy for demand which is not the case. It is the case for other car companies, but in our case it really needs be parsed into orders and deliveries. Then bear in mind, there are lots of things we can do to amplify orders.

Orders is not a true measure of demand, it is just a measure of that's the amount of stuff we need to do to meet our production and delivery number. So if we released orders, people would try to read the tea leaves and say demand for Tesla is growing or dropping. No, we're just not pulling the levers that we could pull because there is no point in trying to amplify demand substantially beyond our ability to produce it and deliver it. That would just make people upset.

John Lovallo - Bank of America Merrill Lynch

Okay. Next question is, you guys have been able to negotiate around using kind of the dealer network, state franchise laws in the U.S. I think your point is well taken, that non-Tesla salespeople might not be qualified to properly promote the brand and so forth. The question is with that in mind, how do you get comfortable with selling vehicles to resellers in China that presumably don't have your best interest in mind or promoting the brand?

Elon Musk

We're not really selling to resellers anywhere in the world. So it may be possible that someone's claiming that they're a reseller of Tesla, this is a false claim.

John Lovallo - Bank of America Merrill Lynch

Okay. I'm just saying because when I looked on T-Mall for instance the first two lines of cars or first two rows of cars were actually all resellers or listed as resellers as least.

Elon Musk

Thanks for telling us that. We will make sure that is removed.

Operator

Our next question comes from Rod Lache with Deutsche Bank. Your line is open.

Rod Lache - Deutsche Bank

A couple things, one, can you just first quantify the impact of the yen and euro for us going forward? The last time I think you discussed that you were not really hedging the yen exposure for self-purchases for example.

Deepak Ahuja

Yes. I think maybe there are two aspects to the answer here. On the euro side, we're net long given our deliveries in Europe and as the euro weakens, the effect on our revenue is immediate. As soon as we deliver cars we have that impact. On the yen side, clearly as the yen weakens it helps us sell cars. There is a fairly long lead time on sale procurement and so the benefit of yen weakness has a lag effect for us. It comes further down as we start to procure sales at that lower yen and then that goes into vehicles a few months later.

Rod Lache - Deutsche Bank

There is no hedging at this point on either of those exposures?

Deepak Ahuja

That is correct.

Elon Musk

Correct. There is effectively product hedging in the sense that we're delivering cars in Europe, North America and Asia and obviously just started delivering cars in Japan that does provide a natural hedge, a most efficient hedge really for currency. But there are occasionally adjustments we need to make in the purchase price and at some point in the near future.

We're probably going to have to adjust the price of our car in euros upwards because there has been a 7% change in the exchange rates of the euro versus the dollar. So we'll periodically have to make pricing adjustments if the exchange rate band gets too wide. I would certainly encourage anyone in Europe to purchase their car soon because we probably will have to make an adjustment there.

Rod Lache - Deutsche Bank

Okay. Can you also please maybe just quantify or put some bookends around what you expect to be able to deliver on Model X in 2015 just given the later launch? I also had a question on battery costs. There are some new manufacturing processes for cathode material for example, being developed by Umicore and TODA and a few others that the claim is that you are going to see pretty significant declines in some of the kind of core components of lithium cells.

Is that something that's been factored into your expectations of a 30% cost reduction for these batteries over time?

Elon Musk

Sure. So with the X production, it's difficult for us to give -- I would have to give something with very, very big bounding numbers for X production next year because it really depends on how well that production ramp goes. If we encounter any issues that require correction, then we obviously want to slow that production ramp down.

If things go really well we will ramp it up. We do have the advantage with the X that we've the dual motor powertrain and the chassis. So the bottom end of the car kind of sorted out with Model S that takes that part of the risk out of it.

With the falcon wing door and the second row of seats and sort of a few other things, we're adding some very new stuff to -- that's really not out there, that never really has existed in a way that was useful. So it's hard to say what those numbers would be, except I'm confident that the demand for the X will be very high once we're in production and again we will be production-limited because it is really a phenomenal car.

It really addresses a different market segment that some people want an SUV and some people want a sedan and they're about 50:50 in the market. So that's why we feel confident in predicting a 50% growth in orders and deliveries that's fairly comfortable next year and then at least a 50% growth in 2016 again and in subsequent years too.

Rod Lache - Deutsche Bank

50% was just Model S, though, is that right?

Elon Musk

That's correct. Yes. So it would be some number -- fair enough. It would be some number greater than 50% if you include X. I am just reluctant to -- I can't communicate a greater level of certainty than I actually know, that's why I'm reluctant to give a number. It's not because I secretly know it and I'm not telling you. Then with respect to the cathode materials, I think there is a lot of technology improvements that we'll be able to apply to the battery pack and the cathode anode separator, electrolyte, counter production, the whole works and some of these improvements are independent of the others.

But whatever we've has to work -- whatever we build out for the Gigafactory has to work at least at the lab level. Let's say this year because we're making monster investments in equipment and there is a certain amount of time of a year or two at least from working at the lab level to working in small scale production and then at least a year or two after that before you can go from small production to mass production.

This is why we're not worried about like being blind-sided by some technology with the Gigafactory, it's because if it doesn't work in the lab right now, there is no point in worrying about it because you can't scale in that timeframe. Everyone and their (indiscernible) is approaching us about technology improvements. I think literally and their (indiscernible) in some cases. JB, do you want to add to that?

JB Straubel

Sure. We're definitely talking to many, many different companies doing cathode technology development, anode and some of the other components including some of those you mentioned. I would be pretty shocked if there were any major improvements that were close enough to commercialization that we haven't been aware of or found out about. So a lot of those improvements are rolled into our thinking and there's great potential there.

Elon Musk

My top advice really for anyone who says they've got some breakthrough battery technologies, please send us a sample cell, okay, don't send us PowerPoint. Just send us one cell that works with all appropriate caveats that would be great. That's really -- that sorts out the nonsense and the claims that aren't actually true. Talk is super cheap; the battery industry has to have more BS in it than any industry I've ever encountered. It's insane.

Rod Lache - Deutsche Bank

Yes, I think this is more related to the manufacturing process for the material as opposed to some material innovation. But, anyway, I would be surprised if there is anything out there that you guys aren't already well aware of. I was just asking whether that might be incremental to your forecast. It sounded like most of your projection was related to logistics and location and the scale of the cell and things along those lines.

Elon Musk

Yes, to be precise about our prediction was that we felt comfortable with at least a 30% improvement in cost or reduction in cost just based on the location and economies of scale. That's without taking any technology improvements into account and we will certainly do technology improvements. If we can't get to 30% even without technology improvements, somebody should shoot us because that would be in complete defiance of economies of scale and obvious cost savings.

Operator

Our next question comes from Brian Johnson with Barclays. Your line is open.

Brian Johnson - Barclays

Some of the detailed numbers in accounting, so of the customer deposits, the inventory and lease accounting so I'll just give all three. So for the customer deposits, it looks like they were roughly flat in fact down \$1 million quarter-over-quarter, that seems to be the first time they haven't increased in quite a while if ever. What's going on there? Question two; inventory was up from about \$600 million to \$750 million.

How does that relate to the production ramp and some of the issues you talked about in the factory? Then number three, on the lease, you say you're going to continue the GAAP versus non-GAAP adjustments which would seem to imply that you must have some backend risk for that lease with the third party not to be treated as a true sale. Could you maybe describe the type of lease support you've worked out with your bank partners?

Deepak Ahuja

Sure, Brian. So on the customer deposits, there's a bit of noise in those numbers that also includes final payments that our Model S customers make just before delivery. If you exclude that noise, our customer reservations or customer deposits were actually up quarter-over-quarter. So we don't see any issue there. On leasing, with our banking partner we're taking lease accounting because our customers do have the option to return the car and we have the option to buy back those cars. And so given that uncertainty at the back end, we feel it's conservative accounting to follow the lease accounting approach for GAAP. What was your second question in the middle? Can you please clarify?

Brian Johnson - Barclays

The inventory and then the lease accounting.

Deepak Ahuja

Can you just clarify further on your inventory question?

Brian Johnson - Barclays

Yes. Your inventory was up somewhat substantially. Just trying to understand, is that work in process? Is that finished goods? Kind of what drove that given if you just looked at vis-a-vis deliveries; you wouldn't expect that increase in inventory?

Deepak Ahuja

There were three factors that contributed to it at a high level. One was raw material inventory, second was work in process and third was service. Raw material inventory was higher because we were expecting to produce higher volume in Q3 that we did not achieve and that's part of our inventory. Work in process is just normal increase given that our production run-rate on a weekly basis is increasing. We have more inventory in the pipeline and the manufacturing process itself.

Finally for our service centers, we're sending out more parts and stocking these service centers so that we can provide more timely and immediate service to our customers not have them wait, not incur additional freight cost. It's a sensible and the right customer thing to do, those sort of explain pretty much the increase in inventory.

Brian Johnson - Barclays

What was the third quarter production just to kind of gauge that working capital with that?

Deepak Ahuja

Our third quarter production was about 7200 units which was -- as we said about 2000 units less than our plan for third quarter.

Elon Musk

Essentially in the third quarter we sold every car, that was including cars from like showrooms and everything we basically had. There was just nothing left to sell.

Operator

Our next question comes from Patrick Archambault with Goldman Sachs. Your line is open.

Patrick Archambault - Goldman Sachs

Just a couple from me, first, let's talk about the Model X being pushed back a little you said, I think, based on more testing and validation. Is there any kind of specific engineering challenges that you've encountered here or is this more of a precautionary approach? Second to that, how confident are you in the new launch date? I understand that the ramp is sort of a separate issue, but being able to get it at least the first one off the line in this new timeframe.

Elon Musk

It's worth saying that making one of something is quite easy. Making lots of something consistently that's going to last a long time is extremely hard. In fact, it is way harder to make the machine that makes the machine that it is to make the machine in the first place. The production of the car is way harder than actually, I would say the design of the car. So we've Model X, Alphas done, we were almost done with the beta, it's like basically right now.

We could certainly -- it would be quite easy for us to make one, a handful of production units that are saleable and homologated that doesn't really move the needle. So what really matters is at what point can we get to scale production of a really high quality car and that's really in the third quarter.

We also learned a lesson in manufacturing that you have issues that are sometimes one out of 100, but unless you make 100 of something, you don't see it. Then you think the car is all good, but actually randomly one out of

100 is wrong, but you don't know necessarily which one out of the 100, then you've got to go look at all 100 cars.

So just once you get into volume manufacturing there are just these statistically rare issues, but you really need to make a bunch of something in order to know that it's there. We want to make sure we do that with the X, that's really just a lesson we've learned.

Financially of course, it's only going to matter when we're at volume production. I do think the X is going to be something quite special, but it's hard to get there. It's hard to engineer and it's hard to produce.

Patrick Archambault - Goldman Sachs

Okay. I don't think anybody obviously, would fault you for making sure that it's up to your standard before putting it out there. But I guess is there something just in the design of these Alphas or the testing of these Alphas that has come up that has just made you push it back or is it more just an abundance of caution?

Elon Musk

There is no big thing, there are a whole bunch of little things. It's really about getting the details right and I think people will appreciate that we got the details right, but it's really about getting the details right. Yes, if you get all the details right, it's like the difference between a diamond with a flaw and a diamond without a flaw. But it's hard to do that, but that's what we're going to do.

Patrick Archambault - Goldman Sachs

Just my second one, if I may, getting back to the Gigafactory comment, the idea that you will be able to produce your first jointly developed cell with Panasonic in 2016 obviously, that's a shorter time frame than a lot of us expected. Might it be possible just at a high level just to take us through the steps that you think need to happen to be able to achieve that deadline? Clearly, that's positive if that happens, obviously, given the importance for the GenFree program.

JB Straubel

Sure, I can comment on that a little bit. It is a slight pull ahead and we're a bit ahead of schedule in the Gigafactory than what we previously communicated. Some of the main reasons that is so important are what you alluded to retiring risk and being ready to ramp up very quickly with Model 3. We felt it was important to go as fast as we possibly could and start some

production operations in 2016. There are lot of steps that have to happen there, generally, getting the factory itself ready, getting the staff and the team that needs to operate the factory ready is a huge exercise.

Elon Musk

Basically the pilot plant at the Gigafactory is as big as I think the next biggest or pretty close at least, to the next biggest -- to any other lithium-ion factory out there. I'll not sure which one would be bigger.

JB Straubel

The scope and scale is huge. We wanted to be prudent and make sure that we were planning far enough head that we could stabilize quality and stabilize sort of the infrastructure of the plant well ahead of needing to ramp to very high volume for Model 3.

Elon Musk

I would also just like to compliment Panasonic on being an awesome partner here. They really have been great. They're going all out.

JB Straubel

Absolutely.

Operator

Our next question comes from George Galliers with Evercore ISI. Your line is open.

George Galliers - Evercore ISI

Yes. I had a quick strategic question with respect to China, back at Q1, I think you mentioned that you would like to do local production in China at some point in the future and I just wanted to know what would be the catalyst for that decision? Will it be based on unit volume growth or is it based on a timeline that you have in mind? Perhaps you could elaborate a bit on that, particularly in the context of the recent announcements by the NBRC with respect to support for electric vehicles.

Elon Musk

Sure. Essentially, it's not going to make sense in the long term to be transporting vast numbers of cars, particularly sort of Model 3 more affordable cars across the Pacific to China. It's going to make a lot more sense to do local production there. So it would be really driven by running

out of factory space in California and then we have got a choice; build a factory in somewhere other than China for Chinese consumption which doesn't make a ton of sense like when you talk about a 1.5 ton to 2 ton vehicle product it makes sense to build that where it's going to get used.

So I would expect over time for there to be actual factories in China as well as in Europe, as well as more factories in North America. Our goal is to accelerate the advent of electric vehicles. In order to do that we need to make a lot of cars and then we're also sort of happy over time to support other manufacturers in making electric vehicles and we're in pursuit of that objective and have been since creating the company.

George Galliers - Evercore ISI

Out of interest, the Chinese government clearly also are very interested in supporting the development of electric vehicles and particularly, the development of electric vehicles domestically. Has the government approached you at all with respect to how you might be able to help some of the domestic players with their electric vehicle development particularly in light of the fact that you've opened up your patents for others?

Elon Musk

We've had a lot of conversations with the Chinese government. They've actually been quite supportive. One of the things we're working through right now is getting on the electric vehicle list which has a bunch of requirements on it. We're working with the Chinese government to try to get on that list, but yes, they've not made any sort of demands of Tesla or anything like that and they know that we're quite keen on electric vehicles and helping companies wherever they may be in the world China or otherwise. I think that's been well received.

Operator

Our next question comes from Colin Langan with UBS. Your line is open.

Colin Langan - UBS

Any color on the warranty accrual of \$14 million? How many vehicles is that across? I think it's coming across something like \$300 per vehicle. Is that based on the production of the Model S? Should we consider that as a higher accrual going forward or is this a one-off type of catch-up accrual?

Deepak Ahuja

So this is for about 30,000, I am giving you round numbers here of cars delivered prior to Q3 and the going forward run-rate for warranty accrual is slightly lower than what we did as a onetime because there was some legacy design issues that we have fixed already. We're in this continuous mode of improvement on reliability overall.

Colin Langan - UBS

You mentioned up front that North America deliveries were higher which I was a little surprised by because I thought you were still trying to get product out to Europe and China. So why was North America so strong if you're still trying to fill the pipeline in the other regions?

Deepak Ahuja

For Q3 deliveries well our production overall was also higher than -- so you're talking about September here or -- either way, whether you look at Q3 or September, our production in Q3 this year was higher than prior year. So we were just selling those other cars in Asia and Europe. So I'm not exactly sure --

Elon Musk

I'm not sure we're answering your question.

Colin Langan - UBS

Yes, it does, I mean -- the Q3 deliveries, the majority of them were in North America but I would have thought that since you're trying to build up inventory in Europe and in Asia that you would have more going to those regions. Shouldn't most of your demand be going into where you're trying to fill up the inventory?

Elon Musk

I think there's an assumption here that we try to fill up inventory, that doesn't make sense. We don't have inventory.

Colin Langan - UBS

I guess my point is that you have orders, you have a lot of -- you're starting in Europe, so shouldn't there be a lot more pent-up demand and more orders in those regions where you haven't been selling before? I guess that's what I'm trying to get at.

Elon Musk

We've been selling in Europe for a while, China is new. We're only just getting going in China. We only had our first deliveries like 6 or 7 months ago, six months ago. We only have two stores and small number of service centers and we don't have super charged infrastructure built out there. So it doesn't make sense to put a ton of cars in China, in areas where we don't, for example, have a service center in reasonable proximity or any super chargers.

In China, what actually has made customers most upset is that we won't deliver their car unless it can be reasonably be serviced or charged and then some of them are like well they still want their car, but then we don't want them to have a bad experience. So we can certainly expect that the growth in China deliveries over time as we build out the infrastructure in China.

Colin Langan - UBS

Okay and then just one last question, is there any update on the Panasonic, how much they're planning to put into the Gigafactory? Because last update I saw I think there wasn't a number that they're planning to invest.

JB Straubel

Speculation about a number, yes, I think we haven't communicated a specific number from their point of view. We have only talked about a project estimate total and I think Panasonic, as Elon said earlier, has been very forward-leaning to make the commitment to investments at the times they need to keep their project moving ahead. There have been a few announcements from them recently in the past few months about that.

Elon Musk

It's on the order of \$1.5 billion to \$2 billion from now through full production at the Gigafactory maybe more than that. Maybe while we're on the Gigafactory, I was a little bothered about some of the reports on the Gigafactory, no question that you've asked, but I just want to make a comment on this. There is like a lot of press about \$1.2 billion tax incentive package from Nevada that Tesla got and is this like really a good idea for Nevada.

It is like a super good idea for Nevada, that's why every member of the Nevada legislature, Democrat or Republican even if they were at the furthest corner of the state, voted in favor of the package; it's over like 20 years. I realize you didn't ask this question. It kind of bugs me that like I thought we got an okay incentive package, given the scale of the thing, but not a super huge one.

When you consider that we're talking about it in terms of the output of this factory something on the order of several billion dollars per year for 20 years and growing. The Nevada tax incentive, over the period of time that it applies is maybe a few percent of that and pales in comparison that say, Boeing got for keeping one model of the 777 in Washington State. Anyway, sorry to go on that side track there but--

Operator

Our next question comes from Andrew Fung with CLSA. Your line is open.

Andrew Fung - CLSA

Following-up on China, could you provide perhaps a bit of a timeline on the build out of your infrastructure? How much does China drive your expectations for next year's volume growth? Then also back to the Model X, how confident are you in delivering the current Model X orders in 2015, the ones that are already placed?

Elon Musk

I wouldn't say we're strongly dependent on China for deliveries next year. In fact, I believe even if we did not sell in China next year, we could probably still meet our targets. So even if there was zero China sales. We would like to exceed the targets, but even if we had no sales in China, we would still achieve the targets we mentioned in the quarterly earnings letter. With respect to Model X, I think realistically somebody's ordering the Model X right now or just changed the website to this effect; the car is going to get delivered in early 2016. So we're essentially sold out of 2015.

Andrew Fung - CLSA

Just following-up on your answer on China, I mean, we're certainly positive on your demand globally, but just trying to get a sense of perhaps how demand is trending in China and whether you choose to allocate cars there as opposed to different regions is obviously your decision. Just trying to get a sense of where we can expect volumes to trend over the next couple of years?

Elon Musk

We feel pretty confident with at least a 13% increase next year and a 13% increase the year after. Probably even could go out several years with at least a 50% over time on average increase, but in order for us to have that, we need to lay the groundwork in a particular region well in advance of when

we need those deliveries to occur because we need to have service centers and super chargers and logistics and all that.

So you can't sort of just go into a country and instantly have service centers everywhere and chargers everywhere and all that kind of stuff. It takes time to build these things out and to understand the nuances of the local market. So it's like what we're doing in China right now is really laying the foundation for future growth.

Operator

Our next question comes from Andrea James with Dougherty & company. Your line is open.

Andrea James - Dougherty & company

First, what's your maximum capacity on the new final assembly line? Have you guys talked about that yet?

Elon Musk

We haven't talked about it.

Andrea James - Dougherty & company

How do we think about it?

Elon Musk

First of all the final assembly line is just one element of the factory. I mean, we did oversize the final assembly line because if we're going to make a new final assembly line. We want to have significant growth potential. So I think we feel safe in saying it's not going to be a growth constraint in the next few years, the final assembly line. The big thing in the first half of next year is going to be the new body line creating sort of the skeleton of the car and the exterior body panels and all that which is intended to be a step change technology improvement from our current body line and allow for a much greater volume as well as exceptional precision in the way the car is made.

We're aiming with the new body line for a level of precision that no car in the world has. You should be able to practically use our car as a yardstick with the new body line that's getting made.

Andrea James - Dougherty & company

Okay. A philosophical one on the Model X, I guess forgive me if this is sacrilege, but it's not clear to me that the Model X is really necessary. Your

long-term vision's always been bigger than the Model S platform with these higher cost vehicles being a bridge to coming down market.

In my view, you've conceived of and promised the X before you really realized the S has served as that bridge in some ways with the capital raises, to put it in the form of a question, how important is the Model X to where you want to be in like 2020 and how do you think about what the Model X brings to the product portfolio?

Elon Musk

You are right, the Model X isn't necessary to get to the Model 3 which has been the goal of the company all along. The Gigafactory is certainly needed for the Model 3 and the Gigafactory is going to take us like about 2.5 to 3 years to build and get to serious production.

So we are kind of making the Model X in the meantime, but it will serve a purpose of generating great cash flow to support the Model 3 and obviously would reduce the dilution and the amount of capital that we need to raise for investors for the Model 3 because it should generate a lot of positive cash flow. I think the Model X is going to be something special. I mean it's sort of an expensive car, but it's really going to be something special.

Deepak Ahuja

Gives us an opportunity to bring an amazing car to market that isn't there at all.

Elon Musk

It's something that should exist.

Operator

Our next question comes from Ryan Brinkman with JPMorgan. Your line is open.

Ryan Brinkman - JPMorgan

It's really on direct leases as it relates to cash flow. It looks like you invested about \$35 million there to direct lease 347 vehicles in 3Q. What you're doing now is, of course, very small in relation to your \$2.4 billion of cash. I guess what I am wondering is if we should be potentially modeling a lot more going forward? You refer in the letter to I think 3000 to 3500 leased cars in 4Q, but also that a large portion of them will be through the bank partner lease program.

Can you help with what large portion means and how should we think about modeling direct leases going forward? Could this growth become material or will it be phased out with the bank partner program?

Deepak Ahuja

I think we will continue doing some degree of direct leasing. It gives us flexibility and allows us to be in states where our banking partners cannot be there. I suspect we will probably double, from Q3 going into Q4 our direct leasing. So it's still not going to be a big part of the capital required in relation to the cash we have. We always have the option to go and get some bank warehouse lines to fund, but we don't want to do it while there's no need. Why pay interest expense on that when there's no need to at this time?

Ryan Brinkman - JPMorgan

Got it. Last question just curious on what extent the Model X and Model 3 are being developed in parallel or is there some work on the 3 that maybe accelerates once you can take resources, shift them from the X after it launches? What I am trying to figure out is if the timing on the launch of the X reads through in any way at all to the timing of your more mass market vehicle? Thanks.

Elon Musk

The development of the small motor actually, we have got a big and a small motor, big and small drive unit and for like the performance 85, the dual motor car, the standard sort of sport big motor in the rear and smaller motor drive unit in the front and that smaller drive unit in a lot of ways is a precursor for the Model 3. It represents a significant improvement in cost, in steady state power, a number of other factors.

It's basically -- it's like a second generation motor essentially, that's good pathfinder for 3 on the powertrain side. Obviously, the Gigafactory is very much being geared towards the Model 3 pack needs, for the rest of the Model 3, it really depends on -- we could obviously, one easy thing to do would be to just make a 20% smaller Model S and then that would be the easy thing to do, but I think we might be able to do a few more interesting things than just that.

Operator

Our next question comes from Adam Jonas with Morgan Stanley. Your line is open.

Adam Jonas - Morgan Stanley

Just two quick questions here. Elon, in a world of completely automated driving going a bit out in the future here, what do you think will define a successful automobile company? Why would people buy a Tesla if their hands are never actually never touching a steering wheel or if their feet never actually make contact with an accelerator pedal?

Elon Musk

Well that's pretty far in the future.

Adam Jonas - Morgan Stanley

Even for you?

Elon Musk

Our definition of far is other people's definition of not that far. But, yes, it seems like in the long term that there will be -- that people won't be driving cars or maybe they'll be like some auxiliary steering thing that pops out only in an emergency that looks more like a Nintendo controller or PlayStation controller or something like that. We're still pretty far from that in Tesla terms and it has to be approved by regulators and everything.

Before such things are really mainstream and approved by regulators, it's probably no sooner than seven years from now and could be up to 10, I think, because you have to have that car that's capable of doing that and the regulators need to see that it's really working as promised for a few years before they approve it. But I think it's quite likely that Tesla will be the leader in making cars like that. Anything you want to add?

JB Straubel

I think people will still care about many of the same things that they care about today, value and performance of the platform, range, efficiency, the detail and fit and finish of the interior, maybe even more so than previously since they can really focus on those things.

Elon Musk

I think there will be some amount of car sharing for sure, but I think there's like a limit to the whole sharing thing. There is an important role for sharing but it's not -- most things don't get shared. People could easily share their house or their clothes or their bicycle or something like that and they do a little bit with like Airbnb or something like that, but mostly not. Take houses, you could triple housing inventory.

Adam Jonas - Morgan Stanley

Just as a follow-up, a couple months ago I believe you said something like our share price is kind of high right now. Obviously, the stock's pulled back a bit, given the very high ambitions of the company which would require I think, to use your words, monster CapEx to carry out, could you update us on your latest posture for potentially seeking additional funding from the capital markets to help seize the growth opportunities that you have? Or are you more in a self-funded status mode for now? Thanks very much.

Elon Musk

We don't see any near term need to raise money. We're spending a lot to increase production capability of the S like to maybe be able to make more of them and make them more efficiently, obviously to build the X and to get the Gigafactory and the long lead stuff on the 3 going. But so far it doesn't look like we're going to need to raise capital and maybe not at all until the 3. But I should say, if there was something we could think of to spend money without being wasteful which is quite hard, then we would do so.

But right now, we're spending money about as fast as we can think of intelligent ways to spend money and not always being intelligent about it, of course.

Operator

Our next question comes from Ben Kallo with Robert Baird. Your line is open.

Ben Kallo - Robert W. Baird

I've a quick one and then a longer one, the quick is on your production run-rate at this point per week, where are you guys at kind of on a steady state basis, if that makes sense?

Elon Musk

I don't know if I should answer this question.

Deepak Ahuja

I think we've complexities of production (indiscernible) so trying to give a number which is sort of indicative of anything on average probably doesn't make -- it's not relevant.

Elon Musk

Let's just say that achieving 50,000 units of the Model S next year is going to be no problem.

Deepak Ahuja

That's better longer term.

Elon Musk

And things do vary a little bit from week to week and obviously, if there are like holiday weeks and that kind of thing then there are fewer cars made, but just say we feel like no problem to do 50,000 Model S next year.

Ben Kallo - Robert W. Baird

My bigger question is, Elon, over the past few calls and hate to bring up demand again, but just to get this out here you estimate by region how big markets were. Could you give us an update as you guys' assessment evolves over time as well, China, North America, Europe? Then specifically in China, we hear a lot of different types of rumors about delivery issues in that market. Maybe give us an update on how big you think the market is for the S right now in each of those regions?

Elon Musk

Right now is not -- as I was saying earlier in China, we need to have more service centers, we need to have more super chargers, there are some local charging nuances that need to be sorted out. The delivery experience hasn't been always as good as we would like it.

Before one tries to scale up and put a ton of cars into the market, the infrastructure needs to be there, the Tesla infrastructure needs to be there to support it. So we're building that infrastructure very quickly.

In fact, I have seen that our China team is building it out faster than any region that Tesla's gone into before. I think our China team's executing quite well in that regard, but still, there is a rate, a certain rate and do it right.

Ben Kallo - Robert W. Baird

So how big do you think the market can be?

Elon Musk

Well like I said, feel very confident of 50,000 Model S vehicles a year. It's probably more than that, but that's the number we're confident of. There are obviously also macroeconomic factors of how is the given economy doing

that we don't control. So it's difficult to make these predictions without also knowing what the macroeconomic climate's going to be in each of these countries, except to say we think 50,000 next year is a pretty good number even if the economy isn't great in certain parts of the world.

Operator

Our next question comes from Carter Driscoll with MLV. Your line is open.

Carter Driscoll - MLV

In terms of the feature sets and the updates outside of the dual motor drive that you recently introduced, has there been anything that you've gotten really positive customer feedback say, over the past 12 months that maybe you decided to incorporate in the Model X? Anything that surprised either negatively or positively?

Elon Musk

Are you asking -- sorry. Say that again.

Carter Driscoll - MLV

Any of the incremental improvements you have made to the Model S over say, the past 12 months that have really gotten positive customer feedback that you maybe were or were not going to incorporate in the X that have surprised?

Elon Musk

There are a few things that are important like we have made a pretty big improvement to the seat comfort. That's important, particularly the next generation seats that they can order with the P85-D, those are a huge improvement. The sun visor -- I mean there's like all these silly things that have -- the sun visor by the way will be offered to all existing Model S owners as well because I think the sun visor we came out with in the beginning was not great.

This one is actually bigger and properly blocks the sun; it's got a great mirror. Importantly, the strident sticker that is normally on sun visors has been minimized and moved to the left and no longer also includes the warning in French, that sticker drives me crazy. So it's a way better sun visor. But there is sort of steady stream of improvements. Jerome is there anything you want to I think maybe?

JB Straubel

Wipers.

Elon Musk

Wipers, yes, we've also improved the wipers. A car is just such a complex system. All of these things have to be, oh, yes, the charge port door is now actuated with the cars going out. It will actuate open and closed. You don't forget to close your charge port door and then drive off with the charge port door open.

Carter Driscoll - MLV

It just sounds like steady state incremental improvements nothing that really stands out. In terms of what you're talking about in terms of reducing the number of options on the Model S to ramp production is that because you're pulling things in that are not going to be in the base price or is there certain options you're just no longer going to offer? Does that have any effect on the blend of the ASP going forward for 2015?

Elon Musk

I think it's probably not going to have a big effect on the average sales price, but we've had to make some tough decisions on essentially having fewer versions of the Model S in order to streamline manufacturing and thus be able to ramp production better and have better control in logistics and not have like a million variations on the Model S. The dual motors, we're not going to produce the dual motor 60-kilowatt hour car at all.

We're not taking additional orders for the performance 85. We're only doing the performance 85 dual motor and we're cancelling green and brown as colors. These are a few examples, but this helps us streamline the manufacturing and supply chain logistics and enables us to better ramp production.

Operator

The next question comes from Colin Rusch with Northland Capital Markets. Your line is open.

Colin Rusch - Northland Capital Markets

Can you talk a little bit about expectations for OpEx spending and how we should think about incremental margins as we go forward with this 50% annual unit growth?

Deepak Ahuja

I think you're referring more to 2015 here. I think it will be best if we wait until the next quarter's earnings call and provide better guidance on how 2015 outlook is.

Elon Musk

Actually one thing I forgot that we should probably have had as a bullet point at the top of the shareholders letter though, is in terms of GAAP gross margin, our GAAP gross margin in Q4 was 29.6%.

Deepak Ahuja

Q3.

Elon Musk

Sorry, Q3. 29.6%. If you exclude all positive and negative onetime things, items, it's about 27% which that's probably the more relevant number.

Deepak Ahuja

That's also excluding ZEV credits, the way we report it normally.

Elon Musk

To be precise, the 27% GAAP gross margin would be excluding all onetime stuff including ZEV credits. Sorry, so no ZEV credits included in the 27%.

Deepak Ahuja

To make it apples-to-apples from our prior reporting.

Elon Musk

Right.

Colin Rusch - Northland Capital Markets

And then just a quick follow-up on the stationary energy storage, looking at the potential need for grid tide storage and your expertise with batteries we're looking at something that could be 5% to 10% of total grid capacity globally as well as looking at the emerging markets and needing micro grid solutions. As you guys are looking at spending money obviously, you are involved here, how big an initiative is this for the company at this point?

Elon Musk

Stationary storage is pretty significant in the long term. It's a vital element for going to sustainable power generation. So we are currently assuming that somewhere around 30% or so of the Gigafactory output would be aimed at stationary storage, that's a rough guess. But one way or another stationary storage is going to be a really huge thing that needs to be done.

JB Straubel

It's definitely a very serious effort for us, but a lot of the work and a lot of the resources are complementary to what we're trying to do on the vehicle side. Reducing the cost of cells, increasing capacity of cells, improved power electronics, these things benefit all different products that we're building right now. So we've to be mindful of priorities, but there is a lot of synergy which is part of why we're so aggressive.

Colin Rusch - Northland Capital Markets

Are you guys seeing any changes on the horizon in terms of grid rules, in terms of frequency legislation, monetization, are you doing that kind of nitty-gritty market research in certain geographies at this point?

JB Straubel

We definitely are tracking a lot of different regions and it's very fragmented, but we don't really have a detailed proactive lobbying effort on this. We're talking to most of the grid operators and independent system operators and utilities. Right now, we're really focused on building products that meet needs that are here and now. There's plenty of opportunity there before anything actually changes.

Operator

Our next question comes from James Albertine with Stifel. Your line is open.

James Albertine - Stifel Nicolaus

Really quickly, I'm sorry if I missed it, I dialed in a little bit late, but I wanted to talk about average transaction prices and also wait times on the ATP side. We can look at the deliveries and divide by the revenues and get to a number. I wanted to see how that progression was tracking intra-quarter and if there was any decision to bring all wheel drive, dual motors and autonomous features forward versus prior expectations given the spec that a lot of your customers were demanding at higher price points, maybe that's another way to look at demand question, I guess is my theory. Separately just very quickly where are we wait times for the Model S today versus where we were sort of three months ago just as a proxy? Thanks.

Deepak Ahuja

On the average transaction prices, we're not seeing any significant changes from a content perspective as we look at Q3 versus prior quarters. Clearly, as we go forward and the addition of dual motor is going to improve over average transaction price. However, when we look at international markets as we talked earlier, the significant weakening of the European currencies is having an impact on our international average transaction price and it's lowering in total, our average transaction price slightly.

Elon Musk

Yes because the euro dropped like 7% or something like that.

Deepak Ahuja

Correct. And then the same thing with the Norwegian krone and the Swiss franc, they all were in the 7% to 8%, they had a significant impact, but not from a content perspective. The underlying fundamentals are good.

James Albertine - Stifel Nicolaus

Okay and just the wait times?

Elon Musk

It depends on which version of the car that you get and where you are in the world because obviously, if you're not in the, say the West Coast of the U.S., there's going to be a longer wait time to transport the car to wherever you are. So the wait times, right now I think are anywhere from maybe 6 to 7 weeks in the best case to four months.

James Albertine - Stifel Nicolaus

It sounds like that's been pretty static.

Elon Musk

Yes, yes, no significant change there.

Deepak Ahuja

I just wanted to add that our \$0.02 EPS in the quarter was clean. It includes all the onetime good news and bad news. So there is no asterisk to that.