

Our first question comes from Ben Kallo from Baird. Your line is open.

**Ben Kallo - Baird**

Hi. Thanks for taking my question. So, I think, one of things that investors will be focused on is the amount of churn, could you guys just talk about where you are seeing that churn, and then how much time you think it takes for it to level off?

**Elon Musk**

Yes. I mean, I think, you maybe referring to, I think, there was – there had been some articles about like Tesla's wait time has reduced to like a month, is that maybe what you're referring to or do you think...?

**Ben Kallo - Baird**

Yes. We can tie that in there too, because I've heard this argument out there that you called the store, and they said that I can get my car in a month or 45 days.

**Elon Musk**

Yes.

**Ben Kallo - Baird**

So maybe you could tie that into also having the record level of reservations, but then having some people opt out of or take their money back, their deposit back?

**Elon Musk**

Yes. Absolutely. So, I think, there was -- I think some articles are out there that don't really accurately describe the situation. The average wait time now for a car is about five months. However, there are some configurations which are available in more like maybe six to eight weeks, which are the very high-end reservations.

So, but it should be pointed out that like really we are still talking about an average wait time that's on the order of five months. And in fact, if we were to close all of our stores right now world-wide and not have any product specialists or sales people, we would still sell out through the year. So that's maybe an important thing that people don't quite appreciate.

**Ben Kallo - Baird**

And I guess if you could just elaborate on how you are seeing demand pick up in other places outside North America, and what we should expect as the year progress there, and I'll jump back in queue?

### **Elon Musk**

Yes. Absolutely. So, and right now, we've really done almost no Model S sales in Asia, and we've done very limited amount in Europe, in fact we only have two cars in all of Europe. That's going to change dramatically over the next few months, and we are going to start marketing heavily in Europe and then start doing the same in Asia.

We feel very confident of achieving a demand level in excess of 20,000 units a year. And I think, we'll see quite a bit larger than that number as we expand to Asia and Europe and actually start marketing there. I have George Blankenship here with me. George, do you want to add anything to that?

### **George Blankenship**

Yes. We had a press event preview in Europe at the end of October, and it was received very, very well. At this point, the interesting thing about Europe is that, we are getting a nice response in reservations, and we don't even have any display cars there yet.

We will over the next couple of months as Elon said, we'll be actually sending display cars over there, but right now, we are still transitioning out of Roadster into Model S in the stores without any display cars and still having a nice pick up in European reservations.

As far as Asia goes, it's announced -- we've announced previously that we are opening in China, our first store, later in the spring, and we expect real positive results there. And we are just now starting to show Model S in Asia in Hong Kong and Japan with stores planned for there in the later part of this year.

So, we really haven't started actually displaying our car to customer hardly at all anywhere outside of North America, yet 25% -- about 25% of our reservations are outside North America.

### **Ben Kallo - Baird**

Right.

### **George Blankenship**

So -- and in North America, you probably saw in Q4, in our stores in North America, we had 1.6 million people go through the stores just in Q4, so that's still, it's winter time, so they don't have as much traffic as you do in Christmas, but we expect to have lots -- a really nice increase in traffic in our North American stores this year.

**Ben Kallo - Baird**

Right.

**George Blankenship**

So, the stores are working.

**Ben Kallo - Baird**

Thanks guys. Congrats on the progress throughout 2012.

**Elon Musk**

Thank you.

**Operator**

Our next question comes from Ben Schuman from Pacific Crest Securities. Your line is open.

**Ben Schuman - Pacific Crest Securities**

Hi guys. Thanks. Can you give us any idea of what the regulatory credit revenue was in Q4?

**Elon Musk**

Deepak, do you want to comment on that or is that...?

**Deepak Ahuja**

I think for us, the way we looked at regulatory credit is that it's great to get that, it's a positive stream of revenue, but it's unpredictable, and as we look forward, we are much more focused on getting to profitability and achieving our target without the benefit of the regulatory credits.

**Elon Musk**

Yes. Exactly. Exactly. And in fact, maybe just to clarify further, as people may recall, there were three firm things that I promised we would do, that we would start production last year earlier than July and we started in June,

and we would get to 20,000 units a year and that by the -- sorry, that we would deliver 20,000 units in 2013, and that by the end of 2013 we would exceed 25% gross margin. And I want to be clear that that 25% does not include regulatory credits.

**Ben Schuman - Pacific Crest Securities**

Okay. Great. And then can you maybe give us an update on the quality control situation just in terms of what percentage of the cars are still getting some sort of post-production touch-up work?

**Elon Musk**

Actually, I don't have those figures handy, was not expecting that question. It's a -- it's dropped dramatically.

**Deepak Ahuja**

I think the ability for us to produce cars at the steady rate of 400 plus a week is very much linked to our ability to produce quality cars on the line, and so those go hand in hand, and it's continued to improve significantly.

**Elon Musk**

Yes. There was a time several months ago where every car that came off the line would require some degree of rectification, but now that is very a fairly small percentage. I don't have the exact percentage on hand, but it's a fairly small percentage, and the other thing that's also worth noting is that, anything which is software related can be addressed by an over-the-year update which is something that no other car company can do. And I think that's actually worked quite well.

**Ben Schuman - Pacific Crest Securities**

Great. Thanks, guys.

**Operator**

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

**Patrick Archambault - Goldman Sachs**

Great. Thank you very much. I guess, my first question is just given what you've said when you're looking at those net reservations. I think you said cancellations were going to be similar to what you saw in Q4 production. You have obviously the guidance of 4,500 obviously dependent on sort of what

you do in terms of reservations during the quarter. But it sounds like that net reservation number is probably going to grind down a little bit in Q1, maybe even Q2 before kind of peaking up again, and is that correct and sort of how do you think about the trajectory of that overall net reservation number for this year?

### **Elon Musk**

Well, our intention is really not to have people wait six months for a car. We would much prefer that that our demand generation and production are closely synced so that when you order a car, you get it within less than a month. Really, you would ideally you want to get a car within maybe a few weeks or something like that.

So, it's not our intent to have a long waiting list. So I think that's pretty inconvenient for people. The limitation on production -- I mean, where we said we think we can do at least 4500 this quarter. It's -- that is not in any way a demand -- just to be clear in anyway a demand-related thing. That's purely a function of us being able to do steady-state production and do so efficiently.

Our focus in Q1 is on production efficiency, improving gross margin, and making sure customers are really happy when they receive the car. So, it's important for us, I think, to operate at that steady state for a bit before we try to drive the number higher. But I do want to emphasize we are not demand constrained, we are intentionally production constrained. So I mean -- so that's, I think, really an important consideration.

### **Patrick Archambault - Goldman Sachs**

Frankly, that's helpful color. If I can just squeeze one quick one in for Deepak on cash flow. I think you said Q1 would be break-even. Can you just help us from a modeling standpoint think about the cash flow cadence as we're working through 2013. When is it that you would expect to move to positive understanding that there are obviously some seasonality elements to the production and working capital and what have you?

### **Deepak Ahuja**

Patrick, our focus, as Elon indicated, is on a variety of cost reduction and operation stabilization projects, which are all going to help us continue to generate more cash from our operations as each one of those buy. Not sure, if I can give you any further guidance beyond that. We feel very comfortable where we are as we look at our cash flows from operations. So, I think we're in a good place.

**Patrick Archambault - Goldman Sachs**

Okay. But there will be -- it will swing to positive during the year. I guess, would that be the...?

**Deepak Ahuja**

Of course, I mean...

**Elon Musk**

Absolutely.

**Deepak Ahuja**

Right. Of course. And I think the key focus here is that, I know we are starting the quarter in 2013 here being profitable and then we just continue to grow on that.

**Elon Musk**

I mean, I think it's perhaps worth emphasizing this point, which is we really have very high confidence that we will have a profitable first quarter. And this is only the first -- this is the very first quarter that we actually have been at our target production rate.

So, we have had very little time to work on production efficiencies, improvements to gross margin, and all that. And despite all that, due to an enormous amount of hard work by really dedicated people at Tesla, we're going to be profitable, and that's -- I think that's a pretty big deal. And I mean that's -- it's really enormous amount of blood, sweat, and tears to get there, that really can't -- difficult for me to always state the level of difficulty, but we're going to do it.

And that's, I think -- so we're really proud of that. And I feel like we are halfway through the first quarter and we can say that with confidence.

**Patrick Archambault - Goldman Sachs**

Great. Thanks a lot guys.

**Operator**

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

**Unidentified Analyst**

Good evening guys. This is EJ in for Adam. Could we step through your 1Q guidance for a bit. Given your guidance for 4,500 deliveries, mid-teen gross margins, and you're calling for a 15% reduction in R&D versus 4Q, and for SG&A to increase moderately.

I'm having a bit of trouble getting to the slightly positive net income on a non-GAAP basis. Is there any rebucketing of R&D cost going on or is there other significant developmental service revenue that we're missing here?

**Deepak Ahuja**

I think if you consider the combination of Model S sales, of our powertrain sales, our development revenue and mid-teens gross margin, I think the guidance would probably lead you to somewhere along those lines close to something in the break-even range to slightly positive. It should be close to break-even, and we were hoping to beat that.

**Unidentified Analyst**

Okay. So there is not really any rebucketing of R&D going on?

**Deepak Ahuja**

No.

**Unidentified Analyst**

Okay.

**Deepak Ahuja**

We're not playing any accounting games and this is very much a function of Model S, not other things.

**Unidentified Analyst**

Got it. Switching gears to CapEx for a second, I think you guys have previously expected about \$240 million of CapEx for full-year 2012, and ended up, I think, a little over \$270 million. Is that something that you pulled forward from 2013 or is there something structurally that we should be looking out for here?

**Deepak Ahuja**

We had some amount of pull ahead of completion of production tooling and completion of some of our equipment in-house, which resulted in higher CapEx as well as some of the infrastructure of the store and IT

infrastructure. So overall, I think it was a bit of pull ahead, but it's not surprising.

**Unidentified Analyst**

Okay. Great. Thanks very much.

**Operator**

Our next question comes from Aaron Chew from Maxim Group. Your line is open.

**Aaron Chew - Maxim Group**

Good afternoon guys. Thanks for the question. I was wondering if you could just drill a little bit deeper into the slower pace of reservations in Jan and Feb to date following the price hike going into effect at the year end. Is it safe to say what you're saying, it is down from December but still over the October, November levels, maybe just given the big jump from 3Q to 4Q, if you could just highlight if it's pacing above 3Q and below 4Q or where you're at a little bit more in detail?

**Elon Musk**

Actually, I'm not sure what I recall offhand what our third quarter numbers were. The key point to bear in mind is like, as mentioned earlier is like, we have enough reservations right now to fill out the year, -- and just on sheer momentum sell every car we make, even if we closed every store we have got.

So there were certainly cancellations in January that were as a function of asking people to confirm. So we're trying to clean out basically anyone who wasn't serious about buying the car. But I don't think those were indicative of demand for rest of the year. So, if you -- okay, sorry, Jeff has confirmed, yes, it is certainly high in Q3.

**Aaron Chew - Maxim Group**

Okay.

**Elon Musk**

If you exclude the sort of reservations that will go -- the cancellations that were just as function of asking people to confirm their order or not, we have a lot of demand in North America, I would say well in excess of half of about 20,000 units per year demand or production target.



So you maybe have heard me say before where I think kind of demand breaks down between Asia, North America, and Europe is something like 10 to 15 in North America, probably 10 in Europe, and maybe 10 to 15 in Asia. But it will take us some time to build up Asia, particularly China.

So, it doesn't really affect, I think, this year all that much. I am quite certain that we will deliver more than 20,000 cars this year and that's not really a concern like I said, literally, we could say goodbye to every store and every sales person and still meet that target, but we want to make sure that we've laid the ground work for an improvement above 20,000 units a year in 2014. So, as we are thinking about demand generation, it's really not about this year, it is about how do we exceed the 20,000 unit number next year.

### **Aaron Chew - Maxim Group**

Okay. Excellent. And if I could just -- real quick to the production side. Now that you've solely reached your target rate of production for the 20k pace, just wondering if you've been able to identify sort of how many flex you may have in that on a weekly basis. I mean, especially if you are taking the 4,500 in 1Q, is that up to 425 potentially, 450 or is there a way you can maybe quantify that just so we can understand how you are able to meet that 20k sort of in the back half?

### **Elon Musk**

Yes. I think our production rate will be in excess of a 20,000-unit-a-year annualized rate in the second half of the year. For this quarter and for probably most of next quarter, you have to decide what the relative focus is, and I think the important thing for us to focus on right now is production efficiency and improving gross margin rather than scaling up production. And right now, we've got a pretty large number of temporary workers that essentially were hired to deal with manufacturing inefficiencies, and it's really important that we improve the manufacturing efficiency and can reduce the number of temps essentially.

We still expect to see an increase in full-time employees from beginning of quarter to end of quarter. But it is really important that we make some significant progress in reducing the size of the temporary labor force and addressing the manufacturing inefficiencies.

In any company, you have got to focus on what's important at any one time and production efficiencies (indiscernible). If we wanted to, we could raise production right now to 500 units a week. That's probably what we could do right now. But we do so at the expense of efficiency and would have a lot of over time and that kind of things. So, right now, it's really just production efficiency with the risk of being [repetitive] (ph).

## **Aaron Chew - Maxim Group**

All right. Very helpful. Thanks so much for the question.

## **Elon Musk**

Okay.

## **Operator**

The next question comes from Amir Rozwadowski from Barclays. Your line is open.

## **Amir Rozwadowski - Barclays**

Yes. Just following-up on the question of focus, Elon, is really sort of optimizing your workforce, the primary barrier to getting to that 25% gross margin target given that you are relatively a stone's thrown away from sort of your optimal production rate?

## **Elon Musk**

There are a number of things. I mean, I'd say generally speaking, the car business is a pretty cost efficient business. I mean, it may not be great at a lot of things, sort of breakthrough technology and that kind of things, but it is pretty good at cost optimization. And so, in order for us to be competitive, it takes a lot of work on all fronts. It is certainly reducing the labor hours and the amount of overtime.

In December, even though we were cash flow positive and sort of profitable on a per car basis when all things are considered. The amount of overtime that was required to achieve the 400 cars per week was pretty extreme. So, that has improved dramatically just coming into January and then February. We've gone from, I think it was an average of over 60 hours a week to almost 70 hours a week in December. Yes, exactly.

It was somewhere between 50% and 70% above 40 hours, and it was like an average 68-hour week that that people worked in December, which was also like a tough thing for people to sustain just on a burnout level. But it also drives the cost to pretty extreme levels, because above 60 hours a week, you actually earn in double time; above 40 hours, you earn overtime. So, now, we have gone down to a point – we are maybe a 50-hour week from something like – like I said, something like almost a 70-hour week at average in December to about a 50-hour week now, and then driving that to kind of the mid-40s in March in addition to reducing the total number of people needed to get the car, so the labor hours per car are dropping

dramatically, that may be the single biggest factor , but close behind it are things like logistics and supply parts, so another thing that we had to do that was really inefficient in fourth quarter was we had to fly a lot of stuff.

And when you fly something, it can cost as much 10 times what it costs to ship it by sea or rail or truck, particularly if it is heavy. And so, we had to do some dumb things like fly tires from the Czech Republic like (indiscernible) that was, like one of the -- I want to punch myself on the face for that one.

At the risk of [bringing], I'll just give you like a little anecdote. There are a hundred things like this, but as it turns out, we have a supplier for the 21-inch tires that's in the Czech Republic, and it was taking -- we have terms of -- we have 30-day payment terms with them, and when they were shipping the tires, it actually took longer than 30 days to get to us. So the tires would get to us and would be passed you, so that happened like a number of months, and then they put a hold on the shipments because we had not paid on time even though we weren't getting the tires before we were getting the bill, so then they put the hold on that.

Anyway, that was just a big (indiscernible) to fly a bunch of tires from Czech Republic to keep production going. That will give you one sort of extreme example of how logistics can actually go bonkers. And that's also dropped dramatically in the first quarter, and then in terms of supply parts, as I mentioned, there is a huge number of supplier cost reduction taking place because just as we have inefficiencies, so do our suppliers. One of the biggest challenges we actually had, and I don't mean to unload on you guys who are on the call, but the industry estimates for the number of cars that we make were quite low.

So, for example, there is an organization called IHS, which does the industry estimates on production volumes. They had us down at 1,500 units a year, and so for a number of our suppliers when -- they didn't look at our forecast, they looked at the IHS forecast and didn't believe our forecast, and so, it tooled up for some puny number of parts for very low production volume, and then we were caught flat footed, when we said, no, we actually did mean the order that we sent you.

We are making 20,000 units a year and not 1,500 units a year. And we've had a number of such conversations where our suppliers finally realized that we weren't kidding about that and took the steps necessary to supply us with the parts. And I think we are starting to get beyond so many things like that and get into a steady cadence of production, and suppliers are starting to take our volume seriously and to offer us prices that are actually competitive in the market. Deepak, is there anything you want to add to that.

**Deepak Ahuja**

I think those are all very good points plus our engineering teams are working closely and identifying efficiencies in material costs, both internally and with our suppliers. So that's a huge focus which is bringing a lot of costs down, very positive momentum on that.

**Elon Musk**

Sorry. One other thing I should add is like, for a number of suppliers we actually have price breaks that occur at certain volume levels and at certain calendar points, in particular for example with a deal with Panasonic, that's a huge factor as we pass certain calendar points and certain production volumes, the cost of the sales in our battery pack drops and that's been quite helpful.

**Amir Rozwadowski - Barclays**

So, I guess given where you are in terms of your production now, and some of these issues seem to be in the rearview mirror, I mean, what is your sort of comfortability in sort of meeting or even exceeding that 25% target?

**Elon Musk**

I'm highly confident that we will be above 25% gross margin without considering zero emission credits by the end of this year.

**Amir Rozwadowski - Barclays**

Great. Thank you very much for your incremental color.

**Elon Musk**

You are welcome.

**Operator**

Our next question comes from John Lovallo from Merrill Lynch. Your line is open.

**John Lovallo - Merrill Lynch**

Hey, guys. Thanks for taking the call.

**Elon Musk**

Hey, John.

## **John Lovallo - Merrill Lynch**

First question, Elon, would be for you. Despite all the noise in the press and all the back and forth, I mean do you see kind of the potential necessary additional planning for a driver of electric vehicle? I mean, do you see that as a headwind, are you hearing not from everybody?

## **Elon Musk**

I think for a long distance- trip right now depending upon where are you in the country, a little bit of extra planning is needed. I think if you are in California or Nevada, we have got a good density of SuperChargers for long distance driving, so you don't really have to worry about it.

The ideal density of SuperChargers is maybe around -- roughly every 120 to 150 miles, whereas right now on East Coast from D.C. to Boston, it's about every 200 miles, because we only have two. But, we have a bunch more SuperChargers that are going into the East Coast and across the country into Texas, the Seattle area, Chicago, and really we want to get to the point where you don't even have to think about it.

And, I think we are very close to that point, unlike this is some distant point in future. We are very rapidly deploying the network of SuperChargers and we are hooking that into the software in the cars. The navigation system will automatically route you to a SuperCharger. You just plug in wherever you want to go, and also to route you to the SuperCharger network to get wherever you want to go, so you don't have to think about it.

And all that's going to happen like in the next several months, it is not far away. And I think when people actually use the SuperCharger system, which is free by the way, it is like that seems to be lost in this whole debate like what car do you have for your long distance? It's pretty great. I think, and we are continuing to improve the rate at which the SuperCharger can put energy into the car. We have deployed some of the solar panels over the SuperChargers. We are going to start planting a lot more which cuts our cost of electricity down, and it is pretty awesome I think.

So -- and then there is -- you've got a fairly a meaningful announcement about a step change in supercharging technology coming later this year, that's actually originally what we were going to talk -- that's sort of -- we wanted to do the article with New York Times about. I don't know -- who knows maybe who we will ultimately do it with.

But I think that's going to be -- we are going to be pretty interested in that announcement when it comes out, and this whole thing of like does the car work in the cold, . It's like, yeah, it works really well actually, and we are

going to make it work even better over time. So it does lose 10% of its range if it's very cold, but so do gasoline cars, fuel cuts get above that too.

**John Lovallo - Merrill Lynch**

Okay. That's very helpful. And then, Deepak, the Q4 step up in developmental services revenue, was that more of kind of a true-up from the third quarter where possibly some of that Daimler revenue got pushed back?

**Deepak Ahuja**

Partially, yes. That's right.

**John Lovallo - Merrill Lynch**

Okay. Thanks very much guys.

**Operator**

Our next question comes from Dan Galves from Deutsche Bank. Your line is open.

**Dan Galves - Deutsche Bank**

Good afternoon. You guys have probably by this point asked most of your current U.S. backlog to configure their vehicle or to confirm. Just wanted to know what you've learned about likely ordering patterns in terms of battery size, options, et cetera? And do you have any sense of where average transaction prizes may shake out this year?

**Elon Musk**

It's definitely -- more people are ordering the larger battery pack than we thought. It seems to be that like -- I can say like less than 10% of people are ordering the 40-kilowatt-hour pack. That's an interesting data point. I'm not saying that couldn't change in the future, but that's what we're seeing right now sort of maybe 10% or less.

A majority of people are ordering the big battery pack actually which is, and I wouldn't count on that in the long term, but a majority of people are actually, one-third percent are ordering the 85-kilowatt-hour pack which is a positive surprise. And hopefully, that continues -- I mean, that's the best experience that somebody can have with the car. So, hopefully that keeps going into the future.

**Dan Galves - Deutsche Bank**

Any revenue outlook for this year that you could provide for us in terms of average transaction prices or --?

**Deepak Ahuja**

I guess, our inclination is to take it one quarter at a time, but just looking, I think -- I don't think we would be disappointed by the revenue numbers this year. I think it will be -- we'll react positively to the revenue number that occurs in this year and then obviously we want to make sure that we have laid the groundwork this year for a meaningful increase in 2014 as well.

**Dan Galves - Deutsche Bank**

Okay. Great. And one other one, how much in terms of deferrals are you experiencing as you go through your reservation book, and just wondering like how many people are really looking for a U.S. leasing option, and if you could provide us any update on the likelihood of the U.S. lease this year, that would be great. Thanks.

**Elon Musk**

Yes. Well, we do see some deferrals taking place because we have a new color coming out which is actually really great color. I have to admit its really great color. We spent a lot of time on that red, but I'm not suggesting any one delay that order, but it is an awesome red. So, we have got lot of interest in that. There is a segment of people that don't want the air springs, even I think that's actually, I mean, people should really, it's worth getting, but some people don't want to get it.

And so, there is a little bit of deferral on that front, but we're not really seeing deferral. It is mostly deferral because certain options aren't available right now as opposed to other reasons really. And then sorry, what's the second question.

**Dan Galves - Deutsche Bank**

Leasing.

**Elon Musk**

Yeah. Leasing. So all of the sales and all the things I mentioned thus far are with zero U.S. -- zero North American leasing. We don't even offer leasing in North America. That is something that we do want to offer maybe in the second half of the year. So, we want to make sure that the terms of the lease like interest rates and all that are compelling. Even if we did zero leasing in North America, we could still sell all that productions this year.

So, leasing is entirely optional for us at this point. And I really want to come out with the leasing product that's compelling. We don't want to come out with kind of a lame leasing product. So, we are talking with some of the major financial institutions in the world about doing leasing, and those folks are progressing in a good direction. But in order for us to get the best rates for our customers, I mean, we're not really interested in making a bunch of incremental money from leasing.

But we want to make sure we get a good deal for customers. It's important for those international institutions to feel really comfortable with Tesla, and that's one of the reasons it can be really helpful for us to be profitable this quarter and subsequent quarters is to give greater confidence to the large banks in giving us -- for our customers a good leasing interest rate. That's usually happening to big financial companies.

And I do see long term, not so much this year, I think this year leasing is going to comprise of a very small percentage of our volume. But I do think next year leasing will be a big factor. And within Europe, it will be at least some moderate factor this year. We already have a significant leasing deal signed with Athlon, which is one of the major European leasing companies.

#### **Dan Galves - Deutsche Bank**

Okay. Thanks very much.

#### **Operator**

Our next question comes from Elaine Kwei from Jefferies. Your line is open.

#### **Elaine Kwei - Jefferies**

Hi everyone. Congrats on hitting some pretty big milestones this quarter. Actually, just following up on the demand generation for 2014, I was curious what percentage of the new reservations you're seeing coming from stores and you're seeing a pretty good correlation there with reservation growth and the store openings.

And I know you probably don't want to give away any tricks up your sleeve, but in terms of just general ideas for the next steps in marketing, do you pursue some traditional automotive channels or are you still primarily going to rely on the stores and perhaps word of mouth or other alternative methods?

#### **Elon Musk**



There is nothing better at the end of the day, Elaine, than word of mouth, which has really been fantastic. In fact, we see a lot of demand occurring where we've delivered the most cars because that's where the most word of mouth occurs, which I think is a really good predictor for future. As for the stores themselves, George?

### **George Blankenship**

Yes. What we are seeing in the stores is that, some people come in, they see the car, and they want to put reservation down today, oh my gosh, how do I get one as soon as possible. Other people, they want to come back, they want to ask some questions and they keep coming back, and the beauty of the stores is they are located in locations where people frequent on a regular basis, so they don't have to go out of their way to stop back and ask a few questions. So that's working really, really well.

I think when we start looking at 2014 and 2015, I think what we need to do is step back and understand that in our segment, the Model S segment of automobile sales world-wide, less than 30% of them are done in the United States. So, there is this massive opportunity for us as we go international where we haven't even tapped it with one new design store yet. Like none of the stores we have anywhere in the world are like the stores we have in North America in a high traffic shopping center.

We will start doing those, we'll start doing those this year, so we can start having the same results and getting in front of people elsewhere outside the United States like we are doing here, and that's one of the things we are going to do in China. We are opening up in this really, really great shopping center in Beijing in the spring that is a higher traffic location. We've got one scheduled for Hong Kong. We've got one scheduled that we are looking at in a couple of other countries in Europe.

And when people come in and they interact with us, when they are not thinking about a car, it's like the best experience you could have with them, and then when it comes time to buy a car, they think or that's where I want to buy it, that's where I want to buy it from, and as a result, the longer a store is open and the more cars are on the road around those stores, the more effective the stores become, so the longer store is open, the better.

### **Elaine Kwei - Jefferies**

Yeah. That's great color. Would you be able to give us an update on Model X reservations at this time or maybe perhaps some rough timing around when you might start to step up the marketing push on that one?

### **Elon Musk**

Sure. Because we haven't pushed the Model S at all, in fact we literally only have one demonstration unit even. So, I wouldn't want people to necessarily judge us against the progress of Model X. I'd rather comment on it and throw something about that number. I'll just say like, I'm pretty happy with how those reservations are going with basically zero effort. I mean, really the donut.

And I actually think that we are likely to see buying interest for Model X that is at least 70% thereabouts that of the Model S, and in certain countries, I think it will probably exceed the Model S in demand.

**Elaine Kwei - Jefferies**

Great. Thanks so much guys and congrats again.

**Elon Musk**

Thanks.

**Deepak Ahuja**

Thanks.

**Jeff Evanson**

Thanks. We have time for one more question, one more caller please.

**Operator**

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

**Andrea James - Dougherty & Company**

Hi. Thanks for taking my question. You are suggesting positive net income in Q1 and just, I guess, what still needs to happen to get there if anything -- and then would anything throw that off for the rest of the year as well?

**Elon Musk**

Sure. Good question. So, I mean, unless there is some force measure event like a giant earthquake or something, a big flood or typhoon, yes, we feel really confident. In fact, I mean, I would say that we will be comfortable in the absence of force measure event this quarter.

The -- it's my aspiration and I think it is aspiration of everyone at Tesla to be profitable in subsequent quarters as well, and I'm cautiously optimistic about that. But I don't want to commit to it until I know more, whereas we are

committing to Q1, and I think cautiously optimistic about Q2 is way to think about it, yes.

**Andrea James - Dougherty & Company**

What sort of information would sort of make you more constructive on Q2 like what do you hope to learn as Q1 goes on?

**Elon Musk**

Well, maybe I am hedging too much, I just don't want to -- I don't want to be over confident really. I do think we will be profitable in Q2, and yes, in subsequent quarters too. But I guess rather than sort of an absolute commitment, I'd say, I'm just really highly confident of that being the case.

**Andrea James - Dougherty & Company**

No. That makes sense. Thank you so much.

**Elon Musk**

You're welcome.

**Jeff Evanson**

Okay. Thank you everyone for calling. Well, thank you all for joining us this afternoon. We look forward to seeing you in the coming weeks either on the factory tour or on our travel to see you. Good-bye.