

Elon, the stock price and the results have been obviously performing very well lately. You've got some great investment opportunities and some growth opportunities ahead of you, not only in the auto business but also in the non-auto business and the battery business. So I'm just wondering, how are you thinking about being opportunistic and pulling in some fresh capital to help derisk the plan, plan for a force majeure, or to see some of these opportunities that you have.

**Elon R. Musk**

Yes, I think that's a good idea. I agree with that. I think that would be the smart move. We can talk more about that next week with -- and also discuss the Gigafactory plans. Unfortunately, I can't say anything [indiscernible] right now, except that I agree. I think your advice is good.

**Adam Jonas - Morgan Stanley, Research Division**

Okay. And I don't want to follow up [ph] or anything, but as a follow-up to that, I guess, is a -- would a capital raising be a prerequisite to launch the Gigafactory? Or is that an understatement?

**Elon R. Musk**

I think it's necessary to have it occur in 3 years. It's not necessary if we allow that time frame to expand.

**Operator**

Next question comes from John Lovallo with Bank of America Merrill Lynch.

**John Lovallo - BofA Merrill Lynch, Research Division**

First question would be, Deepak, just on kind of your outlook for free cash flow in 2014 and maybe in 2015, given the requisite investment that's going to go into the business. How are you guys kind of thinking about that?

**Deepak Ahuja**

Yes. Well, I think in 2014, we certainly expect to generate significant cash flow from operations. And our CapEx then, which then feeds into free cash flow, will depend quite a bit on how we continue to expand and what opportunities we see globally throughout the rest of the year. So it's a bit early for me to call and give you clear guidance for certainly 2015 and potentially all of 2014, but we said we see this as really a great year for growth as we look forward.

**John Lovallo - BofA Merrill Lynch, Research Division**

Okay. That's very helpful. If I could just follow up, Deepak, just kind of thinking maybe longer term, what do you think is an achievable kind of mid-term or long-term EBIT margin? I mean, taking gross margin aside, I mean, how are you thinking about just kind of from an operating profit longer term?

**Deepak Ahuja**

I think we have, in the past, even since the time of our IPO, indicated that our long-term target is to get to an operating margin which is in the teens, low- to mid-teens. And I think that is still what our long-term goal is, to get there as we continue to grow the business.

**Elon R. Musk**

Yes, but -- I mean, I should emphasize that we expect the reinvestment opportunities to be quite significant, I mean, for a long time. So our actual profitability will be quite a bit less than that. But if we would just sort of level out the business at any given point, I think something like a mid-teens type of number is very achievable.

**Deepak Ahuja**

Exactly. And that's how we've always communicated.

**Elon R. Musk**

Right, right. I mean, the car business is truly staggeringly big. It's over \$2 trillion a year in new car sales. That's just new car sales, it's not even taking into account servicing and used car sales and just accessories and all the other things. So there's just a pretty big ramp ahead in terms of reinvestment.

**John Lovallo - BofA Merrill Lynch, Research Division**

Got it. That's helpful. Elon, I'm going to try to sneak one more in here. Jeff, I apologize. In terms of distribution licenses in China, I mean, from what we understand, they're pretty difficult to obtain, particularly without a local partner. How are you guys able to kind of deal with this issue?

**Elon R. Musk**

Actually, sales and service is not a problem in China, it's more local manufacturing, where there's an expectation that you partner with a local entity. And since we're really just at the early stages of -- very early stages of selling cars in China, and we're very far away from -- we're very far away by Tesla's time frame standards, away from manufacturing in China, but we

do expect to do that in the long term. At least for the short to medium term, there's not a need for a local partner.

## **Operator**

Our next question comes from Brian Johnson with Barclays.

## **Brian Arthur Johnson - Barclays Capital, Research Division**

Just want to look at the line of what you used to call reservations and now you call customer deposits. Went from 140 to 163, close -- last year, 138, and kind of have been churning in the 130s. Can we infer from that -- should we be inferring significantly [ph] a unit order uptake? Or is it more a mix of the reservations and the currencies and the products that people put down there to make orders, deposits, not reservations, for?

## **Elon R. Musk**

I think the biggest thing we can attribute that sort of growth to is that the Model X demand is very high. But there's a number -- obviously, we don't disclose it, but even though there's 0 marketing for the Model X -- essentially, it's like if you're going fishing, it's like the fish are jumping in the boat. We're not actually trying to sell the Model X at all, but demand seems to be remarkably high. And we're seeing a steady accumulation of Model X deposits.

## **Deepak Ahuja**

Which is on top of our ongoing Model S deposits coming [indiscernible] that grows the overall pot.

## **Elon R. Musk**

Yes.

## **Brian Arthur Johnson - Barclays Capital, Research Division**

So if you look at your new guide for 35k units for 2014 and sort of the comment that a fair chunk of that will be in China and Europe, just where it is -- just directionally, where does the order book stand in these geographies? What's trending maybe better than you might have expected? And where do you still need some marketing or education work?

## **Elon R. Musk**

Well, we -- I think there's probably work to do in a number of locations in Europe, mostly because we still have to sort out a number of charging

issues. Because the -- even though the EU is sort of 1 market economically. It's certainly not one market from an electricity standpoint. So we're sorting through a number of charging issues over there. And I think that's what's slowing down our [indiscernible] temporarily, but we feel confident about addressing those in the very near term and expect that the sales will do -- will pick up quite a bit over in Europe.

### **Deepak Ahuja**

At the same time, we see very good demand in China and a lot of the emerging right-hand drive markets.

### **Elon R. Musk**

Yes, absolutely. Yes, I mean -- I think, based on current trends it seems unlikely that we'll be able to satisfy demand in China this year. So there will be unmet -- likely to be, I think, unmet demand in China.

### **Operator**

Our next question comes from Ryan Brinkman with JPMorgan.

### **Ryan J. Brinkman - JP Morgan Chase & Co, Research Division**

I see that you're guiding to a strong 28% gross margins by 4Q this year. Can you maybe talk about some of the drivers of that margin expansion? Is it more leverage of fixed COGS and higher revenue? Or is it still the case that you're realizing significant supplier purchase price reductions as your volume ramps?

### **Deepak Ahuja**

Yes, it's all of that. We are also continuing to make design improvements to the product, which is also helping us. And clearly, as we expand production, our suppliers see economies of scale and so do we. In addition, there's efficiency and -- as we continue to stabilize and mature our production processes. So all of that, we feel, is a contributor to getting to that gross margin improvement.

### **Elon R. Musk**

Yes. I mean, it's not a huge difference going from 25% to 28%. And I think one can arguably achieve that just by scaling up. So, in fact, I mean, the 28% number is assuming that the take rate of options decreases slightly. So we're not planning on lowering the price of the car. But as we reach the broader markets, the option uptake, for example, people ordering, say, performance plus, we expect, will decrease, and there will be sort of more

orders of the more affordable version of the car. So the 28% is assuming a lower average price because of a lower option take.

**Ryan J. Brinkman - JP Morgan Chase & Co, Research Division**

Great. And just last question on China. There's been a lot of talk of government incentives there just for clean vehicle sales to try to improve the air quality. Have you been able to determine whether or not Tesla can be eligible for these types of subsidies? And then separate to that, I'm just curious, what kind of volume assumptions do you have in China baked into that 35,000 delivery number? And what do you think China could do for you over time?

**Elon R. Musk**

I don't think we want to break out the exact market percentages, and I think it's difficult for us to estimate them with precision, except that it appears that based on demand, since we announced pricing in China, that it seems unlikely that we'll be able to get everyone a car this year. And -- yes.

**Deepak Ahuja**

And in terms of the incentives, we are talking to the authorities, and we're working to see how the Model S can be included. Clearly, the initial round was -- sort of the expectation was this only applies to local manufacturers, but that is something we're working to include Model S in that.

**Operator**

Our next question comes from Andrea James with Dougherty & Company.

**Andrea James - Dougherty & Company LLC, Research Division**

Regarding the Gigafactory, are you guys prepared to say you've secured a partner yet? And can you give us a sense of what you mean by, you said, "major reduction in pack cost?"

**Elon R. Musk**

Well, we actually expect that there'd be more than 1 partner in the factory. I mean, obviously, Panasonic is currently our primary partner on cell production, and so the default assumption will be that Panasonic would continue to partner with us in the Gigafactory. But there are also likely to be other suppliers in the factory that provide the pre-cost [ph] materials to the cell, so the anode and cathode materials, separator, electrolyte, that kind of thing. And so -- but I don't want to talk too much about Gigafactory because we're going to talk about that next week, and there's a lot of stuff to talk

about besides that in this earnings release. Yes, so I think we'll have to just punt that answer detail to next week.

**Andrea James - Dougherty & Company LLC, Research Division**

Okay, fair enough. And then the next question. Obviously, customer deposits are up 16%, so demand looks good. But I think it will be helpful if you could address the effect on demand that was caused by the vehicle fires last fall and the subsequent media firestorm regarding all that. And then is it measurable? What did you see?

**Elon R. Musk**

Yes. So at first, we saw a significant drop in demand, and we were quite worried about it. And then as consumers came to understand that this was really kind of a media-driven thing and not a real danger with the car, they - our sales improved steadily since then and have continued to improve since that initial news. And, basically, consumers have come to understand that, actually, our car has a far lower propensity of fire than a gasoline car and by at least a half order of magnitude. And so as consumers became aware of that, their fears subsided. But I think it's great that we live in an area where there's the Internet and social media, so that when something is -- when the fans are flamed literally by the media, there's at least a path for consumers to understand what is really going on. I think in the absence of social media, I'm not sure we would have been able to correct the misperception.

**Andrea James - Dougherty & Company LLC, Research Division**

Do you need the NHTSA report then to come out then? Or do you think it'll have no affect when it does? Or I'm assuming it will clear the car completely.

**Elon R. Musk**

We anticipate a positive result, and I think it will certainly help some number of people out there. And it's worth noting that -- I mean, the -- we've been cleared by regulatory agencies in every other country, so Germany, Britain, Japan, China, everyone else. So it's actually just the U.S. regulatory authority is kind of the lone holdout at this point. But we provided the NHTSA with all the information that they've requested, and we're awaiting a decision from them, which hopefully would come soon and, yes, probably helpful to some number of consumers out there.

**Operator**

Our next question comes from Elaine Kwei with Jefferies.

**Elaine Kwei - Jefferies LLC, Research Division**

First, on the production guidance for ending the year at 1,000 car a week rate, that sounds like it's 2 lines going full-time at roughly a 20,000 a year type of rate and a pretty good step-up from, I think, some of the previous guidance. Could you help shed some light on what's getting you there? And is that pretty much where you'd be maxing out?

**Elon R. Musk**

So we are constructing a new line in the factory. So it's a little -- before I answer, it's a little complex because there are many pieces that go into making a Model S. Some of which are production-constrained, and some of which are not. So to get to this sort of the hype, the sort of 1,000-plus production rate, we do need sort of a new final assembly line, which we're in the process of constructing. And then we'll transition the final assembly to that, hopefully, around the end of the third quarter or thereabouts. Then there's sort of separately a body construction line, which is where you create the body in line and sort of the welded assembly, welded and bonded assembly. That's also taking place. That's not needed to achieve the production rate but will help with production efficiency, and will also be the -- where the Model X is -- it will be sort of a next-generation body assembly facility for the X and then the S. So I'm not sure -- it will be quite a long answer to give you sort of the full story, but that's -- maybe those are the sort of highlights.

**Elaine Kwei - Jefferies LLC, Research Division**

Sure, that's really helpful. And with that 1,000 a week with the new -- the final assembly line, is that -- with that, I assume that's not with that maxed out, and that's sort of using part of their capacity. And then there's -- there would be additional capacity beyond that once the construction is completed. Would that be fair to assume?

**Elon R. Musk**

Yes. It's fair to assume that we will be able to go to higher numbers if the demand is there to -- yes, yes.

**Operator**

Our next question comes from Ben Kallo with Robert Baird.

**Benjamin J. Kallo - Robert W. Baird & Co. Incorporated, Research Division**

Just building on Elaine's question. You said if demand's there, can you just talk about the evolution, what you see in demand, if you look back a year ago, and where you think it could be 2 years from now, 2016, just for the S? And then if you can loop that in with your production expansion and where that could get you with the 2 different factors that you mentioned to answer Elaine's question?

**Elon R. Musk**

Well, I mean, it's really difficult to predict where the demand clearly settles out for the S. But I can say, in relative terms, it appears that the X will see at least as much a demand as the S. And if I was to guess, and this is just a guess, I think the X demand may exceed the S demand. I mean, this is very speculative, so don't hold me to it, but that's my best guess. I think X demand will exceed S demand. And as far as S demand, of course, I mean, there are a lot of factors here because it's not just for the S. But like let's say the world were to go into a recession in 2016, it's difficult to say what the S demand -- how would we be affected and that kind of thing, so -- because you start to encounter macro factors. But it seems like -- it seems pretty likely that we could sustain demand of around 1,000 units a week. That's my best guess for the S.

**Benjamin J. Kallo - Robert W. Baird & Co. Incorporated, Research Division**

Okay, great. And I'm going to ask on the Gigafactory, try my best here. You talked about partners, really, supply partners. Should we expect also, I guess, people that would use the cells, so customer offtakes or partners in that aspect of people that would use lithium-ion batteries in the announcement?

**Elon R. Musk**

It's tempting to sort of get into the Gigafactory stuff, but I think we could like have the whole call talking about that. And we're going to have more of sort of a dedicated call next week to talk about it. But, I mean, I think the Gigafactory would absorb all of the cells produced and that we probably need to bring in cells from other factories around the world.

**Benjamin J. Kallo - Robert W. Baird & Co. Incorporated, Research Division**



Good. Fair enough. And then just housekeeping for Deepak. Q1, as we flex it, we're kind of right on the verge of profitability. How should we think about that as you guys go for Q1?

**Deepak Ahuja**

Sorry, could you clarify that further?

**Benjamin J. Kallo - Robert W. Baird & Co. Incorporated, Research Division**

If I flex the numbers in Q1 and what you said, operating expenses and then your deliveries, I can kind of be on the verge of being profitable or not profitable. So how are you guys leaning in that aspect as we model Q1?

**Deepak Ahuja**

I see. Yes, we definitely should be profitable on a non-GAAP basis, even in Q1.

**Elon R. Musk**

I do want to emphasize something that -- it would be -- we could have tried to aim for a higher delivery number in Q1, if we were to kind of gain deliveries and not try to sort of be a bit of a contortionist in terms of vehicles in transit. But I made the decision that we shouldn't try to do that and we should just try to produce cars in the right way for the various markets. And so our actual revenue number for Q1 is going to be less than it would be if we did try to sort of play all sorts of games with delivery, delivery between domestic and international markets. So I think it's the right decision for the long term, but it means that our Q1 actual recognized revenue will be lower than it might otherwise be.

**Operator**

The next question comes from Dan Galves with Deutsche Bank.

**Dan Galves - Deutsche Bank AG, Research Division**

Just thinking about your comment on 1,000 per week Model Ss and kind of putting that together with your comment that Europe and Asia could be about double the U.S. deliveries by Q4 this year. I guess if you think about 12,000 units, like something approximately for Q4, 4, 4 and 4 between the 3 markets, is that where you're seeing U.S. demand now? Is that where you think it'll settle out? Or is that basically trying to kind of balance getting vehicles to each region?

## **Elon R. Musk**

I sort of answered this question earlier, which is like it's very difficult to predict with precision the exact division of sales. Actually, the best fidelity that we can forecast right now is really that we think non-North American sales will be about twice the size of American sales, roughly speaking. This is not to say it will be exactly twice the size, but it's roughly. And yes, yes. I mean, something we try to do is to try to balance customer wait times because, for example, like last quarter, we actually did quite a few European deliveries because customers in Europe have been waiting for a really long time to receive their car. And so we just have to balance that. We're slowing down U.S. deliveries and trying to make people as happy as possible, given the production constraints.

## **Dan Galves - Deutsche Bank AG, Research Division**

I imagine it's a difficult task. The second question is related to China charging. What's your view on -- I mean, in the U.S., most people are just charging at their home. Is that a viable option, based on kind of where the Chinese consumers are living? What is an option for a Chinese consumer that may live in an apartment building? And how much work have you guys done on that?

## **Elon R. Musk**

We're working pretty hard on that, and we believe we've got some good solutions. We're going to talk more about that in the coming months. Yes, we're going to make sure that, that's not a limitation.

## **Operator**

Our next question comes from Patrick Archambault with Goldman Sachs.

## **Patrick Archambault - Goldman Sachs Group Inc., Research Division**

Just a couple from me, maybe starting with OpEx. Deepak, you said that OpEx is, I believe, up 15% Q1 and I think increasing thereafter, based on the investments. Can we put some parameters around that? Is there still -- as we think about operating profit, is there still some leverage, some ability to leverage OpEx? Or is investment cost next year really kind of offsetting this fixed cost component for now?

## **Deepak Ahuja**

I mean, we're very mindful of OpEx. We continue with our culture of being frugal, but investing where it makes sense for the business. So I think it's a

bit early or premature for me to give you sort of longer-term guidance beyond Q1. But our approach really is to be focused in the most cost-efficient manner to achieve our growth and also trying to, over time, bring our percentage -- our OpEx percentage of revenue down and contribute to the bottom line. So I think that's the longer-term trend that you will continue to see.

**Patrick Archambault - Goldman Sachs Group Inc., Research Division**

Okay. Just, I guess, one quick housekeeping one from me. I don't know if I missed it, but did you give the U.S./international split on the 6,829 fourth quarter and 22,000-and-change for the full year in terms of deliveries?

**Deepak Ahuja**

No, we didn't provide that. We haven't done that in the past, and we have [indiscernible]. For Europe, more than [indiscernible]. I think -- I just wanted to say most of the growth that came in Q4 is from Europe, though U.S. and North America continued at the same pace as Q3. I think that's the more relevant information.

**Elon R. Musk**

Yes, [indiscernible]. Q3 to Q4, U.S. deliveries were very similar, but the increment went to Europe.

**Deepak Ahuja**

Yes.

**Patrick Archambault - Goldman Sachs Group Inc., Research Division**

Okay. Can I squeeze one last one in? It sounds like your expectations for the X are perhaps higher than many of us had thought. How can we -- from a profitability standpoint, how can we think about the accretion of that platform? It sounds like the volume is going to be pretty high. You're leveraging infrastructure, that's in already. Presumably, there's things you've learned in the manufacturing process for the S that you can still apply and that your suppliers have learned as well. So how should we think about that as kind of a tailwind or impact on the overall mix?

**Elon R. Musk**

I'm not sure I totally understand the question, but -- yes.

**Patrick Archambault - Goldman Sachs Group Inc., Research Division**

I can rephrase. It's just that you're launching a new vehicle, having garnered considerable efficiencies and learnings through the process of the S. And presumably also your suppliers have done as well. So is -- with the launch -- in addition to just the kind of leverage, is there kind of a margin tailwind that you can expect, just from launching the X and having applied all the stuff that you've kind of learned in the process of developing the S?

**Elon R. Musk**

Okay. So basically, do we expect gross margins to be higher with the X? And maybe flowing back into the S as well?

**Patrick Archambault - Goldman Sachs Group Inc., Research Division**

Yes. Yes, that would be it. And I'm not talking about just on the fixed cost. I'm talking more on the variable cost basis, actually.

**Elon R. Musk**

Right. I think there could be, although, as I said, we do expect the option take rate to reduce. So that's why we're being -- we're saying sort of 28% gross margin. But if the option take rate doesn't reduce, obviously, it will be higher than that.

**Patrick Archambault - Goldman Sachs Group Inc., Research Division**

Okay. And then what about like -- I know we're looking out to '15 for when the X is going to be in -- well, in launch mode and have some volume on it, but from -- is there some kind of mix tailwind to be garnered just from the launch of that product, just applying again all of the sort of efficiencies that you've learned and supplier relationships and all those benefits that you've accrued through the launch process of the S?

**Elon R. Musk**

I'm sure there will be efficiencies, yes. We don't want to predict something better than a 28% gross margin, but I think there probably will be efficiencies, seems likely.

**Operator**

Our next question comes from Colin Rusch with Northland Capital.

**Colin W. Rusch - Northland Capital Markets, Research Division**

Can you guys give us an update on the takt time that you're seeing right now? And the transition towards running 2 full shifts, how do you see that

playing out just in terms of hiring and how many people you're going to have to add to do that?

**Deepak Ahuja**

Colin, so just to clarify, I mean, I know we are running a 2-shift operation in a lot of our factories. And, again, the factories are very complex, as Elon said, and different shops run under different operating patterns. And there's no single takt time per se that we can share with you. And our focus is just to continue to improve efficiencies. And then the significant ramp-up in the second half will come, as Elon indicated, with the move to the new final assembly line and the body construction line. So I think there are broader factors which help us get there. And tell me if I'm answering your question satisfactorily.

**Elon R. Musk**

Are you thinking like we'll need to add a ton of people to achieve the 1,000 car per week rate? Is that what you're asking?

**Colin W. Rusch - Northland Capital Markets, Research Division**

No, more what I'm thinking about is the standardization and the leverage that you guys are going to get off of the process improvement. It seems like you've done an awful lot of prep work in terms of setting a foundation for the process and then are making ongoing improvements to that, and then potentially locking in processes that then just basically speed up and you're getting more leverage out of that. That's what I'm trying to get after.

**Elon R. Musk**

Yes, I think we'll be able to ramp our production rate quite a bit with a fairly small increase in hiring. So, yes, I mean, our labor efficiency essentially is likely to improve a lot over the course of this year.

**Colin W. Rusch - Northland Capital Markets, Research Division**

Okay, great. I can take a little bit -- some of that off-line. And then can you just give us a bit of an update on the trend line for shipments into North America from 3Q into 4Q and your expectation into the first quarter?

**Deepak Ahuja**

Yes, I think going from Q4 to Q1, sorry, or was it from Q3 to Q4? Could you clarify that?

**Colin W. Rusch - Northland Capital Markets, Research Division**

Both, if you don't mind.

**Deepak Ahuja**

Yes. I think Q4 to Q1, as we indicated in the shareholder letter, and as Elon mentioned, we are ramping up even further into Europe and China. And we could have played games and tried to shift the mix and delivered more cars in the U.S. to hit a higher delivery number in Q1, but we decided to smooth in the flow of cars and our operational issues. And that's why you see the small reduction in Q1 deliveries and the mix shift a little bit more into Europe and Asia and from a production point of view.

**Elon R. Musk**

Yes, I wouldn't try to read too much into it, essentially.

**Deepak Ahuja**

Yes.

**Operator**

Our next question comes from Aditya Satghare with FBR Capital.

**Aditya Satghare - FBR Capital Markets & Co., Research Division**

My first question is on China. So your currency [ph] in China is pretty unique, first of its kind. Do you expect any kind of competitive response in the market? And maybe if you could elaborate on how that pricing is translating into demand for the vehicle.

**Elon R. Musk**

Well, I mean, hopefully, other manufacturers will adjust their pricing to not exploit Chinese consumers. I think that's the right thing for them to do and it's what they've, I think, ought to have been doing from the beginning. I don't know if they will do that, but that's what they probably should do. And we are seeing really strong demand, which hopefully will continue, but it's been very strong since we announced pricing. And I think our bigger challenge will be trying to satisfy that demand.

**Aditya Satghare - FBR Capital Markets & Co., Research Division**

Got it. Well, my second question was on the Model X. If we think about the Model X coming out with an improved power train, more capabilities, should we expect some of those improvements to be translated into the Model S also, when X is launched?

**Elon R. Musk**

Actually, I'd rather not comment too much on future Model S changes, except to say that, obviously, we add features to the vehicle all the time. Every month, there's something that's been added or improved. It's sort of a continuously improved vehicle.

**Operator**

The next question comes from James Albertine with Stifel.

**James J. Albertine - Stifel, Nicolaus & Company, Incorporated, Research Division**

I just wanted to get a sense for -- or, really, a clarification first on the commentary you made with respect to the construction you're undertaking at the facility in California. Will any of that construction be leverageable for the third-generation car? Or is this primarily dedicated to the X and S at this point?

**Elon R. Musk**

It's dedicated to the X and S. So the third-generation vehicle -- certainly, we'll learn from those lines, but third-generation vehicle will have a completely separate production process. It's geared to a higher volume, so yes.

**Deepak Ahuja**

And the Fremont factory is big enough to accommodate offline crew [ph].

**Elon R. Musk**

Absolutely. I should mention that we do anticipate being able to do the third-generation vehicle production in our Fremont facility. When it was owned by Toyota and General Motors, it was able to produce 0.5 million vehicles a year, and we feel like we can get there with our vehicles as well.

**James J. Albertine - Stifel, Nicolaus & Company, Incorporated, Research Division**

Understood. And then sort of a related question or a follow-up. Over the course of sort of the next 3 years, you've alluded to -- and I guess we'll hear next week more about the Gigafactory. Obviously, that overlaps with what we understood as the expectation for the third-generation timeline. Is it fair to say there's been a shift or a reprioritization above and beyond sort of the

third-generation car that's, again, more focused on the importance and relevance of the Gigafactory and its contribution?

**Elon R. Musk**

Well, the Gigafactory is really there to support the volume of the third-generation car. And yes, that's really -- it's happening in parallel with development of the third-generation car. We want to have the vehicle engineering and tooling come to fruition at the same time as Gigafactory. And yes, so that's all really part of one strategy, one combined effort.

**James J. Albertine - Stifel, Nicolaus & Company, Incorporated, Research Division**

So there's no movement, in other words, on the expectation for sort of a 2017 launch on that third-generation?

**Elon R. Musk**

No.

**Operator**

The next question comes from Craig Irwin with Wedbush Securities.

**Craig E. Irwin - Wedbush Securities Inc., Research Division**

Most of the things that I wanted to ask have already been pretty thoroughly raked through. But maybe, Elon, if you can clarify for us what you said, I think, on the last call, where you discussed a preference for battery manufacturing technology with a significantly lower environmental footprint than what's conventionally used today. Are you possibly referring to maybe some of the solvent premanufacturing approaches? Or are you referring to some of the more advanced recovery systems? Maybe could you clarify for us a little bit sort of what you're referring to and what you prefer as far as technology?

**Elon R. Musk**

Sure. Well, I mean, first of all, I don't think it's the case that current lithium-ion production is particularly bad, environmentally. But I think if you visit, say, the Panasonic cell factories in Japan, I mean, they are superclean, and, I mean, they don't have like terrible emissions or waste or anything like that. But I think we can also take it a step further with the Gigafactory and have a plant that is heavily powered by renewables, wind and solar, and that has built into it the recycling capability for old battery packs. So you can really look at the whole life cycle of a battery pack and just be in the best



possible situation from an environmental standpoint. And I'd actually point out also though that lithium-ion battery packs are recycled today. There's a recycling facility in Vancouver and one in Belgium for U.S. and Europe, and they have quite a bit of value. So it's not as though they are sent to a landfill, even as it is. But for Gigafactory, we'd like to sort of combine the whole thing, yes.

**Craig E. Irwin - Wedbush Securities Inc., Research Division**

Okay. And then one other clarification. So your ASPs have been trending positive the last couple of quarters, but you seem to be conservative about the progression in 2014. Do you expect the sequential increases in the ASPs to continue for the next couple of quarters and then abate? Or when you look at your current order book, are you seeing a flattening out of the curve already?

**Elon R. Musk**

It's definitely flattening out in terms of our purchase price. I mean, flattening out to, I'd say, maybe slightly reducing, but, I mean, it's within like 1% or 2%. But we do -- I mean, I do think that there's -- it seems like the prudent thing is to assume that there's a reduction in the option take rate as we get to more of a mainstream market and a fewer people take the high-performance options on the car, which generate quite a bit of margin. So we're just trying to be conservative on this front. And maybe the average selling price doesn't decline, but we want to protect for a scenario where it does.

**Jeff Evanson**

Okay. Thank you very much, everyone, for joining us this afternoon. We look forward to seeing many of you in early March at Barclays-BNP Paribas Auto Conference in Geneva or in any of our upcoming investor events. Have a great day.