

Thank you, Patrick, and good afternoon, everyone. Welcome to our first quarter financial results question-and-answer conference call. I'm joined today by Elon Musk, Tesla's Chairman and CEO, and Deepak Ahuja, Tesla's Chief Financial Officer.

We announced our financial results for the first quarter shortly after the close of trading today. The shareholder letter, financial results, and webcast of this Q&A session are all available at our Investor Relations website at ir.teslamotors.com.

Today's call is for your questions and we will conduct the Q&A session live. (Operator Instructions) Like last quarter, we will limit this call to 45 minutes. During the course of this call, we may discuss our business outlook and make forward-looking statements. Such statements are predictions based on management's current expectations. Actual results or events could differ materially due to a number of risks and uncertainties, including those mentioned in our most recent 10-K filed with the SEC. Such forward-looking statements represent our views as of today and should not be relied upon after today. We also disclaim any obligation to update these forward-looking statements.

And now, Patrick, could we please have the first question.

Question-and-Answer Session

Operator

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

Ben Schuman - Pacific Crest Securities

Hey guys. Thanks for taking the call and congratulations on the great delivery and results in the quarter.

Elon Musk

Thanks.

Ben Schuman - Pacific Crest Securities

I guess my first question is around the ZEV credits, you disclose the amount of revenue in Q1, can you say how much is implied in the Q2 gross margin guidance and kind of its part of that what are some of the big gross margin drivers to get from that 5% level now, excluding the ZEV revenue to 25% and do you expect that 25% of those without whatever positive impact from the lease accounting that you might see?

Elon Musk

Okay. There is like few questions in there. Yeah, so we're expecting a decline in the credit revenue for Q2 and then probably fairly significant decline in Q3 and as I said back right now, we're not expecting anything in Q4. That's our – I mean, it might be some ZEV credit revenue in Q4, but we're not accounting on it. I don't have – I can't give anymore precision than that at this time. The ...

Ben Schuman - Pacific Crest Securities

Okay. So bigger the plant in Q3 than in Q2, is it fair to say that?

Elon Musk

Oh sure, of course yeah.

Ben Schuman - Pacific Crest Securities

Okay and then just one more from me, the \$200 million in CapEx, can you talk about as what that's going to exactly may be how much of the gross margin improvement might be tied to additional capital expenditures?

Deepak Ahuja

Ben, Deepak here. Clearly some of the CapEx is related to improvements we're making in-house by bringing more equipment in and automating our processes, better results in gross margin improvement. And a portion of that is also new product development and then another portion is the infrastructure development of the service centers, our stores and the Supercharger network.

Elon Musk

Yeah. I think it's worth noting that in probably Q1, despite actually spending quite a lot of money on new service centers, expanding Supercharger network stores and other things that obviously we don't need to keep doing – that's something that's going to need to occur on an ongoing basis, but really test this out. We need to establish a service network and in particular the company.

Ben Schuman - Pacific Crest Securities

Great. Thanks a lot.

Operator

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

Dan Galves - Deutsche Bank

Thanks for taking my questions. First one again kind of regarding the gross margin, I did I think the same simple math that Ben did to get to somewhere in the 5% to 6% gross margin, automotive gross margin excluding the ZEV credits. If that's in the ballpark, it seems like you need to increase gross profit per unit by something in the \$17,000 to \$19,000 per unit by the end of the year. I was wondering if you could give us kind of the big buckets that you're targeting for that improvement, and how much is within your control and how much might be – you might need price concessions from your suppliers, if any?

Elon Musk

Sure. It's worth noting that when you see the gross margin for Q1, we're giving you obviously the gross margin average over the quarter. And so the gross margin at the end of Q1 was significantly better than at the beginning of Q1. So you may still think of we're starting from a base of 5% or 6%, but actually we're starting from a base that's better than that. And then in terms of whether additional cost risks are coming from, it's a wide range of activities. Most of these have been put in place either in Q4 last year or Q1, but it takes time for those actions to bear fruit, but they don't happen instantly. And it's improving and the cost of our logistics improving, getting better deals from suppliers, design improvements, (indiscernible) are the ones that take the longest to come to fruition which is why we're only confident of the 25% gross margin number in sooner not sooner is because there are a number of prudence that have validated too – that have finished the designs that are validated and then put into production.

Deepak Ahuja

And I'll add to that manufacturing process improvements both in-house and at our suppliers, to take cost out.

Elon Musk

Yeah, a number of our suppliers have really done some impressive work on cost reduction. And for some others that they just didn't believe that we do these numbers. So they didn't quite tool up for this level of production, because they're in total predictions were that we would do in some cases 3,000 over the entire lifetime of the product. We did that last quarter, so they can't believe that those things – that these projections are real and

they actually tool up and are able to deliver significant cost savings for our product supply.

Dan Galves - Deutsche Bank

Okay, got you. So just a follow-up, the suppliers are cooperating with you in terms of reduces. So I guess are you still experiencing a lot of premium freight from suppliers that weren't ready to produce this volume? Are they cooperating with you in terms of the design improvements and kind of redesigning the component? And then my second question relates to cash flow. What's causing the decline from 65 million of OCF in Q1 to the guidance of neutral in Q2, and if you could remind us of your minimal cash level? Thanks.

Deepak Ahuja

So to answer your first question, our S production rate is continuing to reduce every month that goes by, as both our suppliers have additional capacity to meet our needs and our production schedule is becoming much more stable. So it's all trending in the right direction. And then to that same point of Elon where we ended with our freight cost at the end of Q1 was better than the average for the quarter, so it gives us comfort that or confidence that we continue to reduce our cost. And then in terms of our cash flows, we are mindful of the volumes. As you can see we're projecting lower deliveries in North America since we have quite a few cars on the board being shipped to Europe and that consumes some degree of working capital which becomes a part of our cash flow from operations and that's a significant number. So, when you combine the lower deliveries because we're producing for Europe and the fact that we have these cars on the board that has an impact.

Dan Galves - Deutsche Bank

Okay, perfect. Thanks a lot.

Operator

Our next question comes from Aditya Satghare with Lazard Capital Markets. Your line is open.

Aditya Satghare - Lazard Capital Markets

I have two, first is on the manufacturing process. You talked about the number of manufacturing hours being reduced by 40%. Can you give us a sense of how much more room is there to go, and where does that stand in relation to your target? And then I have a follow-up.

Deepak Ahuja

I think there's clearly room to go further, and there are a lot of activities in our manufacturing organization that are continuing in that direction. And then towards the, in half of the year as we start to increase our production rate slightly further than our present levels that will further add to the labor reduction on a per unit basis.

Aditya Satghare - Lazard Capital Markets

Got it. Second question on demand; when you talk about the 15,000 units per year, does that include both sort of cash and lease demand, and could you also give us some more color on when we think about the 15,000 non-U.S. units what geographies do you expect that demand to come from and maybe a little bit more color on the buyer base, sort of who potentially could be buying these cars?

Elon Musk

Yeah, we actually expect probably most of our purchases long-term will be finance purchase's which is actually normal for premium sedans, they're majority financed. And in fact in our case, it might end up being a super majority because, I think that the best way to appreciate the savings you get from gasoline is to look at it on a monthly basis. In the U.S. you'll maybe save \$200 to \$300 a month in gasoline relative to electricity cost if it's your daily driver. In Europe obviously that number can be double; it can be maybe \$500 a month if you're driving because the cost of gasoline is twice as much. So, I think given that, I think we'll see over time my guess is that it will be a super majority financed in one form or another. And I believe that also opens up the potential, before going to the car to a much broader -- a much large number of people. And think if, like if our car was exclusively available for purchase and not via financing I think that maybe accessible to 1% or roughly 1 million U.S. households. As a financed product with the right financing, sort of fully optimized financing product I think it's probably accessible to the top 10 million households. And then of course it depends on what percentage I have of those households will want to buy our car versus somebody else's. But I do think that it's long-term it's primarily a financed product.

Aditya Satghare - Lazard Capital Markets

And could you touch on sort of non-U.S. demand in terms of geographical mix and where that comes from?

Elon Musk

Yeah, sure. Well, I think we'll see probably at least 10,000 units a year from demand in Europe, and then at least 5000 in Asia, but I mean, that could be or so much bigger number and China is kind of the wildcard here. Its worth noting that all of the cars – all the sales to-date including all the way through end of Q2 is 100% North American.

Aditya Satghare - Lazard Capital Markets

Great. Thank you.

Operator

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

Adam Jonas - Morgan Stanley

Elon, I know I have asked you versions of those question before and you guys have done a phenomenal job building what appears to be a viable business and a thriving business although still early and at a risky part of the lifecycle of a company. So to kind of, when you look at where your share price is and there's likely to be tomorrow, and you think about the factors that are outside of you control to kind of make sure that all this great work your team has done doesn't go to waste potentially for those factors outside of your control. Can you share your thoughts on potentially stocking in, carrying the balance sheet a bit more with a capital increase that could further improve your chances to keep investing in the business and focusing on the product and not the economic cycle?

Elon Musk

Sure. Well, we don't have any plans right now to raise funding. Potentially we expect to be – we were positive cash flow in Q1 and we expect to be there relatively sort of neutral on cash flow in Q2. But if it was possible, we could be optimistic about raising a round, but we have spent no time on that at all. So if we were to do a round, it would be for the reasons that you mentioned which is to ensure that if there was some unexpected supply interruption, some sort of risk event, but should potentially protect against a portion of your event that there could be some merit to doing a round.

Adam Jonas - Morgan Stanley

Okay, that's very clear, Elon. Thank you. And just a follow-up to an earlier question about the geographic split. Don't know if you can give any color of the 21,000 that you expect this year, how much and by order of magnitude

could come from Europe and to confirm whether they'd be any Asian numbers in this year's figure? Thank you.

Elon Musk

Obviously given that the first half year is entirely North America that also puts a flow of 10,000. If we stop shipping to North America on July 1st, then we would still have something like 10,000 North American cars. So we're not going to do that. But do not take these numbers as final in any way, but if I'm asked to sort of speculate, I think it's probably something 13,000 in North America and 5,000 in Europe and 1,000 in Asia. But this is – don't hold me to these numbers. I don't want to put – what I just (indiscernible) I want to brag to it with the appropriate confidence. That's my best guess. Those numbers could be different.

Adam Jonas - Morgan Stanley

Understood, Elon. Thanks very much.

Operator

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

Patrick Archambault - Goldman Sachs

Yeah, great. Thank you very much and congratulations on a good quarter. Just on the sales number, I mean if you are selling, as you say, above the 20,000 per year mark rate now, that kind of implies at least 55 a day while we were still able to get kind of the sequenced reservation data in February, I believe that fell as low as the mid-30s. So, it's come up quite a bit which is obviously great. I was hoping you could put a little bit more color on that, how much of that is – how much of an impact have you seen since the introduction of a new financed product? I'm sure there's some seasonality that we need to think about and what's the contribution to some of the international sales in this acceleration? Thanks.

Elon Musk

Our focus has been sort of more on just operating efficiently as a company and building cars that any (indiscernible) can just may improving the gross margin as well as ensuring we have really good service. We have a good, okay service. We're working hard on making the service great. I think we haven't really tried to push volume super hard yet, because I think you need to make sure that staff is in order and the car is being made as efficiently as it can be made before you try to push volume. So that's why we haven't

tried to do that. And I think there's a potential for next year, a fairly significant increase in volume as we really test the depth of the demand that's out there. I think it's probably quite a bit higher than what we had originally thought. But like I said, we don't want to just ramp volume and if it's not, how it's taken care of gross margin or have that service and just dumping products on the market. I don't think that sort of the line is course of action. But we'll still exceed I think what most people are expecting us to do.

Patrick Archambault - Goldman Sachs

Okay. And if I can just one quick follow-up on that, I mean, did you – I know it's still early, but have you seen a pretty good pick up from the introduction of the new financed product?

Elon Musk

Yeah, we're definitely seeing a meaningful improvement in demand as a result of the financing project that's – that had quite an effect on people. I mentioned sort of in a – in some prior (indiscernible) unit, like at Silver City we saw just a monster increase in demand when we went from selling people, sold the systems as purchase product versus the finance product, which really an order of magnitude difference in demand as a financed product business versus purchased. I don't they will see anything on that scale at Tesla, but I do think its going to be pretty significant and it's a fact.

Patrick Archambault - Goldman Sachs

That's helpful. If I can just squeeze one more, if that's okay, just – I know your guidance for the 25% doesn't include ZEV credits for the fourth quarter, but I don't know – can you help us just bracket that possibility that there might be some, are you in talks with, I mean, clearly you have the volume to have further ZEV credit, so obviously are you in talks with other manufacturers for these kinds of credits? I mean is there any kind of feeling of probability that you can give us that would allow us to sort of handicap that?

Elon Musk

I mean, I think we're – I would realistically handicap it at zero for the fourth quarter ...

Patrick Archambault - Goldman Sachs

Okay.

Elon Musk

... which is not, I mean, we will sell them if we can, but as we really anticipate saturating demand for ZEV credits, probably in the third quarter. So maybe that's not true, but I wouldn't – for purposes of modeling our financials, I'd recommend assuming zero percent credits in Q4.

Patrick Archambault - Goldman Sachs

Okay, great. Thanks a lot guys.

Elon Musk

Right.

Operator

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

Brian Johnson - Barclays Capital

Few topics. Your customer segmentation, but before that just a more data point, so if you can provide them on the factory. Can you give us a sense of what the over time hours or 10th labor hours were save run rate exiting December versus one rate March? I noticed your inventory was flat even though obviously revenue was way up. What's you're doing in inventory and then how does that kind of lead to some of the gross margin improvement you're talking about.

Elon Musk

Sure. I mean, people who are working really at the sort of 78 hour week level and at the end of Q4, now they're sort of down under 58 hours a week. And we were also been able to release a lot of the temp labor that we had added to deal with our manufacturing efficiencies and Deepak, do you want to add something on the inventory front?

Deepak Ahuja

Yeah, just to clarify Brian, that our inventory was down by \$30 million compared to end of the year, despite the fact that our production rate was significantly up and that's clearly as a result of us better managing our inventory and our production processes.

Brian Johnson - Barclays Capital

And on the marketing side, do you have a sense you had your data round, what the other cars in your customers garage are or sort of what the other automakers will call conquest, what they own before versus what they're buying -- trading if any associated with the Tesla. I know you don't do formal trading, which is what are the other cars that your sector customers typically own?

Elon Musk

Pretty wide range.

Deepak Ahuja

Yeah, we haven't got a formal study across all our customers, but we saw some study or a narrow time period and it was very interesting to see there was victory across the entire gamut of price points and brand. So we feel pretty good about that.

Brian Johnson - Barclays Capital

Okay, thanks.

Elon Musk

Yeah it seems to be based on fundamental affordability rather than any particular prior car that they have.

Operator

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

Elaine Kwei - Jefferies

Hi, guys. Congratulations on the great progress there. I was actually wondering how development on the Model X is progressing at this point, if any of that 20 million CapEx is going to the X and if R&D is there as well, and just the launch for early 2014?

Elon Musk

Well, we certainly are making progress on the Model X. Our focus in the second quarter is to finalize the design, so it will be internal economics and the shape of the car. It isn't yet our top focus because our top focus is on improving the efficiency of Model S production and service. But it will become our top focus towards the end of this year. We are expecting to start production of Model X towards the end of the next year rather than the

beginning, but I think we've already stated that a few times. So I don't think – just for everyone let's just say that's not new news.

Elaine Kwei - Jefferies

All right, that's great. And actually on the production efficiency with the raw material decline in the quarter, how much of that was volume versus better purchasing strategies or negotiating with suppliers or a benefit from low commodities and how much more benefit do you think they would be to gain there?

Deepak Ahuja

Well, I think the biggest chunk was volume. Clearly, as our cost per unit goes down, the absolute amount of inventory we carry for the same number of cars is coming down. But I think it was primarily us managing our inventory better and that was contributing towards our working capital and improvement in our cash flows.

Elaine Kwei - Jefferies

Okay, great. And just I have this last one real quick. What is the – do you have a picture of what the 60 kilowatt hour mix looks like at this point and are most people taking the Supercharger option on that? Thank you.

Elon Musk

We do think the mix 60 kilowatt hour is going to increase. We think more people will find – I mean long term, I think it might be a majority of people who buy the 60 kilowatt hour version. But thus far it's been sort of more like at the kind of 35% level on the 60 kilowatt hour car, but I think that's going to increase. I think roughly half of people are enabling Supercharger at the time of purchase, but I think that number is likely to – I think that may increase in the future. You can enable the Supercharger at any time after buying the car for a slightly higher amount. So I think over time, most 60 kilowatt hour cars will have the Supercharger enabled either by the initial buyer or a future buyer.

Elaine Kwei - Jefferies

Great. Thank you so much.

Operator

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

Andrea James - Dougherty & Company

Just to kind of follow-up a little bit, you sort of put aside the Model X, and the Gen3, you're focusing your resources on getting the Model S right and taking the cost out, and I guess what metrics do you look at internally where you can say, okay, this product's progress is satisfactory, let's start diverting more resources onto the next stage of Tesla?

Elon Musk

We're already doing that. We're actually already diverting resources onto the next stage. So that will keep increasing through this quarter and next. And probably by sometime next quarter, middle or end of next quarter, our future products will be our priority because we'll be oriented to be or at least we will have done the things we needed to do in order to achieve our gross margin numbers. Because of the time taken from when the parts are ordered to arriving, to be put in the car, car gets sold to a customer, we receive a check. It's kind of a couple of months in there. So even when we've made a cost improvement, it takes, call it, six to eight weeks for that cost improvement to actually show up in our financials. So even though we see that – unless we really screwed the pooch, you'll see the 25% gross margin number in Q4. The actions necessary to take that actually have been completed in Q3, which means that we will in Q3 have turned to Model X and other things as our priority.

Andrea James - Dougherty & Company

Well, thanks. That's helpful, and it does give us a sense of where the confidence is coming from. And just like, on the lease accounting and on the financing program; can you give us a sense of maybe even update your GAAP guidance and what's sort of the take rate that you're expecting on the financing program?

Deepak Ahuja

So far we're seeing about 25% take rate, but as we answer, we'll continue to see an increase in the take rate. Any thoughts?

Elon Musk

Yeah, actually there seems to be an out-financing program and financing in general because a lot of customers will finance through an institution that's not us. I mean, I think the total number, state of the cars being financed is probably halfish of which half of those are through the Tesla financing program in partnership with Wells Fargo, U.S. Bank. So, that's – I guess, the

way to think about it. But I like to, I do think that the percentage of finance prices will increase both Tesla financed and third party finance.

Andrea James - Dougherty & Company

Okay, thank you. And then one more; does the word cancellation mean anything anymore now that you're changing how you do your reservation. Are you still taking a down-payment and then locking them, and can you just talk a little bit about how that changed?

Elon Musk

Yeah, so now we've changed the (indiscernible) because previously it was kind of (indiscernible) we're making it hard for people to buy the car. You'd see, if you put down \$5000 of reservation without actually configuring the car or knowing how much it costs, and then a lot of people would kind of get shocked by; oh, if you had all options you want, its more specific than you think, so then they cancel. So, now we don't do that and (indiscernible) you now order the car with the configuration that you want. You've got two weeks to change that configuration or cancel, and then after two weeks the deposit becomes non-refundable and the configuration is locked. So, that's sort of how things are working now.

Andrea James - Dougherty & Company

And the deposit is still ...?

Elon Musk

I should mention we're not thinking of reducing the initial deposit number, because we don't – we don't really need the cash at this point. And when somebody puts down 5K they – we've got to pay credit card processing fees on that, so it's kind of an unnecessary cost. So we're thinking about reducing it from \$5000 to some other number. We haven't made a final decision on that, but I think it probably makes sense just in terms of the cost reduction.

Andrea James - Dougherty & Company

That's helpful. Thank you.

Operator

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

John Lovallo - Merrill Lynch

Hi, guys, thanks for taking the call. The first question would be, I guess on lease accounting. Can you help us understand the potential affect on margins? And then also I think you mentioned that there would be no cash flow impact on that, but I mean, wouldn't receivables naturally increase with this and can you just help me understand that.

Deepak Ahuja

Yeah, so the receivables would have increased because now this is a retail sale. We get the full cash for selling this car upfront. This is not a lease sale per se. The reason we're taking lease accounting is because we're offering this resale value guarantee at the end of it and for the price that I'll technically ...

Elon Musk

Yeah, (indiscernible) lease. Yeah.

Deepak Ahuja

Yeah. So, yeah our receivables don't go up on our balance sheet. Our income statement is affected, because we have to amortize our revenue and be cost over a period of 36 months in this case to our retail value guarantee. So, the interesting thing is from a margin point of view as a percentage. There's really not a significant impact, but obviously the absolute dollar amount of the margin is lower since you're not recognizing the entire income upfront.

Elon Musk

Yeah, it actually, I mean, our margin is slightly improved the financing versus approaches, because we're sharing the interest revenue that's generated by the Tesla finance partners.

John Lovallo - Merrill Lynch

Okay, great.

Elon Musk

But we'll get the full cash up front, (indiscernible) slightly more cash than it was purchases.

John Lovallo - Merrill Lynch

Okay, and then in terms of the 25% gross margin target in the fourth quarter, now was this always kind of an exit rate to 25% or is this kind of a change in stats?

Elon Musk

No, no change really. I'd say we're – we think we'll be at 25% on average for all of Q4. I'm fairly certain we'll be at 25% before the end of Q4 and I think it's likely that will be a 25% on average in Q4.

John Lovallo - Merrill Lynch

Okay. Thanks very much, guys.

Jeff Evanson

Patrick, unfortunately we probably only have time for one more questioner.

Operator

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

Amy Carroll - JPMorgan

Hi. This is actually Amy Carroll for Ryan Brinkman. A good quarter. I just had a quick question regarding the traffic and storage. Just wondering what you guys are seeing and if you could kind of help us think about when these people come to the stores, what you're seeing in percentage of conversion rate? Also, I think in the first quarter you mentioned that some of the higher costs which related to things not going out perfectly through the door, if you're still seeing that? I know you're servicing business is kind of still early, but what are you seeing in terms of usage and kind of just giving us a little bit more color on that, that'd be appreciated.

Elon Musk

Okay. I'm not sure I totally understand the questions, but...

Amy Carroll - JPMorgan

The first question was just basically like when somebody comes to the door, how do your stores – like what you're converting in terms of like actual sales?

Elon Musk

Well, we have a huge number of people come through our stores.

Deepak Ahuja

Initially an excess of 1 million people per quarter just for our new design stores that we have. I mean our stores are in high...

Elon Musk

It's a low percentage conversion. I mean a lot of people in and educate them about Tesla and the brand. So that's our marketing strategy which is different from a typical car company. And so just a typical metric of conversion for traffic is not exactly applicable. I mean there's a lot of people that buy T-shirt. Our apparel sales are actually not bad. I think we could actually do a lot more on that front. We actually have millions of dollars in apparel sales, but we're not really trying hard. I think probably a better metric would be conversion after – of a qualified lead after a test drive. And we're seeing something like 25% conversion after a test drive which is quite high.

Amy Carroll - JPMorgan

That's helpful. Okay, and then just like on the service front if you're seeing like what percentage of people using it and what are some of the more common issues on that?

Elon Musk

As I said, there'd be a service announcement. Our service has been okay but not great, but it's improving swiftly with these passing weeks. And we did have some issues there with – we've got quite a fancy door handle and occasionally the sensor would malfunction on the door handle. So you pull on the door handle and it wouldn't open. Obviously, it's quite taxing for a customer. But we've addressed that root cause and so essentially the door handle incidents have gone to virtually zero since we introduced the new version of the door handle and then we're retroactively addressing door handle issues or addressing for the fleet that's on the road, we're kind of fixing the door handles which in a lot of cases just can be done with a remote firmware update. I think the door handle has been a issue; we've actually ironically had an issue with the 12 volt lead-acid battery. There's a little 12 volt lead-acid auxiliary battery that we bought from quite a reputable supplier, American company who then outsourced it to China, who then outsourced it to Vietnam. And so we thought we're getting fairly good battery, but by the time it have been outsourced to multiple levels, it turned out to be not so great.

And so we have to – number of those batteries have had a much shorter life than expected, so that cause some customer unhappiness. We're since

implemented a few months ago; much better screening of the battery packs and now have a substantially improved pack going into cars.