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PARTICIPANTS

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Robert Craig Breese – President, Chief Executive Officer & Director
Nikhil Atul Mehta – Treasurer, Chief Financial & Accounting Officer

Other Participants

Ian T. Gilson – Analyst, Zacks Investment Research, Inc.
Philip L. Shen – Analyst, ROTH Capital Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for standing by. And welcome to the Clean Diesel Technology Incorporated Third Quarter 2012 Financial Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference maybe recorded.

It's now my pleasure to turn the floor over to Kristi Cushing. Please go ahead.

Kristi Cushing, Manager-Investor Relations

Thank you, Huey and good morning, everyone. Thank you for joining the Clean Diesel Technologies or CDTi conference call and webcast to discuss the company's financial results for the third quarter of 2012, which ended on September 30, 2012. By now you should have a copy of our results press release, which crossed the wire this morning prior to market open. A copy of the press release along with other company information may be found on the Investor Relations page of the company's website at www.cdti.com.

Before I turn the call over to Craig Breese, President and Chief Executive Officer of CDTi, I want to emphasize that some of the information discussed in this call are forward-looking statements, particularly statements about expected growth and business momentum, impact of operational and cost management initiatives, award of additional OEM business, timing in volume of sales under the California Mandated Truck and Bus Regulation or other retrofit initiatives and expected timing, receipt and impact of new product verifications.

These forward-looking statements speak only as of today and involve risks and uncertainties that are outside of CDTi's control. Accordingly, undue reliance should not be placed on such forward-looking statements as actual results may materially differ. Risks and uncertainties that may affect such forward-looking statements include among others, the risk of decreased government spending on emission control projects or decreased regulation of emissions and the risks associated with the receipt of regulatory approvals and continued customer acceptance of our products, as well as other risk factors previously detailed in our filings with the SEC. For a complete discussion and understanding of the risks the company faces, you should review the Risk Factors in the Annual Report on Form 10-K, which was filed with the SEC on March 29, 2012.

Call participants are advised that the audio of this conference call is being broadcast live over the internet and will be available as an archived replay on our website. The archive may not be rerecorded or otherwise reproduced or distributed without prior written permission from CDTi.

I will now turn the call over to Craig Breese, President and Chief Executive Officer of CDTi.

Robert Craig Breese, President, Chief Executive Officer & Director

Thank you, Kristi, and good morning to everyone and thank you for attending our third quarter 2012 conference call. Joining me today will be Nikhil Mehta, our Chief Financial Officer as well.

I'd like to take this opportunity to share with you my perspective on our business performance and outline the path forward for the remainder of 2012 and beyond. Nikhil will also provide greater details on our financial and operating results later in this call.

So, let me begin with our total company financial results and then, move onto a review of the results for each of our divisions. There were a number of very positive developments in our financial and operating results as well as in our Catalyst division during this quarter. While our total revenue declined moderately, approximately 3.8% compared to a year ago, we were pleased to report strong sales in our Catalyst division driven by growth in our business with Honda on existing and new programs.

As we've discussed in our second quarter call, we have implemented numerous cost reduction actions and are in the process of deploying additional efficiency initiatives that are expected to provide with an even greater savings going forward while continuing to exceed our expectations with regard to quality throughout our business.

We have begun to see the benefits of these cost control efforts in the reduction of operating expenses both sequentially and year-over-year in the third quarter and we expect to realize additional cost savings in the fourth quarter and for the full-year of 2013.

We've undertaken an exhaust review of all operating costs to enhance our efficiency while ensuring that we have the appropriate resources in place to succeed. We've improved our manufacturing processes, consolidated our sales and marketing team, enhanced our supply chain management and improved our management of receivables as well. We believe that there are many opportunities that show additional improvement in profitability going forward.

We will continue to work on areas such as lean manufacturing, cycle time reduction and material usage. And in addition to these cost control initiatives, we're very pleased to report positive cash flow from operations this quarter. Our positive cash flow together with the new loan agreement concluded in the third quarter for $3 million from an existing long-term shareholder has strengthened our balance sheet as we ended the quarter with cash and cash equivalents totaling $7.6 million.

Now turning to a review of our actual individual divisions, I'll start with our Catalyst division. This division had strong top line performance this quarter and accounted for nearly 40% of our total revenues. We completed our services contract with our Japanese partner TKK, under which we assisted in the installation of a Catalyst manufacturing facility in China. We recorded a $1 million in revenue associated with this contract.

Catalyst sales for Honda were up significantly year-over-year. As we recently announced, we had begun supplying Catalyst for Honda in the new 2013 model of the Accord that incorporates our latest Catalyst offerings. This new model which is winning industry recognition and gaining market share in a growing automotive market in North America is utilizing our palladium-only Catalyst that significantly reduces precious metal content.

In addition the supplying Catalyst for the four-cylinder Accord, we're now also shipping Catalyst for six cylinder models that meet one of the most stringent emission regulations in the world. We're also working with Honda on a high-performance six-cylinder and hybrid vehicle application, which could result in additional volumes in 2013.

This business with Honda represents significant breakthroughs in Catalyst technologies and our Q3 sales were really just a start of a ramp-up of requirements for the new 2013 model. We expect additional momentum to build commensurate with a solid demand and positive industry reviews that the new Honda Accord is receiving thus far in the market.

So in summary, we're very pleased with the improved performance of our Catalyst division and we believe that there is some positive momentum in this business going forward.

The technology that we have developed and enhanced for customers like Honda is just one example of the extensive patented and proprietary technology and product portfolio that's been created at CDTi. Our recently announced patent award for our platinum group metal-free catalyzed diesel particulate filter technology is just one example of the innovated technologies we are commercializing today.

We're in the process of accelerating the number of differentiated patent filings to expand the number of commercial applications our technology is now capable of addressing. And we're clearly a technology-rich company in position of very disruptive and state-of-the-art technologies and knowhow that we need to better harness to drive greater value for our shareholders going forward.

Our research and development in Catalyst technology has resulted in a broad array of products for the light duty vehicle and heavy duty diesel markets. We have and are seeking to apply a number of our technologies to other applications to diversify our end-markets and grow our revenue opportunities.

We're actively reviewing multiple paths to take advantage of these capabilities, which may include organic or internal development, joint development and marketing, out-licensing and other forms of strategic relationships. This effort is ongoing and we are intent on unlocking what we believe to be unrecognized and unrealized value for CDTi.

We have built a world-class team of materials scientists and engineers that continue to expand the capability of our technologies, and we need to make sure that we're doing the best job possible in moving them from development to commercial success.

Moving on to our Heavy Duty Diesel Systems business, our sales in this division were below expectations in the third quarter, and represented approximately 60% of our total revenues. Some of the primary contributors to revenue were the previously announced retrofit programs in New Jersey as well as sales in California. Nearly 38% of this division's sales were generated from non-retrofit sources such as sales of products to OEMs, and aftermarket customers for off-road applications.

Revenues from our Heavy Duty Diesel Systems in the third quarter did not meet our expectations, largely as a result of the slower than anticipated ramp up in Heavy Duty Diesel Systems revenues associated with the California Air Resources Board, also known as CARB, mandating California Truck and Bus Regulations.

Our third quarter sales under the California mandate were $1.7 million. We believe that there were several factors contributing to this reduced performance with the first being the slow adoption by fleet owners obviously. At the end of August, we issued a press release commenting on the announcement made by the Manufactures of Emission Controls Association, also known as MECA, regarding industry sales of diesel particulate filters under the California program.

The MECA's statement highlighted the slow pace of diesel retrofit sales, which was consistent with sales volumes experienced by us thus far in the year 2012. We continue to experience this slower trend in the fourth quarter. Today – to-date, we've also been successful in winning fleet operator business and continuing to believe that there is a large market opportunity available in California.

However, we are cautious about the rate of adoption and the industry projections pertaining to the overall market. Nonetheless, we believe it can be a positive contributor to our overall growth, and when there is additional market information made available by CARB, we will do our best to communicate that to our shareholders.

We believe that there are a number of other reasons as well for the reduced demand, including the intensity of state enforcement actions. The level of operator education, the measures taken by operators to gain compliance through other options, and the inevitable delay by operators in making decisions regarding the timing of installation.

If we take a look at all of these factors in combination, we are pleased by the recent commitment by CARB to initiate a multiagency campaign to ensure the trucks traversing the state's highways are in compliance with state air pollution laws.

Citation activity is increasing, but it is still too early to gauge its impact on operators and their emission controls decisions and timing of orders. We've also been encouraged by the recent increase in the demand by fleet operators for data loggers. This is the second step in the process after compliance awareness.

Data loggers are used to aid fleet operators in making decisions about their retrofit options. Once this step is completed, we would expect to see a pickup in quotation activity, which is typically followed by purchase orders.

A final contributing factor that we believe negatively affect our Heavy Duty Diesel revenue in California was related to a delay in receiving regulatory approval for one of our most advanced pure filter emission solutions. This features our patented mixed – our MPC Catalyst technology due to the very unique and proprietary nature of this product, it's taken longer than expected for CARB to review and verify this product.

We're confident that this product will be approved by CARB in the near future, and this product will represent an important addition to our portfolio and will address significant number of Heavy Duty Diesel trucks that are currently subject to the California mandate.

In fact, the same pure filter EGR technology was used in the products, which were approved and deployed by our distributors throughout the fleet's operating in The London Low Emission Zones, which many of you may be familiar with.

We believe the delay has resulted in some lost sales in the third quarter. While we continue to see weakness in the California retrofit market in the fourth quarter, we believe that together with our distributors, we have the opportunity to win a number of fleet operators that have been educated and informed about the very positive features of this advanced pure filter solution and we're eager to begin booking orders with these customers.

In summary, while we're cautious about both the rate of adoption and the industry projections pertaining to our overall market opportunity, we continue to believe that the California market will be an important component of our growth strategy over the near and medium term – intermediate term.

We are prudently managing our cash, operating expenses and investments in line with the operating conditions we currently see with this opportunity to ensure that we have the resources to support our overall growth strategy and operating needs. In an effort to decrease some of the volatility inherent in the growth of our Heavy Duty Diesel retrofit businesses, we continue to focus our efforts on expanding our Heavy Duty Diesel sales from non-retrofit sources.

These sources include OEMs or original equipment manufacturers and aftermarket business for off-road, stationary diesel, gasoline and alternative fuel engines including both propane and natural gas for the reduction of exhaust emissions. We believe these types of applications provide us with greater visibility and predictability to our business and are less prone to a change or delay in regulations.

So in summary, as discussed earlier, our technologies have many applications beyond light duty vehicle and heavy duty diesel to be explored further. Our growth opportunities include the Mandatory California Program and building additional relationships for repeatable business with customers such as Honda and other OEMs, and aftermarket customers for light duty vehicle and heavy duty diesel products. Above all, we have a dedicated global team, and I'm confident that we will continue to strive to deliver profitable growth over the long-term.

So, now it's my pleasure to turn this call over to Nikhil Mehta for his comments on our operations. Nikhil?

Nikhil Atul Mehta, Treasurer, Chief Financial & Accounting Officer

Thanks Craig and good morning everyone. Our third quarter fiscal year 2012 results were as follows. Revenue of $14.4 million, down 3.8% compared to last year. Gross margin was 26.9% compared to 28.5% in prior year period. Third quarter cash provided by operating activities was $1.6 million versus $8.4 million of cash used for the same period last year.

On a year-to-date basis, we have generated approximately $800,000 of cash compared to cash usage of about $13.5 million last year. Loss from operation was $1.2 million, unchanged from last year. And the loss per diluted share was $0.24 versus the loss of $0.29 per share last year.

Our Heavy Duty Diesel System business declined 21.6% compared to last year. The decrease was due to decreased retrofit sales of $1.6 million and decreased non-retrofit sales of about $800,000. Retrofit sales declined from a strong third quarter in 2011, which was driven by the CARB early compliance program from the second and third quarter last year compared to below expectation sales in California this year.

Additionally, we had $1.6 million of sales in The London Low Emission Zone last year, which were not repeated this year. Partially offsetting these declines were sales in New Jersey Retrofit Program this quarter. Non-retrofit sales declined due to a general decline in standard exhaust parts and sales in North America, and declines in material handling sales in Europe compared to strong sales last year.

Gross margin in this division was 25.7% compared to 28.5% for the year ago quarter. As a result of reduced leverage of fixed manufacturing costs resulting from lower sales volume, warranty expense and inventory obsolescence costs. Our Catalyst OEM sales increased 46.7% compared to last year largely driven by sales to Honda, and the completion of the TKK contract that Craig discussed in his remarks.

Excluding the $1 million related to the contract, sales in this division grew by 21%. Gross margin in this division was 23.7% compared to 18.4% for the year ago quarter due to the impact of favorable margins under the TKK contract. Excluding the TKK contract, gross margin was 14.9% for the quarter.

The decrease is the result of the escalation of prices of rare earth material that we use in our Catalyst. As discussed in previous quarters, Honda was reimbursing to us the additional amounts actually spent by us due to the severe inflation in rare earth material prices since 2009.

Commencing with the third quarter, Honda intends to reimburse the price inflation vis-à-vis 2009 based on a fixed formula. We are still in the process of arriving at an agreed formula with Honda. As a result, we've only been partially reimbursed for this extra cost in the third quarter. We expect to reach an agreement before the end of the year.

We continue to control expenses while investing strategically in opportunities for near-term and longer term revenue generation. We will continue to aggressively look for opportunities to increase efficiency and reduce cost.

Operating expenses for the quarter were $5 million compared to $5.5 million, a year ago. This decrease is primarily a result of reduction of facility cost scaling back our London operations, the restructuring actions taken in the second quarter and reduced stock compensation and bonus expenses. We recorded an income tax benefit of $123,000 in third quarter.

Now, for the balance sheet, I'm pleased that we had a positive operating cash flow of $1.6 million in the quarter, and $825,000 through the nine months. This is a result of continued focus on managing working capital including inventory reduction and renegotiation of supplier payment terms. Net working capital was $4.7 million as of September 30, 2012, versus $10.4 million a year ago. This includes the reclassification of approximately $4.5 million of notes payable from long-term debt last year to short-term debt this year.

Cash and cash equivalents at the end of the quarter were $7.6 million compared to $3.4 million at the end of the second quarter.

On July 31, we announced that we entered into an agreement with an existing investor pursuant to which the investor loaned Clean Diesel $3 million. The loan principal along with unpaid interest, which accrues at the rate of 8% per year, will be due and payable in full in July 2015. We intend to use proceeds from this loan for working capital in general corporate purposes.

That concludes our formal comments. Operator, we're now ready for questions.

QUESTION AND ANSWER SECTION

Operator: Yes, sir. [Operator Instructions] And our first question comes from the line of Ian Gils with Zacks Investment. Please go ahead, your line is open.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Hi. Good morning, gentlemen.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Good morning.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: I had a question basically regarding your market share in California and primarily due to the fact that you did not have a system that you did not get approval of, did your competitors have such a system? The sales that you mentioned were lost, are they deferred or completely lost?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So, Ian, it's a very good question and I would answer it in two parts. Number one, the market share that we cited in past calls for the traditional California market has been in the range of 20% for CDTi. While we don't have a current published market database for the current period and we won't really see that until 2013, we do believe that we have probably lost some market share due to the fact, as you rightly point out, that we have not had this EGR solution verified and in the market. So therefore, I would say it is less than that traditional market share and even though the market overall appears to be down, our share would be down in Q3.

And yet, what I would also say is that, that particular market niche, if you will, which is a significant chunk of the total program has been picked up by probably a combination of competitor's offerings, some which meet some of the needs, some which meet fewer of the needs, but are being picked up regardless. So, answer is some declination in market share in Q3 over the traditional levels and some loss of that business, because of lack of verification to competitors.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Okay. You've mentioned that some of the operators had other options?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Right.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: What are those options? Can you expand upon that?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: There are a number of players in this market that provide different options. I think we have cited most of the key competitors in previous calls; they would include Donaldson, Johnson Matthey, Cleaire, HUG, ESW. So there's really a number of different players in the field besides ourselves, but again, we all have different portfolios. So, we're not a 100% overlapping one over the other.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Ian, just to build on that, I think the other thing is that, of course, fleet owners also have the option to go out and buy new vehicles and they also have the option with their national fleets to swap out vehicles running in California with newer vehicles that they have from outside the state. So, when we give estimates of what the retrofit estimates are, the last estimate that was published in August that after well over 100,000 trucks that are expected to comply about 60,000 or 65,000 or 66,000 are expected to go the retrofit route and that was the last industry data that was published.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Right.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Okay. So basically due to this lack of compliance, the number of vehicles that's available for retrofit has in fact declined and could continue to decline until the enforcement is more stringent, is that correct?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yeah, let's be clear. So there's a couple of factors, lack of compliance is absolutely one factor that drives down the potential market. A second factor is the one Nikhil just mentioned, which is, rather than complying, if I own a truck, I'm selling my truck out of California and buying a new truck that complies in California, so that could also shrink the available market. And then, in our particular case, the third element that's impacting us is the slower than expected verification and approval of our EGR system.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Could you expand on that. Why is it slower than you've been expecting, because you have been receiving compliance notices in the past few months?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yes. What happened was this, we as you know; we are a Catalyst company first and foremost. So, when we developed the solution, we actually used what we refer to as base metals, which include copper in the coating, which was revolutionary at the time, because up until then, everyone was using precious metals in the coating on that substrate, which is a problem obviously from a cost standpoint.

And so, as early as our London project, we started coating these Catalysts with this copper metal or base metal. When we went to CARB for the actual verification, it seemed as if we were going to get the verification to your point, as it always occurred, there was a review process that was testing and submittal and then, we receive a verification.

However, in this particular case, since we were coating the substrate with the copper, CARB flagged that as a concern, because what they said is, look the byproduct of a regenerated copper could be a trace element of dioxin. And that in turn, if it reacted with chloride in a seaside environment, it could be of concern to us here in California. Hence, they said, we'd like you to submit to a further round of testing that's not in the normal protocol in this verification and we received that request in the early summer.

So, as a result, since then, it is – we've gone back and done an exhaustive round of testing both with CARB and as a subset with EPA to ensure that in fact there were no dioxin type issues or concerns, which as a result of the testing that we've now run through that test has in fact validated. And so, the reality is that the tests show no trace whatsoever of dioxin, and as a result, those documents have now been submitted to CARB, have actually been with CARB for some time and are in the review process.

And so that's the reason why this verification has taken longer than expected is, it has been two different verifications. One on the actual solution, and then, a specific question that CARB had raised relative to the copper coating and dioxin testing.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Well, is the dioxin problem a political question or good chemistry?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: I mean it's appropriate, I would say that CARB raised the concern. So, I don't believe it's political. My view is it's an appropriate concern on the part of CARB, but it's certainly one that neither they flagged to us in the early stages nor did we anticipate obviously. I will also tell you that we are filing patents on this. And it's the unique breakthrough in the sense that it gives us now the ability to use this particular solution on off-highway applications and around the other 49 states as well, and to my knowledge nobody in the marketplace has anything like this. So, while it's been painful and it's been dragged out from a timing perspective, I believe it actually gives us a competitive advantage now going forward.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Is this the patents that you announced on November 8?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: That's correct Ian. That's exactly the patents I'm referring to.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Thank you very much.

Operator: Thank you, sir. Our next question comes from Philip Shen with ROTH Capital. Please go ahead. Your line is now open.

<Q – Philip Shen – ROTH Capital Partners LLC>: Hi Craig, hi Nikhil. Thank you for taking my questions.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Good morning, Philip.

<Q – Philip Shen – ROTH Capital Partners LLC>: So, one last question on this product approval in process, what's your expectation as to when the product could actually be approved? Would it be some time this quarter or could extend out into 2013?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So, good question Philip. We've actually – what we've actually done at the suggestion of CARB is we've actually filed for a parts exemption, which will give us the ability we believe to get this approval in the next few weeks. So, still certainly in Q4. That's our best understanding in talking to the CARB officials.

Notwithstanding that and there is precedent for that in other competitors that have recently gone in that route, some of which maybe – very much might be on this call. And so, as a result, but we will continue to work on that verification – the final verification and that very much depends on CARB's own schedule, but if it isn't finally approved in 2013, it would certainly be forthcoming in, excuse me, in 2012, it would certainly be forthcoming in early 2013. I don't give predictions on CARB approvals anymore, Philip. I just – I try to stick to the knitting, but our parts exemption will give us the ability I believe to get the product and sell it now into the market still in the remainder of this year.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great. That's helpful, thank you. And another question on the California market here. What is the timing and probability of a decision on this case between CARB and the CCTA? And when do you think we will know anything? And are there any precedents that might help guide this situation?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Just very briefly, this case has been, as best as I know, has been dragging on for over a year now. And both parties, the CCTA, I guess, it is California Truck Association and CARB are basically digging in that regardless of who wins the first round, this is going to go into appeals. And our best guess is that this is going to drag on for a lot longer and there is no – there is no end in sight. In the meantime, the program continues to go and CARB is actually actively enforcing it now. So, at this point, we're just watching this case. I don't think the next hearing is for another few months.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: I can just cite on the website – the CCTA website, they issued a short statement dated the 26 of October. The headline stated going on 20 months – 21 months and still no decision, you can access this right on their website. And it just indicates that there is discussion around it from that website, but it doesn't give any indication at all on a pending decision or even a timing relative to it.

The only other piece of information, I could maybe proffer here is, in my discussions with CARB officials, they are adamant that the compliance will continue as scheduled. And they are not interested nor are they making any statements to the effect that they would consider any delays or altercations to the existing regulations that have been put out there. So, we're certainly going on that basis and making those assumptions in our business planning.

<Q – Philip Shen – ROTH Capital Partners LLC>: Okay, thank you. To what degree do you think the market is using this as a way to maybe – and when I say the market, I refer to truckers or fleets, to what degree do you think they're delaying their purchasing decisions as a result of this. Through some of our channel checks, we've discovered that CARB has been actively enforcing as of the month of August, and I think they're handing out – and correct this if we were wrong here, but tickets of $1,000 if trucks are not in compliance. And then they've six to eight weeks to comply and then, if they don't there's another automatic $800 ticket. So, one hand, can you confirm that enforcement process that's going on the ground and then two, comment on whether or not you think the CCTA case is actually inhibiting fleets and truckers to make decisions in retrofitting their vehicles?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Right. So, first of all, it's absolutely correct to state that the CARB enforcement activities have stepped up as of August. We go on our CARB website and you can actually see the number of citations they are issuing. Last time I looked it was over 187. These will vary by value depending on what has or hasn't transpired in that particular fleet or fleet owner. Sometimes, there will be voluntary declarations and then they will be committing to a schedule of retrofits, which could be over a period of as much as three years.

And so, in that particular case, they would not necessarily be cited unless they were falling behind the schedule. There would be other cases, which is, I believe, the majority of the cases you're referring to where the truck owner or the fleet has simply not voluntarily registered with CARB and committed to any kind of a voluntary retrofit program.

They're just simply transiting the highway being stopped by the highway patrol and the CARB enforcement officer. And since they have no document in their truck to attest to the fact that they have committed to the voluntary program, they are in turn being cited on the spot. And by the way, those violations can go up to as much as $25,000 per incident, depending upon the infraction and the type of situation surrounding it, but $1,000 is not an uncommon amount to be decided.

So, I think what you're seeing now is definitely a stepping up of enforcement by CARB, but I definitely – I sense in talking to distributors and trucking fleets that the knowledgeable ones have already declared voluntarily, and candidly those tend to be the folks that we spend the most time with, because those are the biggest numbers.

There's a lot of independent truckers throughout the state and who transit the state, who either uninformed or potentially to your point hold our hope that CCTA might be able to step in and intervene in this process. But I would – this is my own view now, I would say that they are probably not the majority of the company's nor the trucks covered under this discussion. And as a result, I don't believe that that if you will, holding back of going and getting retrofit is primarily a function of the CCTA action. It may be in isolated incidents. That is certainly not the sense I get when I talk to fleet owners and distributors servicing the retrofit and installer market.

<Q – Philip Shen – ROTH Capital Partners LLC>: Okay. And then to that end in terms of the enforcements, I think we've learned that activity definitely has picked up especially over the past few weeks, three weeks or so, but from your perspective, is – even that kind of pick up less than what you had originally expected, can you confirm that it's likely still – like that'll be better than Q3. And if so, how much better you think it could be?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Well, yeah, I mean again this is all perception, right. But I think it's clear to say two things. One, we had expected enforcement to start a lot earlier than August on this initiative, and when we talked to the CARB officials about that they cited different reasons for that. Budget shortfall, lack of resources, that sort of thing and so, they told us that we would be or they would be picking up enforcement in August. But again, August was the eighth month of the year and it was very late by that time.

So, number one, it was late. Number two, yes, I would say it's fair to say that it wasn't as robust an activity. Initially, my recollection is that they only had six check points in the state, in major freeway entrances into the state, which is not very many if you think about the size of the state and the number of vehicles under the enforcement action. That's clearly starting to step up to your point now. So, I think it was a late enforcement action, underresourced and when it did get started, probably still not as robust as what we and perhaps the industry had expected to see.

<Q – Philip Shen – ROTH Capital Partners LLC>: Okay.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So, I think that's probably still the case to-date to some degree.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great. One last question on California, and we can move on. You mentioned that you're optimistic for 2013, given what happened with London last year, meaning it was mostly a Q4 event with spillage into Q1 of this year, and Q4 ramping up this year given the later than expected CARB enforcement, and frankly the end of you deadline. And I think there is another deadline at the end of next year. Would you expect 2013 from a retrofit California standpoint to be mostly a Q4 event as well? Or do you believe we have the ability to pull demand forward?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Again, here it's very difficult to answer in a – I would say a scientific way. What we know is that there are many retrofits that are scheduled for 2012. Even now at the end of this year, and that's why we're so anxious to get our EGR solution verified, where we believe that there will be immediate pickup not just for us, but the industry as a whole. So my view based on what I'm seeing so far in Q4 is that there should be greater activity this quarter than we've seen in previous quarters for sure. And that's also thanks to the enforcement and people just pushing out till the end of the year, these investments in their retrofit kits, if you will.

Now, what's going to probably happen though is you're going to see this enforcement continue. It's not going to stop now. Now, they're starting the enforcement, the citations are occurring, they're ramping that up. As far as I'm understanding based on what CARB officials are telling me is, that will continue throughout 2013, all right. And they are really now aggressively trying to go through their database of truck registrations throughout the state and pinpoint the individuals who have not voluntarily declared and run those down, okay.

So as a result, I would expect to see a certain level of activity throughout next year. Will that be bunched up towards the end of the year? It just depends on the scheduling of the retrofits; on how intense the enforcement activity is; how many people are getting cited and when Phillip. It's a little hard to call, but I think we've always said that 2013 of the three years of the program should be the most robust of the three years, and sitting here today, I still believe that will be the case.

<Q – Philip Shen – ROTH Capital Partners LLC>: Okay. Good. One last question and this is in the Catalyst business. A couple of quarters ago, you talked about a strategy for driving additional volumes by going after other auto OEMs, maybe for their overflow business, can you give us any update on this? It sounds like you did some work with TKK, what's the latest with your overall strategy here?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So, we continue to visit different OES both in Asia, North America as well as in Europe actually. And we find different opportunities to quote on our catalytic coatings technology. Clearly, the press release from Honda helped us a lot in terms of credibility with these folks, and we're getting invitations to meet with them as a result of some of that.

I would also flag another opportunity that we've uncovered in the meantime, which is the aftermarket. So, aftermarket meaning not the OEs themselves, but aftermarket producers that produce, if you will, exhaust systems with converters inside and we are in discussion with several automotive aftermarket players and trying to determine if we can meet some or all of their needs in an aftermarket environment as well. So that's – we're continuing to work on all those fronts and try to pick off new and profitable business where it makes sense.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great, thank you Craig. I'll jump back in queue.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Thanks, Philip.

Operator: Thank you sir. [Operator Instructions] Our next question comes from [ph] Ian Clarke (43:57). Please go ahead. Your line is open.

<Q>: Hi, I was curious if you could tell me what the typical time period is between data logging and quotation, because it seems for the past quarter or two you have talked about increased data logging and then, that should lead to more quotations and eventually to more retrofits. So I was just curious if you could comment on the average delay you guys see?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: [ph] Ian (44:20), it's a good question. So, earlier in the year, when we referred to this, particularly I believe in my remarks in the Q2 results. We were definitely seeing an uptick in data logging, but what weren't seeing at that time was this enforcement pushed by CARB, okay. So, the gestation period, if you will, at that point was longer. It could have been several months between the time a trucking fleet was collecting data off the data loggers and then, going to the more proactive state of going to an installer and saying, could you please call quote me for this system.

So, at that point, I would say that it varied, but it was probably in the number of months, two maybe three months. I believe now though with the stepped up enforcement activities that we're seeing by CARB and that's why it's so important, what we are now seeing is that that period is getting shortened up. So, where the fleet owner is now going and getting data logging is, they are most likely seeking a quotation pretty quickly after that data is in and making their selection depending on quotes from different manufacturers making their selection quicker. So, I think that period of time is definitely shortened up in Q4 versus Q3, and I would say instead of two to three months, it's probably one to two months.

<Q>: Okay, great. That's helpful. And then on the Catalyst division, if I back out the TKK contract for the past three months, it looks like the Catalyst division still had a loss from operations. As you guys expand into other Honda models and potentially into other car companies, what kind of leverage is there in that division as far as what cost effects and how are you guys going to be able to get a swing to consistent operating profits within the Catalyst division?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yeah, I mean, you are reading it absolutely correctly. Our biggest challenge right now in our Catalyst division is just simply excess capacity. Our utilization of capacity is still well below 50% and as a result, every new model or platform or additional volume that we gain from either Honda or anyone else really, really fills that void and it really isn't that far away from pushing us into a profitable position in that business.

So, I would just simply say to you, if all of the projects on the table that we believe we're going to see from the Honda organization actually materialize over the next 12 months and perhaps some other business opportunities that we are working on, we could be in a very different situation 6 months, 12 months from now in terms of is that division truly profitable. It's really – you really want to think of that as utilization of your manufacturing, that's what's going to make us profitable in that business.

<Q>: Okay, great. Thanks for taking my question.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yeah.

Operator: Thank you. [Operator Instructions] Next questioner is [ph] Gary Cooper (47:35), who is a private investor. Please go ahead.

<Q>: Thanks, guys. A couple of questions. So, what is the cost to the customer for the EGR Solution relative to the rest of your portfolio and relative to your competitors?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: You know [ph] Gary (47:52), it's a good question. What I need to be careful of here since this is a public forum and very possibly competitors are even listening in or can listen into this recording later. I need to be careful about what I say relative to costs, all right. So, I think you can respect that. So, it's really not just cost, it's price, right, price in the market.

<Q>: Right.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: What I can tell you is that we are very competitively priced to compete with all the solutions that are out in the field today that we would be up against. And obviously, we believe that we actually have some features and benefits in our particular solution that the other competitors actually can't reach in terms of duty cycles, service life, and that sort of things. So, if I look at a total cost of ownership model, which most leads tend to do, I believe there is, in fact, a compelling case to be made as there was in London, for our ability to succeed with this EGR Solution once it's verified in the market in California.

<Q>: Okay. You guys put out a press release a few months back regarding a partnership on the leasing or financing of these retrofit systems. And I'm wondering if you did any of those in the quarter, how that relationship is going and what if any marketing is going out to market related to that leasing up or refinancing opportunity?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: That's another good question. We haven't seen a lot of activity in that area. In fact, we've seen almost none, okay. I do talk to our leasing partner pretty often and what we're doing is, they work with our sales people to educate the distributors, the installers, and we have this out there in front of everybody. And I think what's happening is that the early compliance has been, and this is just my own feeling, the early compliance has been mainly the larger fleets who don't really need this leasing option.

And if the guys who – the individual truck owners and the small guys who are actually probably the cause for the slow adoption are the ones that could use this leasing option. So that option is alive and well and it's available to all our customers. And in fact, I probably have – I have an update call scheduled with these guys tomorrow.

<Q>: Okay. You talked about the market declined X amount and you guys apparently declined a bit more. Can you give us some idea of who you think took share on the CARB side?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: I would – again there for competitive reasons, I don't have any market data per se, it's more anecdotal and I don't want to probably put that out there, [ph] Gary (50:50) when it's not really, if you will, pressure tested. I think we should wait for the MECA and CARB data that will come out in January of next year, which will specify specifically by competitor exactly what happened in the marketplace, but I think anything that I would say right now would be pure conjecture, and potentially even misleading to people, so I wouldn't want to do that.

<Q>: Okay. Last question. So, still on the HDD side, if you get away from the CARB business, and you think about the non-CARB business, what is going on there? Are you retaining share there? Is the market growing? How do you feel about your business in that part of the world?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So, that's an exciting area for us. You got to remember that our company that we acquired Engine Control Systems grew up in that business, and had significant business in the materials handling, mining, power equipment verticals for many, many years. We sort of got away from that legacy, as we moved more into focusing on the retrofit business, and that was many years ago by the way. And what we are simply trying to do here is, bring this full circle and make sure that we're touching on those opportunities for either Tier II suppliers to equipment manufacturers or the equipment manufacturers themselves to provide state-of-the-art emission control systems.

It's been very encouraging as our sales force has focused in on this, the new opportunities that they are uncovering. Remember for us, most of this is new business, we're not – we're growing an area now that where we have had very low market share for a number of years. So for us frankly, there's only one direction we can go and that's up.

And so, I'm encouraged by what I think our sales people are seeing in the field. The quotes that they were putting out there, the dialogues were getting into, and some of the early business wins that we're starting to see. And so, that will be a continuing area of both focus and resource as we go forward, so we get a good diversification in our portfolio. So that, we are not so reliant and so retrofit centric in these discussions, but they would become more balanced in this area, and I really appreciate your question on that, because, I think as this story unfolds over time, it's certainly our intent and our strategy to make this a much more balanced equation, in terms of end-use applications and markets.

<Q>: Okay. Thanks, guys.

Operator: Thank you. And presenters, I'm showing no additional phone line questions at this time. I'd like to turn the program back over to Mr. Breese, for any additional of closing remarks.

Robert Craig Breese, President, Chief Executive Officer & Director

So again, I appreciate all of the questions and interest in Clean Diesel Technologies, as this story continues to develop. It was a tough quarter, there's no question about it. We were disappointed at the delay in the verification, which I think we've talked about at some length during the call. But I'm also optimistic, as we move now towards 2013 that a lot of the good things that we have started in 2012, such as cost controls, restructuring in certain parts of our business, the enormous win with Honda, and I think, what will develop into a continuing, very good relationship and story in terms of that technology and its adoption.

Also, a thing that I touched on in the brief, but I did not elaborate on in the questions, our technology portfolio. As I've joined this company, I've been here a little over six months now, I am just amazed, at the amount of technology that sits and resides in this company. And yet, I don't believe that we've extracted or monitorized the full value of that technology. And so, what you're going to be seeing us doing in the coming months and years is making sure that we are protecting all of the innovations that we are creating internally through patents and through IP, and ensuring that we extract full and total value for that either through licensing agreements or other types of cooperation.

And I would say that there is a case to be made that we can and will be doing a lot more in this area. We touched in at a question relative to our most recent patent filing on the copper based metals for the substrate coatings. I think you're going to be seeing more to come on that front from us in terms of patent filings and this whole discussion around how can we take our base technologies, particularly in the Catalyst, low precious metals or even no precious metals, and drive those into verticals not just in the automotive and heavy duty verticals, but also in other heavy – also another verticals that could be as far afield as fuel cells, petrochemical industries, stationary applications and alike. So, that's an area for additional discussion in the future, but I just wanted to get that out there as we're closing this call out today. So, again I appreciate everyone's interest in the company. Thank you very much.

Operator: Thank you, sir. Again, ladies and gentlemen this does conclude today's conference. Thank you for your participation, and have a wonderful day. Attendees you may disconnect at this time.