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CDTI - Q1 2015 Clean Diesel Technologies Inc Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Clean Diesel Technologies Inc. First Quarter 2015 Financial Results Conference Call. (Operator Instructions). I would now like to turn the call over to Pedro J. Lopez-Baldrich. You may begin.

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**Pedro Lopez-Baldrich** - *Clean Diesel Technologies, Inc. - General Counsel*

Thank you, operator. Good morning and thanks to everyone for joining us. 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 page of our website at [www.cdti.com](http://www.cdti.com).

Before I turn the call over to Chris Harris, President and Chief Executive Officer of CDTi, I want to emphasize that some of the information you will hear during our discussion today will consist of forward-looking statements that are predictions, projections and other statements about future events. These statements are based on current expectations and assumptions and are subject to risks and uncertainties.

Actual results could materially differ because of factors discussed in today's results press release and the comments made during this conference call, and in the Risk Factor section of our Form 10-K and other reports and filings with the Securities and Exchange Commission. We do not undertake any obligation to update any forward-looking statements.

Now I would like to turn the call over to Chris.

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Thank you, Pedro. Good morning and thank you for joining us today. I am excited to discuss with you the progress we are making in transforming CDTi in to advance materials Company. We are driving volumes with existing OEM customers while aggressively targeting near-term revenue opportunities with DuraFit.



In the first quarter our commercialization efforts drove results for DuraFit Diesel Particulate Filter or DPF in our broader portfolio of advance Catalyst. On a sequential basis consolidated revenue grew by 19.3% and gross margin improved 457 basis points driven by more favorable product mix and progress in building out multiple sales channel for DuraFit. Although revenue in our Heavy Duty Diesel Systems division declined year-over-year due to the wind down of the California diesel retrofit mandate we met our internal goal of \$1 million in DuraFit sales for this quarter without any national networks on board yet. We continue to build out our distribution platform and expect to ramp sales throughout 2015 putting us on track to achieve our guidance of \$5 million in DuraFit sales for the year

Now I will provide a more detail update on our near-term commercial efforts. In our Heavy Duty Diesel Systems division we are achieving success with our sales strategy. As I just highlighted, we continue to aggressively roll out DuraFit our new cost effective alternative to OEM replacement filters for the North American market. In the first quarter we won a major fleet customer with New York City's Department of Sanitation, one of the largest refuse fleets in American. We believe refuse fleets alone across the U.S. represent a \$15 million to \$20 million replacement DPF submarket.

We are continuing to pursue national distributors, and expect to add at least one large network relationship in the second quarter. In fact, we expect to soon announce our first distribution agreement with a national network that would make our replacement DPF available to several hundred out let's across North American. Meanwhile our regional independent distribution network throughout the U.S. and Canada continues to grow with tens of distributors now on board. Our traction in the DPF replacement market demonstrates our success targeting multiple major sales channels and signifies the growing penetration of our DPF product and proprietary technology throughout North American.

Our DuraFit value proposition is resonating with customers. High quality durable replacement DPFs that leverage CDTi Catalyst technology and promise fleet managers and owner operators lower total cost of ownership and less risk of vehicle downtime. To support these efforts we are adding to CDTi's regional sales teams and executive commercial leadership

Turning briefly to the retrofit market. While not a growth driver, we believe there are opportunities to target projects that bring good margins and leverage our many Government approvals and long track history in heavy-duty retrofits. For example, in the first quarter we recorded approximately \$600,000 in revenue from the combination of two key projects. One with the Utah Department of Transportation and the other with Niagara Frontier Transit. We seek to leverage our latest verified system such as Purifilter EGR to exploit retrofit opportunities outside of North American and Europe. Overall while we expect pockets of profitable sales in future quarters, retrofit will contribute less to our total mix of revenue as DuraFit ramp.

In our Catalyst division we continue to execute well against their Honda business which now supplying Catalyst for the Acura ILX as announced on our fourth quarter call. The volume of new car Catalyst production for Honda is up 9% year-over-year and we're seeing modest overall growth across our entire Catalyst portfolio. Our expanded portfolio now generates an extra \$1.50 per vehicle in material margin which compared to 2013 due to manufacturing improvements and a favorable mix of performance Catalyst. In fact, if we back out past through revenue tied to ceramic substrates on to which we coat our proprietary Catalyst formulations gross margins for the Catalyst divisions would rise from 26% to 40% for the first quarter showing the true value add of our advance materials and precision coating. While west coast port disruption did effect the fourth and first quarters we still expect full commercialization of our broader product portfolio that represents a more profitable product mix and we anticipate second quarter OEM sales to be similar to the first quarter.

Now I will turn to our exiting technology advances as we transition to an advance materials Company. As previously discussed, we plan to deploy CDTi proprietary innovative technology for use in our Catalyst coating and to broaden its availability to other Catalyst coaters for use in proprietary powder form or with other business models. Last week we announced initial engine and vehicle testing results for our new synergized platinum group metal diesel oxidation Catalyst technology called SPGM DOC. The initial results show that our break through SPGM DOC technology achieved emission control and system performance comparable to a leading OEM Catalyst product while slashing PGM usage by over 80%.

The DOC is a major components of diesel emission control systems and current designs use high level of platinum and palladium to reduce pollutants and breakdown particulate matter. Based upon information derived from a Johnson Matthey's platinum 2013 report OEM spent almost \$1 billion on PGMs for heavy-duty vehicle Catalyst in 2012, and CDTi estimates that DOC represented the vast majority of that spent. The test further demonstrate our ability to tailor nano-scale materials that can easily be coated on to convention substrates to create significant value propositions in a range of down stream markets such as CDTi's own DuraFit after market product line as well as global retrofit and OEM application.



Heavy-duty DOCs are thus a major opportunity for our advance materials technology. As a faster path to revenue our aim is to more broadly commercialize our SPGM DOC technology through other major global players in the value chain via our powder to coat business model.

Beyond the SPGM DOC testing, we are executing other test plans on engine platforms and initial results will be forth coming. Our testing employs sophisticated data analysis, emission performance evaluation and interaction with engine calibration. We're using industry and regulator recognize aging and drive cycle test protocols that take longer to compete but generally highly credible test data for advancing our commercialization with leading OEMs around the world. More specifically within this second quarter we expect to release initial testing results of our Spinel technology and other new proprietary technologies conducted on gasoline direct injection, turbocharged and naturally aspirated engines

Our innovative materials all aim to offer a compelling value proposition as they improve performance and dramatically reduce costs. More specifically our breakthrough technologies offer major PGM cost savings, superior NOx reduction, cold start emission performance and improved functionality of Rhodium used in three way Catalyst. For example, passenger cars typically have two Catalysts for different exhaust zones. We believe our approach will offer new highly cost effective options for exhaust system design such as the potential to greatly simplify an exhaust system by reducing a two Catalyst system to a single Catalyst or by mixing and matching technologies for closed couple and under-floor Catalysts.

Beyond our research and testing efforts we continue to strengthen our patent portfolio. Two key patents were awarded in April 2015 for CDTi latest mixed phase catalyst or MPC three-way Catalyst innovations. They relate to the technology used in our most recent Honda wins. These patents help cement CDTi position on our current proprietary technologies, under pin the powderization work we are conducting and support our ongoing work with OEMs. Meanwhile we have filed five more patents during the first quarter of 2015 and expect more filings to protect our newest technologies.

Overall we're making great progress. We are working with OEMs to achieve validation of our basic technology. In advance of scaling up to commercial quantities in the coming months we are optimizing our powder to coat capability. And while we do not anticipate related revenue until 2016, we intend to secure our first customer for enabling catalytic powders in the second half of this year. We are more excited than ever about the tremendous potential of our advance materials strategy. We are making significant progress in both the commercialization of our products and solutions and the development of our new technologies. So we look forward to keeping you updated on our progress.

I will now turn the call over to Dave for review of our Q1 financial. Dave.

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

Thank you, Chris. As a reminder the standard exhaust business which was sold in October of 2014 is classified as discontinued operations.

For the first quarter of 2015 revenue was \$10.3 million compared to \$11.6 million in the first quarter of 2014. Heavy-duty diesel revenue for California and the 49 states was down due to the forecasted decrease in retrofit demand. In the first quarter of 2014 CARBS regulatory deadline drove stronger sales in the California retrofit market of \$4.2 million compared to \$1.2 million for the first quarter of 2015.

Meanwhile our DuraFit sales have just begun to ramp up in the first quarter of 2015. Our Catalyst revenue was up 17% compared to the 2014 first quarter reflecting growth in the new production volumes for Honda and product mix. Gross profit was \$2.8 million compared to 3.7 million dollars reflecting the lower revenue and startup cost associated with the new DuraFit product line. As sales of DuraFit ramp, we expect incremental improvements in margins. The breakdown of margins was 27% for heavy-duty diesel and 26% for the Catalyst division for the first quarter.

Total operating expenses were \$5.5 million compared with \$5.2 million in the first quarter of 2014. Breaking down operating expenses SG&A was \$3.4 million compared to \$3.6 million in the first quarter of 2014. R&D was \$2.1 million compared to \$1.3 million in the first quarter of last year. R&D expense increased as a result of the testing and development work on advance Catalyst technology and continued new patents filings and prosecution.

Our operating loss was \$2.7 million compared to \$1.5 million in the same period last year. Net loss was \$3 million or \$0.21 per share as compared to a loss of \$3.8 million or \$0.39 per share in the same period last year.

The outstanding shares for the first quarter of 2015 were \$14.2 million as compared to \$9.8 million in the first quarter of 2014. The increase reflects the approximately 2 million shares in the \$6.9 million offering and 1.4 million shares in the \$4.4 million offering we conducted in April of 2014 and November of 2014 respectively.

At March 31, 2015, we had cash of \$4.3 million as compared to \$7.2 million at the beginning of the year. We are reaffirming our annual guidance for 2015. We continue to expect revenue between \$40 million and \$45 million depending on the timing of DuraFit sales ramp as well as retrofit projects. This compares to revenue of \$41.2 million in 2014. We expect gross margin between 25% and 28% due to carry over startup costs and supply chain inefficiencies. As DuraFit ramps and we optimize our supply chain we expect margins to improve in the back half of the year towards the 30% level achieved in 2014.

We will continue to assess options to better align our assets with our future vision for the Company as well as to review opportunities to improve our balance sheet and financial flexibility to position us for growth. With that, I turn the call back over to Chris.

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Thank you, Dave. We are well on our way to transforming CDTi in to an advance material company that can broadly commercialize our proprietary technology, scale the business and build substantial shareholders value. I am most proud of our achievements to date and extremely encouraged by the opportunities ahead of us.

We continue our highly rigours validation testing of Spinel and other new technology to expand the commercial reach of our enabling technology and accelerate it to deployment. We expect to have additional updates for you on our vehicle testing and our work to validate, optimize and scale our powder to coat capability in the second quarter. We intend to secure our first customer for enabling catalytic powders in the second half of this year.

We anticipate further protecting our advance low PGM, SPGM and ZPGM materials platform by filing additional strategic patents in 2015. In short-term we're targeting to add at least one national distributor for DuraFit by the end of the second quarter as well as ramp sales with our existing regional distribution network.

Operator, we are now ready to begin the question-and-answer session.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions). The first question is from Matt Koranda of ROTH Capital Partners. Your line is open.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Good morning, guys. Thanks for taking my questions.

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Good morning, Matt.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Just wanted to start out with the powder business and you guys had mentioned potentially securing your first customer for that business model in the second half of this year. Could you help clarify for us is that going to be OEM customer or are you talking about a Catalyst coater?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Clearly if it is a powder to coat business model it will be a coater of Catalyst and our focus, Matt, is on near term revenue and proving out the business model of powder to coat. If you look at large passenger car OEM programs those are a little bit longer cycles of selling and we of course, have lots discussions with OEMs and other players in the market but we're going after the shorter time frame to revenue and proving out this model.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay, great. And then how do you guys envision the commercialization with that customer going? I mean what is the magnitude of revenues we can expect and how can we model the ramp up in 2016?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

I think any of these early opportunity they will be materially significant profitable revenue on top of our base Catalyst business but they won't be the size of a major passenger car OEM program.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay. All right. Got it. Shifting gears to DuraFit for a moment. Can you just help us understand the potential size of the opportunity maybe on an annual revenue basis with the New York Department of Sanitation? I know you mentioned fleets in general but how much are each of these sorts of fleets worth on an annual basis in terms of revenue for you guys?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

We generally will not get into discussing a very specific customer or fleet for a variety of reasons. But when we translate the Department of Sanitation in New York City to other major fleets across North America it is \$15 million plus submarket replacement DPF.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay, all right. Got it. Maybe you could just quantitatively characterize the size of the New York Department of Sanitation versus some other potential fleet opportunities, could you do that for us?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

In the refuse area they are the largest clearly, but obviously there is on-road fleets that will exceed that. They are significant and as we report more on details of DuraFit sales in the coming months as sales expand we'll be able to piece together a better picture of what those revenue profiles look like for fleets or combinations thereof.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay, got it. In terms of what needs to happen to secure the national DPF channel partner that you guys had mentioned in the prepared remarks I mean what needs to occur between now and the announcement to get you over the hump, is there anything else left to do here?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

We feel pretty comfortable that we have addressed all the major commercial and technical issues and that we have a good portfolio to roll in to any first agreement that we sign and start executing with any national networks.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay. And then just lastly on DuraFit if you could help us out just understanding the cadence of DuraFit revenues for the remainder of the year. Is the incremental \$4 million that you guys have implied in the guidance is that evenly split between the rest of the quarter or is there a ramp up and how does that ramp play out for the rest of the year.

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

I think it is fair to say that our expectations around Q2 are similar to Q1 and that the second half shows a steeper ramp and that is related to the kick in of any national network deals that we land and start executing as well as full fledge exploitation of our independent regional distributor networks.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay. So could we see a ramp in Q3 given some inventory builds that would be associated with a national dealer network win?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

There is with any distributor or dealer location some initial inventory and pipeline filling. But everyone is managing their inventories tightly and the name of the game in this business is to better understand what the mix of parts will be out there and to have order fulfillment system that can respond quickly such that there isn't massive amounts of inventory piled up in the value and supply chains. So we will be able to qualify any sales ramps that we see in terms of trying to understand what is actually moving off the shelf to end users and to actually truck owners or fleet managers versus what is in the pipeline.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay, great. A couple of more and then I'll jump back in queue here. On the California retrofit market could you just help us understand what were California retrofit revenues in Q1?

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

\$1.2 million.

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

\$1.2 million, okay, great. Lastly on the balance sheet was curious if you guys could comment on cash management strategies you guys are implementing? Can you generate any cash from working capital during the remainder of 2015 just would like to get your thoughts on that.

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

If you look in Q1 we used fair bit of the cash rebuilding up our AR, if you look our AR increase \$1.6 million coming off a slow Q4 so we will have some coming out of both our AR and (Inaudible).

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**Matt Koranda** - *ROTH Capital Partners - Analyst*

Okay, got it. I will jump back in queue. Thank you.

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**Operator**

Thank you. And the next question is from Ian Gilson of Zacks Investment Research. Your line is open.

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**Ian Gilson** - *Zacks Investment Research Inc. - Analyst*

Good morning, gentlemen. I have a couple of questions regarding the balance sheet. I note the accounts receivable went from \$2.9 million to \$4.4 million.

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

Yes.

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**Ian Gilson** - *Zacks Investment Research Inc. - Analyst*

And prepaid expenses declined from \$2.1 million down to \$940,000, could you outline why?

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

Let's talk about the accounts receivable first. When you look back at Q4 we've got really Q4 was one of our slower quarters really of recent memory, and it was particularly slow in December. We had a really slow December so to that point we had quite a bit of filling of the AR pipeline coming in March and our March of Q1 was actually particular strong. So we had a lot of revenue within Q1 in the last month. So that's why you see our AR jumping up \$1.6 million

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**Ian Gilson** - *Zacks Investment Research Inc. - Analyst*

Okay. And the prepaid expense account.

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

So as far as prepaid a number of that is around our insurance and then I will have to look and check for the rest of it for you.

**Ian Gilson** - *Zacks Investment Research Inc. - Analyst*

Okay. The Honda business that's just the introduction of the ILX, how about volume on the other line, the Acura lines and the Accord.

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

In general I think I mentioned earlier about a 9% vehicle volume increase on that and it spreads fairly evenly across the different models. But clearly there is a shift in this portfolio, Ian, and we have talking about this for a while away from just the four cylinder standard Accord to the six cylinder and the specialty models and the Acura models. So that is an important part of the plan and the forecast for Honda this year for the remaining part of the year also. Things are pretty steady the overall North American market remains very strong up at levels now of new car production and sales of pre recession. So we don't expect surprises there, but it is robust but there is a lot of competition that all these OEMs are faced in the North American market. So we have to be measured and conservative in our overall expectation for the Honda portfolio.

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**Ian Gilson** - *Zacks Investment Research Inc. - Analyst*

You now have control over your Southeast Asian business, how is that going?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Well, it shouldn't supervise you that we're on the ground as we speak in Asia investigating some of the large markets there including China in terms of what opportunities exist for faster commercialization and utilizing our proprietary technologies and powder to coat model in developing new business and trying to get there sooner rather than later in shorter cycles to revenue.

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**Ian Gilson** - *Zacks Investment Research Inc. - Analyst*

Okay, fine. Thank you very much.

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**Operator**

Thank you. And the next question is from Jeff Osborne of Cowen and Company. Your line is open.

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**Jeff Osborne** - *Cowen and Company - Analyst*

Good morning, guys. A couple of questions most of them have been answered at this point in time. But I was wondering if you could just update us, you mentioned looking to expand on the sales force. How should we think about the OpEx trends through the year?

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

So when you look at OpEx through the year, we actually think it is going to be R&D should be similar through most of the year, a little bit lower. When you look at SG&A, Q1 is our peak of the year and we'll actually be coming down slightly in the balance of the year.

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**Jeff Osborne** - *Cowen and Company - Analyst*

Just out of curiosity what is the rationale for the peak in Q1 with the decline?

**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

So peak in Q1 relates to a lot of year end wrap up activities, we have most of our audit fees, et cetera that run through Q1. So there is a lot of that nonrecurring stuff for the year that is done in Q1.

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**Jeff Osborne** - *Cowen and Company - Analyst*

Got you. That is helpful. And then can you walk through the levers for DuraFit gross margin expansion through the year other than volume, what are the other things we are thinking about? And then longer-term on DuraFit is there a possibility of using SPGM for that or is it fully baked the way it is now?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Clearly we'll look at as we look at the DuraFit portfolio of products and go into the market and find out where if you will the failure rates are and what we need in the product line, we will update both the DPF side of things and we will look very closely at whether we should introduce DOCs that are a Catalyst that occurs in front of the DPF on most of these on-road vehicles. And if we introduce those DOCs, we are going to look very strongly at doing it with technology like SPGM DOC. In terms of the levers for margin expansion similar to what I've said before it is the raw material side especially on the substrate itself, the filter itself that we then put our Catalyst coatings on top of. That is a very important component, and as we build volume and optimize the whole operational planning and forecasting we should be able to get better buying packages if you will and then we'll look too also at our manufacturing processes as we ramp and build out our capacity to keep up with expanding volumes of how we can run that more efficiently. So it is really about optimizing the supply chain and really getting at those key material substrate costs.

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**Jeff Osborne** - *Cowen and Company - Analyst*

Got you. That is helpful. A couple other quick ones should we think about the retrofit market waffling around in this \$1 million to \$1.5 million range or is there any hopes for growth from these levels? What is the outlook for that segment?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

I think as we've talk about retrofit in the past in terms of it is general declining market for sure in North America and it is very project based with all sorts of variations and changes in terms of timing of projects from the funding stage to the actual execution of putting systems on vehicles. I think your definition of calling it a waffling market is exactly the way it should be term.

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**Jeff Osborne** - *Cowen and Company - Analyst*

Okay .But for the \$1.2 million this quarter you wouldn't characterize it as a heavy period of projects that flowed through the revenue and would suggest that it would be half this number in 2Q or something like to kind of flattish to down would be a descent trajectory for it?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Yes, I think flattish to down is a good term for it.

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**Jeff Osborne** - Cowen and Company - Analyst

Okay, perfect. One or two other quick one. Any initial read on the Spinel testing? I know you are still waiting for all the data validation but what has been the early feedback? And suggestion that the original hypothesis isn't valid.

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**Chris Harris** - Clean Diesel Technologies, Inc. - President, CEO

We are executing the programs as planned. There are no showstopper at all and stay tuned.

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**Jeff Osborne** - Cowen and Company - Analyst

Good to hear. Last question, if I heard you right, you mentioned that there was a port impact I wasn't sure if you were talking about in the fourth quarter, in the December quarter, in the March quarter, but is that something you could quantify what the port strike and other issues hurt your revenue by?

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**Chris Harris** - Clean Diesel Technologies, Inc. - President, CEO

I think people know a lot of the west coast port disruption and that has influenced different supplies going into the auto makers in the Midwest such that certain of their builds have been pushed out and maybe level loaded more towards the second quarter, et cetera. So I think the bottom line is that we expect our OEM business in the second quarter to look similar to the first quarter when all is said and done.

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**Dave Shea** - Clean Diesel Technologies, Inc. - CFO

And some of our shipments are going out to Honda in Asia and some of those have been delayed due to port strikes.

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**Jeff Osborne** - Cowen and Company - Analyst

Got you, perfect. Thanks so much guys.

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**Operator**

Thank you. And the next question is from Noah Kaye of Northland Capital. Your line is open.

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**Noah Kaye** - Northland Securities, Inc. - Analyst

Thanks so much gentleman. I just want to start congratulating you on the DSNY win.

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**Dave Shea** - Clean Diesel Technologies, Inc. - CFO

Thank you, Noah.

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**Noah Kaye** - Northland Securities, Inc. - Analyst

I wanted to ask about the patent strategy. You talked I think at the outset about doing some more work to secure additional patents there. Can you kind of contextualize that for us, help us understand how you're thinking about the IP and the strategy going forward?



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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

There are two aspects. One is the portfolio itself and then of course, a strategic foreign filing strategy. Let's go to the portfolio itself. The issue there is that securing what we have done in the earlier Spinel wins structure base patents is really important and then we cover all our bases in terms of compositions of matter. And then we'll (Inaudible) sophisticated as outputs of our testing work too in terms of getting applications related patents so that we cover the whole basis from the structure to the composition of matter to specific applications and where possible if we can through our investigations in terms of sensitivity with engine calibrations we will file strategically there if we come up with novel learnings and interactions between engine calibrations in these new platform materials.

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**Noah Kaye** - *Northland Securities, Inc. - Analyst*

And is there any sort of competitive prospect or potential competitor that is driving your work on the patenting, or is really just a question of wanting to get out in front and nail this down?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

We clearly want to be out in front and nail this down and cover our basis. The issuance of those foundational Spinel patents in October, November last year was in record time and that would suggest it could suggest that we are in space where no one is at and that we are truly novel. So our goal is to maintain that leadership and ensure we have as part of our overall technology strategy make sure that we have proper protection for these new inventions and these new possibility.

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**Noah Kaye** - *Northland Securities, Inc. - Analyst*

Okay, great. And you talked about it a little bit earlier, but just wanted to maybe get some additional color on other fleets that you might be able to target. Can you give us sense of geographically where you're spending your time right now for wins similar to the DSNY?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

I don't want to show our cards so to speak in terms of how we analyze the market of where the concentrations of trucks and fleets are but suffice to say we are mapping detail of where the concentrations of trucking industries and fleets and service outlet are and then we're overlaying that with independent distributors pursuing national networks that cover those concentrations. So if you look at that from a strategic standpoint it is very important that we round out multiple channel sales and distribution with DuraFit keeping in mind the analysis that we have done on where the concentrations of these vehicles are.

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**Noah Kaye** - *Northland Securities, Inc. - Analyst*

Another way to get at this is to ask what are you seeing incrementally on the regulatory front that may or may not be potential tail-winds to your product portfolio and to your solutions?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

I think the key regulatory development is on the passenger side with EPA Tier 3. It officially starts facing in 2017, but we already know for a variety of strategic fleet credit reasons the OEMs are moving to introduce Tier 3 compliant vehicles already. In that space we know that when we go out there and look at some platforms that we see in the marketplace with Tier 3 compliant catalytic converter systems on it we know that those OEMs are spending a whole lot more precious metal PGMs to reach those compliance levels. So that clearly says that regulatory driver is already here and it will build over time and there is people spending a lot of money to comply now and as soon as we can get them comfortable with our



preliminary test results and fully engaged we need to find ways to accelerate past the commercialization so we can reduce those bills that have already gone up for them sooner rather than later.

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**Noah Kaye** - *Northland Securities, Inc. - Analyst*

Okay, that is great context. Thanks so much.

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Thank you, Noah.

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**Operator**

Thank you (Operator Instructions). The next question is from Duane Roberts of SH Fund. Your line is open.

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**Duane Roberts** - *SH Fund - Analyst*

All my questions have been answered. Thank you.

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

All right, thank you, Duane. So just some on clarity on Ian Gilson's question on prepaid, it was related our Canadian income tax, if you there is an offset in income taxes payable. That's the biggest movement in prepaid, so.

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**Operator**

Thank you. (Operator Instructions). We have a question from Marc Franklin of Wells Fargo Advisors. Your line is open.

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**Marc Franklin** - *Wells Fargo Advisors - Analyst*

Hi, guys. I'm new to this situation, the business sounds very exiting. I'm just trying to get caught up on your financial -- your ability to finance the business going forward so that we could be assured that the creditors won't reap benefit of all these wonderful things you've created. Can you give me some color on financial outlook?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

I think it's safe to say, we'll look at how we can accelerate the commercialization and the penetration of the technology for broader market acceptance and we will look at financing strategies that are consistent with that goal, and that is aimed to maximize shareholder value.

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**Marc Franklin** - *Wells Fargo Advisors - Analyst*

Okay. That is a good general answer but do you have a growing concern (Inaudible) -- I'm sorry that's not the right expression. (Inaudible) you might have a fairly immediate need for cash from what I can see based on your balance sheet, so what are you going to do about that?

**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

Actually, if you look at last year's financials, we're actually had a going concern last year also.

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**Marc Franklin** - *Wells Fargo Advisors - Analyst*

Right.

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

And I believe the year before. So we're examining all of our options and will raise funds prudently as necessary to continue to fund operations.

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**Marc Franklin** - *Wells Fargo Advisors - Analyst*

Okay.

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**Operator**

Thank you. And the next question is from Carter Driscoll of H.C. Wainwright. Your line is open.

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**Carter Driscoll** - *H.C. Wainwright & Co. - Analyst*

Good morning guys.

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**Dave Shea** - *Clean Diesel Technologies, Inc. - CFO*

Good morning, Carter.

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**Carter Driscoll** - *H.C. Wainwright & Co. - Analyst*

My first question, just following up on the way that you see the LD portfolio changing as more of the OEMs kind of get into compliance at the EPA Tier 3, can you maybe talk a little more granularity about the different types of engines that you see, or the mix shift that is going to start evolve and does that -- is play into your current forecast for 2015 and how that might evolve into 2016 as you say people are changing the vehicle line ups in advance of the full implementation and just how that plays into your current expectations for the segment?

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**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

It's very important, because in fact in terms of how we are structuring our vehicle test programs now, we're definitely trying to target these technologies and understand the potential of them on so-called go forward engine designs that would involve smaller engines that are turbocharged direct gas injections that frankly run colder and make catalytic converters work harder and makes the job emission reduction even more difficult. So we have the gathering storm here where for fuel efficiency reasons we're going to these types of engine designs it make it harder to reduce emissions and meanwhile we have standard saying emission reductions that are going to be required going forward are going to be substantially lower 70% to 80% across NOx and hydrocarbons and CO. So to that end, we have to be testing these technologies on those types of engine platforms and as we report results we'll be sure to educate people about what types of engines were generating those positive results on such that people can triangulate and understand the true potential and power of these technologies for performance and cost savings.



**Carter Driscoll** - *H.C. Wainwright & Co. - Analyst*

And then is there any specific tie into your current forecast or is that really just too early to make that link?

**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

I think it is too early to make that type of granularity down to engine types, but we certainly know in terms of our dealings with OEMs where they're headed and some of their engine roadmap and we are aligning our programs and our developments and our testing with those roadmaps

**Carter Driscoll** - *H.C. Wainwright & Co. - Analyst*

Perfect. Thanks guys.

**Operator**

Thank you. There are no further questions at this time. I'll turn the call back over for closing remarks.

**Chris Harris** - *Clean Diesel Technologies, Inc. - President, CEO*

Well, I'd like to thank everybody for the many questions we just heard. Clearly I'm very bullish on this business. I mean we're achieving momentum right now. If you look at DuraFit, we've got a quality of customer base that's outstanding and we're adding to it. We just see a quickening of results here and we're execution focused in terms of what we need to do with DuraFit, what we need to do with these vehicle testing and what we need to do to commercialize sooner rather than later some of these new technologies in our powder-to-coat business model. So thank you again for the many questions. That was a good exchange.

I'd like to before we close here also mention that Dave and I are going to be meeting with investors at several upcoming events. And CDTi will be attending the B. Riley Annual Investor Conference later today. The Cowen Annual Technology Media and Telecom Conference on May 28, and the LD Micro Invitational on June 1. In addition we'll be meeting with investors in various cities throughout the quarter. If you're interested in meeting us, please contact our Investor Relations firm LHA whose contact information is in today's press release. So again thank you for the questions. Thank you for the opportunity to share our progress with you. We look forward to speaking with you soon, and I wish everyone a nice day.

**Operator**

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day.

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