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CDTI - Q2 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 Incorporated Second Quarter 2015 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 be given at that time. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Mr. Pedro J. Lopez Baldrich, General Counsel for CDTI. Sir, please go ahead.

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 release along with other Company information may be found on the Investor page of our website at 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 would hear during our discussion today will consist of forward-looking statements that are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that 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, 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'd like to turn the call over to Chris.

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

Thank you, Pedro. Good morning and many thanks to everyone for joining us today. Our second quarter results were in line with our expectations and we remain on target with our 2015 technology development and commercialization objectives. We completed initial engine and vehicle testing of our newest technologies that underpin the transformation of CDTI into advanced materials company.



We also began collaboration with emission control market leader to more quickly commercialize our technologies for the North American aftermarket for light duty replacement catalytic converters. Meanwhile, in the Heavy Duty Diesel particulate filter or DPF replacement market, we added a national distribution channel for DuraFit and expect our growing distribution platform to drive sales in the second half of 2015.

On a sequential basis, consolidated revenue was \$9.9 million, down 4% and gross margins improved to 28% from 27%. As expected, DuraFit EPS and Catalysts revenues were consistent sequentially and we remain on track to achieve our guidance of \$5 million in DuraFit sales for the year. As projected, revenue in our Heavy Duty Diesel Systems division has declined due to the wind down of the California diesel retrofit mandate.

In terms of our near-term commercialization efforts; in our Heavy Duty Diesel Systems division, we continue to aggressively roll out DuraFit, our new cost-effective alternative to OEM replacement filters. In May, we signed an agreement with a national private label to distribute our DuraFit line into the medium and heavy-duty vehicle aftermarket through hundreds of local outlets across North America. Commercial shipments are expected to occur in Q3.

We continue to pursue the multi-million dollar opportunity for replacement DPFs by adding distribution and commercialization capabilities to promote our aftermarket parts to provide higher levels of quality and value. We recently signed an international distribution agreement with one of our key distributors, Diesel Emissions Service, to distribute DuraFit DPFs and other CDTI products into the medium and heavy-duty vehicle aftermarket in Australia. This distribution agreement represents an opportunity to explore new market for our products with an established distribution partner and reflects the significant progress we have made in penetrating the fast growing replacement filter market.

To support these efforts, in late July, we welcomed Eric Bippus, as our new Executive Vice President of Sales and Marketing. With his extensive automotive leadership experience in global aftermarket expertise, Eric will be a key contributor to the execution of our Durafit strategy and to the commercialization of our new catalyst technologies.

Turning briefly to the retrofit market, we received a key certification from the Verification of Emission Reduction Technologies Association called VERT for our Purifilter EGR systems. This recognition enables CDTI to address opportunities in South America and other international locations, consistent with our strategy to exploit select retrofit opportunities. We estimate there are more than 60,000 urban transit buses in major South American cities that need DPF retrofitting. So, we'll leverage Purifilter EGR against these opportunities.

Not only does Purifilter EGR provide outstanding pollution reduction, it incorporates CDTI's zero-PGM DPF and advanced low PGM DOC technologies, enabling approximately \$700 in PGM savings per vehicle over comparable retrofit system offerings. While we continue to target specific projects to capitalize on our many government approvals and long track history in Heavy Duty Diesel retrofits, we expect retrofit will contribute less to our total mix of revenue as Durafit sales ramp.

In our Catalyst division, as anticipated, second quarter OEM sales were similar to the first quarter. The volume of new car catalysts production for Honda was up 6% year-over-year in the second quarter and 8% for the first six months of 2015 when compared to the same periods in 2014. In June, we began partnering with AP Exhaust Technologies to bring to market our latest catalyst technologies, including MPC, BMARS and Spinel across portions of AP's extensive aftermarket catalytic converter product line.

Our objective is to achieve large scale rapid commercialization of CDTI's advanced Catalyst technologies, and our first target is the North American aftermarket for light duty replacement catalytic converters, where according to a May 2015 report from the Manufacturers of Emission Controls Association, during calendar year 2014, well over 2 million aftermarket converters and almost 3 million coated catalyst substrates were sold for aftermarket converter applications in North America.

Our plan involves a powder-to-coat business model, whereby CDTI sells enabling proprietary catalytic powders to AP, which AP will precision coat onto catalytic converter substrates in its state-of-the-art coating facility. With both companies committed to accelerating the validation and introduction of CDTI's latest cost saving and growth-enabling technologies, we anticipate first orders could occur during the second half of 2015.

Turning to our accelerating business development campaign, which is underpinned by our recent technology advancements, we released initial vehicle testing results on our Spinel technology and other new proprietary technologies conducted on gasoline direct injection turbocharged and

naturally-aspirated engines. Initial test results using the industry-standard federal test procedure indicate our next generation technologies, Spinel, BMARS and SPGM DOC could enable the light and heavy duty vehicle industries to reduce billions of dollars currently spent on PGM's with the value extending into the future as our technology provide a tremendous edge against the run up in prices of costly precious metals.

We're using industry and regulator recognized aging and drive cycle test protocols that take longer to complete, but generate highly-credible test data for advancing our commercialization with leading OEMs around the world. We utilized certified outside facilities to age our catalyst products prior to testing using OEM testing protocols designed to give a worst case aging effect on the catalyst. Aging the catalyst prior to testing simulates the performance and durability of the catalyst after tens of thousands of miles drive. To summarize our validation activity, Spinel testing data demonstrated a Spinel underfloor catalyst with a 97% less PGM, achieved emissions control performance equivalent to the OEM catalyst.

Meanwhile, BMARS test results demonstrated that in a typical two catalyst configuration using a close-coupled and an underfloor catalyst of BMARS system with 50% less PGM outperformed the OEM catalysts system on a Buick passenger car. Further demonstrating the NOx reduction power of BMARS, we removed the underfloor catalyst and had a comparable emissions reduction while reducing PGM by approximately 65% overall and eliminating the cost of the second catalyst.

Also SPGM DOC achieved emission control and system performance comparable to a leading OEM catalyst product while slashing PGM usage by over 80%. We continue with validation testing on close-coupled Spinel catalysts, where even higher temperature durability is required and we expect to report those results later this year.

Overall, these test results demonstrate breakthroughs in CDTI's advanced materials research program aimed at significantly reducing or eliminating the need for costly PGMs in emission control catalysts. With the fundamental value proposition of our new catalytic materials demonstrated by our recent testing, we are launching a major business development campaign to drive the large-scale, rapid commercialization of our advanced catalyst technologies. We are now able to share the value of our catalytic materials across multiple geographic and product segments, pursuing both short and longer term opportunities.

To enable rapid commercial inroads, we continue to explore key growth markets for our unique catalyst materials. For example, in markets such as India and China (inaudible) emissions regulations are tightening significantly. These regulatory drivers will be associated with significant technology upgrades requiring improved catalytic function and increased system complexity. To meet these new standards, current industry catalysts will require greatly increased levels of costly PGM. This cost escalation is a major issue for the OEMs with whom we are in discussions.

The domestic passenger car market is huge. China alone represented \$23 billion or 26% of the global light-duty vehicle production in 2014. Short-term sales cycles and regulatory drivers present an excellent opportunity for CDTI. We believe that our breakthrough proprietary clean emissions exhaust technology will dramatically reduce the cost for automakers to attain increasingly stringent clean air standards.

Based on the progress we are making to validate, optimize and scale our powder-to-coat capability, we expect to secure first orders for enabling catalytic powders in the second half of this year. And beyond our research and testing efforts, we continue to strengthen our patent portfolio. We filed 15 more patents during the second quarter of 2015, bringing this year's total to 20 and we expect more filings to protect our newest technologies.

In summary, we are executing our 2013 plan and remain very optimistic about the tremendous potential of our advanced materials strategy. Now that we have largely completed the fundamental validation of our technologies, we are now launching a major business development campaign to drive large-scale, rapid commercialization of our technologies with multiple market segments and geographies.

As we continue advancing the commercialization of our products and solutions and the development of our new technologies, we will keep you updated on our progress. I will now turn the call over to Dave for a detailed review of our Q2 financials. Dave?



David Shea - *Clean Diesel Technologies, Inc - CFO & Treasurer*

Thank you, Chris. As a reminder, the standard exhaust business which was sold on October 2014 is classified as discontinued operations. For the second quarter of 2015, revenue was \$9.9 million compared to \$11.7 million in the second 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 second quarter of 2014, CARB's regulatory deadline drove stronger sales in the California retrofit market of \$2.8 million compared to \$1 million in the second quarter of 2015. Meanwhile, second quarter DuraFit sales of \$1 million were comparable to the first quarter of 2015. Our Catalysts revenue was up 9% compared to 2014 second quarter, reflecting growth in new car production volumes for Honda and product mix. Gross profit was \$2.8 million compared to \$3.8 million and reflecting lower revenue and the launch cost associated with our new DuraFit product line.

As sales of DuraFit ramp and we gain efficiencies in our supply chain, we expect incremental improvements in margins. Margins were 26% for both the Heavy Duty Diesel and the Catalyst divisions for the second quarter. If we back out the pass-through revenue tied to the ceramic substrates onto which we coat our proprietary catalyst formulations, gross margin for the Catalyst division would rise from 26% to 41% showing the true value-add of our advanced materials and precision coating.

Total operating expenses were \$4.9 million compared to \$4.4 million in the second quarter of 2014. Breaking down these operating expenses, SG&A was \$3 million compared to \$2.9 million, R&D was \$1.9 million compared to \$1.5 million. R&D expense increased as a result of testing and the development work on our new advanced catalytic materials.

Operating loss was \$2.1 million compared to \$0.6 million in the same period last year. Net loss was \$2.4 million or \$0.16 per share compared to a loss of \$1.2 million or \$0.10 per share in the same period last year. The weighted average outstanding shares for the second quarter of 2015 were 14.8 million as compared to 12.3 million in the second quarter of 2014. The increase reflects the approximately 2.5 million shares in the \$5.1 million offering we conducted in June 2015 and the 1.4 million shares in the \$4.4 million offering we conducted in November 2014. At June 30, 2015, we had cash of \$6.8 million as compared to \$7.2 million at the beginning of the year.

We are reaffirming our 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 a revenue of \$41 million in 2014. We expect gross margins to be at the mid-to-high end of our guidance range, which is between 25% and 28%, approaching the 30% we achieved in 2014. We will continue to assess options to better align our assets with our future vision for the Company as well as 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.

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

Thank you, Dave. We are proud of our continued progress against the milestones we set at the beginning of the year. We added regional, national and international distribution relationships for DuraFit, positioning us to take advantage for the large market opportunity in the Heavy Duty Diesel replacement markets. Next, we expect to continue adding distribution for DuraFit and ramping sales through the back half of 2015, capturing market share in our effort to become the market leader. Eventually, we expect DuraFit sales to surpass those of our retrofit business and thus return our Heavy Duty Diesel division to growth and profitability.

We announced significant achievements in our validation testing efforts demonstrating breakthroughs in CDTI's advanced materials research program aimed at significantly reducing or eliminating the need for costly PGMs in emission control catalysts. Based on the progress we're making to validate, optimize and scale our powder-to-coat capability, we expect to secure our first orders for enabling catalytic powders in the second half of this year.

We are now beginning a large-scale business development campaign to commercialize our products. To wrap up, we remain excited about the tremendous potential of our advanced materials strategy and we look forward to providing you with updates on our continued progress.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Matt Koranda, Roth Capital Partners.

Matt Koranda - Roth Capital Partners - Analyst

Just wanted to start out on the Catalyst side of things, I know you guys talked about securing your first orders for powder-to-coat in the second half of the year, could you just talk about when that potentially flows through the P&L and the magnitude maybe of the opportunity with AP in particular?

Christopher Harris - Clean Diesel Technologies Inc. - President & CEO

In any significant or material way, it will flow through the P&L in 2016. In terms of how I discussed business development opportunities especially with these near term -- medium term opportunities, I'd like to say that from a resource standpoint we go after things that at least add 10% of incremental revenue to the Catalyst business, add substantially higher margins than where we're at today.

Matt Koranda - Roth Capital Partners - Analyst

Could you talk about the nature of the discussions that you're having with OEMs now since announcing some of the good results with Spinel and BMARS and your other catalyst technologies? I mean, has the nature of the discussions and the seriousness changed at all? Maybe you could just characterize that for us? And then I've got a follow-up as well.

Christopher Harris - Clean Diesel Technologies Inc. - President & CEO

Clearly, when you demonstrate the fundamental value propositions on vehicles with these industry-recognized drive cycle and aging protocols, it definitely ramps the discussions and the engagement to different levels. And depending on the OEMs and their objectives in terms of focused vehicle programs versus overall major platform -- technology platforms, the pathway in terms of how you engage develops differently. So, there is certain OEMs where we'll be focused in on very specific vehicle programs and there is others where we're looking at more substantial technology platform plays and they may take a little bit longer to realize those.

Matt Koranda - Roth Capital Partners - Analyst

Okay, got it. And then, if you could talk about, maybe just the pipeline of activity in Catalyst and the discussions that you're having, maybe you could kind of bracket it out for us by -- if you could break it out by geography or maybe by OEM versus the after-market, what is the pipeline of opportunities for Catalyst look like right now, as you see it?



Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

Certainly, in terms of which will lead to revenue and material revenue for us, it's more likely to be in aftermarket and retrofit applications just because the qualification cycles are more streamlined there. But it's very important get on vehicle and demonstrate those and have accretive revenue and gross profit to the business to fund the bigger plays that come later. So from a pipeline standpoint, look forward on aftermarket and retrofit opportunities first.

In terms of the lay of land in terms of geography, I think we've said before that there is, in certain markets that are more dynamic in -- especially when you go to the India's and China's of the world where it's kind of an ideal opportunity in terms of the transition to the EURO 5 type emission control levels and the need for technology to mitigate against what will be substantial cost escalation for that. So that's an opportunity where, because of the regulatory maturation that's occurring as well as the overall double-digit growth rates in automotive demand and output and the introduction of new models and upgrades to models et cetera, it's a more dynamic environment that will lead to shorter cycles -- sales cycles in terms of qualification and actually commercialization and revenue generation.

Matt Koranda - *Roth Capital Partners - Analyst*

Okay, very helpful, Chris. Shifting really quickly to HDD, when we look at DuraFit, it looks like you guys had signed up some nice distribution agreements over the last several months, Maybe you could just try to -- if you could, try to quantify the potential uplift in sales to DuraFit as it pertains to 2016 in particular, be interested to get your take on that?

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

Yes, clearly our biggest quarter in sales in 2015 should be Q4. Because by then, we will have gone through some of these incubation periods with new customers and new channels and really roll things out. And then 2016 would be a substantial uplift because we'd have the full year impact of that pathway we've taken to build our channels and the sales. So if we're targeting \$5 million in 2015, we're looking at very substantial levels above that for 2016.

Matt Koranda - *Roth Capital Partners - Analyst*

Okay, got it. Maybe one for David, if I could sneak it in really quickly; for the remainder of the year and just in terms of kind of cash preservation, what are some of the working capital assumptions that we can make? I mean, are you expecting to draw down on inventory from current levels. Just talk about some of the assumptions that you're making at this point in time?

David Shea - *Clean Diesel Technologies, Inc - CFO & Treasurer*

Yes, so good question Matt. If you look at the first half of the year, cash from operations was about -- \$5.1 million is what we consumed. Looking forward into the rest of the year; one, I think we should be seeing a little bit of narrowing of our loss and also as we said, bringing down the -- a little down on the -- that we've got money to get out of inventory, we've got some more money to get out of the AR, which will help bridge us there. Also, if you remember, last year around this time, we did a number of -- completed a number of actions which created some severance liability and those should be running out during this quarter also. So that will also reduce our cash consumption.

Matt Koranda - *Roth Capital Partners - Analyst*

Got it, very helpful guys. I'll jump back in queue.



Operator

Ian Gilson, Zacks Investment Research, Inc

Ian Gilson - Zacks Investment Research, Inc - Analyst

Good morning gentlemen. Just got a couple of questions here, did you go through why there was a loss in the catalyst system because it's a profit last year, when the increase in revenue came from an established customer and that it must surely be profitable.

Christopher Harris - Clean Diesel Technologies Inc. - President & CEO

So, when we look at really the change in the Catalyst business year-over-year, it's really more a matter of what we've been investing in the development of these new catalytic materials and we had a significant increase in the R&D expenditures in that business to do all testing that we spoke about. So as those return to a more normal level, you'll see the Catalyst return to profitability.

Ian Gilson - Zacks Investment Research, Inc - Analyst

Okay, but the increase in R&D was less than the reduction in income, so where did the other expenses come from?

Christopher Harris - Clean Diesel Technologies Inc. - President & CEO

So, we had increases in expenses in both R&D and in the Catalyst business and I think all of the increase in R&D -- you also had a shifting of R&D expenses from the Heavy Duty Diesel business into the Catalyst business. So some of what you're seeing within the catalyst business is a shift of resources from the Heavy Duty Diesel business into the Catalyst business.

Ian Gilson - Zacks Investment Research, Inc - Analyst

On the inventory increase, was that due to the, sort of, seasonal sales pattern during the quarter?

Christopher Harris - Clean Diesel Technologies Inc. - President & CEO

So, the increase in inventory, a couple of things. One, we've been ramping up our DuraFit inventory as we spoke about bringing on this private label arrangement that we did in Q2. We've been building up the inventory to service this channels because you've got a -- once we hit the ground, we want to hit the ground running and be able to deploy a lot of inventory into our customers facilities.

Ian Gilson - Zacks Investment Research, Inc - Analyst

Okay. So, during the progress of that contract, will you be holding all of the inventory or will you be passing that onto the distributor?

Christopher Harris - Clean Diesel Technologies Inc. - President & CEO

So, it will begin as a direct shipped and then eventually we should be having them hold the inventories.

Ian Gilson - Zacks Investment Research, Inc - Analyst

That's fine. Thank you.

Operator

Thomas Boyes, Cowen and Company.

Thomas Boyes - *Cowen and Company.* - Analyst

Thank you for taking my question, most of actually have been answered. I mean, it's great to see all the progress, obviously, that you've made recently. I kind of want to touch on one thing, hopefully it's not too esoteric. I noticed that, on your website, it said that you were actually not able to sell DuraFit in California. I was actually wondering why that was and if you have sense on when you would be able to be active in that market? Is this something you're looking at?

Christopher Harris - *Clean Diesel Technologies Inc.* - President & CEO

Yes. California, as you know, through the California Air Resources Board set their own rules in terms of emission control products and certifications et cetera. And the self-verification procedures are in effect outside of California are not recognized by California, Generally, they go to more detailed certification and approval protocols. We've been working closely with the California Air Resources Board to try to fashion a certification approval program for heavy duty aftermarket DPF parts and there's been substantial progress made throughout these years and we started in the third quarter of last year in earnest.

There will be another, what's called a workshop on August 10 and that will be critical in terms of seeing where they're at on their program and I think their program is nearly final such that it would go in front of the California Air Resources Board for approval in the fourth quarter as best as we know. And that means that there could be a program approved and in motion by the end of the year, such that we think that we could be in line to have first sales in California by mid-2016.

Thomas Boyes - *Cowen and Company.* - Analyst

Okay, great. I really appreciate it. Thank you very much.

Operator

Carter Driscoll, MLV & Co.

Carter Driscoll - *MLV & Co.* - Analyst

First question is, maybe it's a little out of the box, but if you look at the major OEM in terms of their -- moving towards Tier 3 emissions, if you could kind of may be informally rank which ones are more open to moving towards those standards ahead of others and why that may be in your opinion? And I've got a couple of follow ups?

Christopher Harris - *Clean Diesel Technologies Inc.* - President & CEO

Well, I'm not really going to speculate it in terms of ranking customers or potential customers out there, but Carter, I think you're totally right. There are early adopters out there and we know who they are, over the years because of the technology play that we've had, we know who will value technology and total costs of ownership and operation well and so we're clearly talking to those players. There is a variety of reasons why they go early.



Some of them do it for marketing and promotional purposes. There is other complex dealings, I think with fleet balancing rules with the EPA in terms of those that go early on certain models, they get more time et cetera. The OEMs know those rules and those relationships very well with the regulatory authorities. And so -- but the fact is that already some of the OEMs have introduced Tier 3 compliant models and we know very well that it's been extremely costly from a precious metal standpoint to do that and so there's incentive out there to take advantage of some of our latest technologies sooner rather than later.

Even if the absolute mandate deadlines are further out in years, already people are spending a lot of money to be compliant and so there is incentive to looking at technologies like ours to deal with this gathering storm of increasingly stringent emission requirements and engine designs that is our smaller engines, turbocharged that are more difficult from an emission control standpoint. And so we're pretty bullish that there is enough in motion already towards Tier 3 that it is a point of engagement for us with some of the key players.

Carter Driscoll - *MLV & Co. - Analyst*

Given the recent test you had with the Regal, would it be fair to characterize GM as one of the more-forward thinking OEMs? I realize you don't really want to list necessarily to rank them, but is that a fair characterization?

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

I think the major automaker players are spending a billion dollars plus on precious metal. So they have tremendous incentive to look at technologies and to take advantage of them.

Carter Driscoll - *MLV & Co. - Analyst*

Okay. Shifting gears a little bit. Go back to the DuraFit as a brand [that head] obviously, you expectations in second half and into 2016. Is there a -- internally a threshold which you start to see maybe the material costs come down and potentially that impact might by that -- as it ramps, without giving a specific number, can you talk about maybe a magnitude of what the margin impact could be as your expectations for DuraFit begin to ramp and to be able to pull out the cost in the material side?

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

Yes, I mean, clearly the turning point in terms of where we can really secure efficiencies in the supply chain in some of the highest raw material cost comes later in 2015 turning into 2016 at those levels of sales and when we realize those cost structure I'd say and the exhaust let's say higher cost inventory that's in the pipeline, it will add a few percentage points to the gross profit of that business.

Carter Driscoll - *MLV & Co. - Analyst*

That's great. That's very helpful. Then may be kind of a similar question with the agreement with AP Exhaust, is that one of which you could see, again, margin expansion maybe at a similar type of level as that begins to ramp and I realize that that's going to take time, and obviously it's different channel, but is that the same expectation that you should get some level of margin enhancement once that relationship begins to -- really being to produce.

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

So, there will be some level of margin enhancement. But the one thing to understand is that after market requirements and the amount of precious metal being used in after-market versus some of the new car production across the various OEM platforms is a different ball game. And so you can think about it, when there is less precious metal in play there might be less value pricing possibilities also. So I think we have to be reasonable and



understand that there is kind of portfolio approach of margins when you do value pricing around enabling proprietary materials based on where the precious metal is going, but over time, the aftermarket will upgrade itself too as -- it will tighten in terms of its mission requirements. And therefore there will be more value in terms of offsetting usage of precious metal and that will lead to more margin expansion.

Carter Driscoll - *MLV & Co. - Analyst*

So it's really more of a characterization under the AP agreement as expanding your distribution channel and your revenues and it is as much of a margin play.

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

I think it's a very important demonstration of the powder-to-coat business model. It's very important to get these materials on vehicle and to show how durable they are in the field and that will lead to more value that can be extracted in aftermarket applications and it certainly is a bridge and a confidence builder in our outreaches on the OEM sector.

Operator

Duane Roberts, SH Fund.

Duane Roberts - *SH Fund - Analyst*

I think I heard you say early in a conference call that you're going to have to look at opportunities to improve your balance sheet. Does that mean that you have to go out and raise additional capital this coming fall?

David Shea - *Clean Diesel Technologies, Inc - CFO & Treasurer*

So, it's we are looking at all of our options obviously whether that -- and that's obviously one of them. So, when we get there we'll share that with you.

Duane Roberts - *SH Fund - Analyst*

Okay. The second question I have is when you have a new technology like Spinel coming out, does it take a lot for a manufacturer to use the technology? For example, do they have to retool their plants or anything like that in order to bring this new product online?

Christopher Harris - *Clean Diesel Technologies Inc. - President & CEO*

From what we've seen so far, the technologies we're inventing and the powder-to-coat business model, what we envision will fit in very well with existing supply chain infrastructure as well as manufacturing and coating infrastructure. So, our experience to-date in terms of some of the equipments that we put our materials on that's located in other coating factories other than what we own had been very positive. So, we think, to your question, it does not require any major tooling and it is not capital intensive to adopt the use of these materials and that we are very compatible with existing supply chain and manufacturing infrastructure.



Operator

Thank you. (Operator Instructions) And I'm showing no further questions in the queue. That will conclude today's question and answer session. I would like to turn the call back over to Mr. Harris for closing remarks.

Christopher Harris - Clean Diesel Technologies Inc. - President & CEO

Well, thank you everyone for joining us today. Couple of things, coming up next months, we will be participating in the Rodman & Renshaw 17th Annual Global Investment Conference in New York on September 9. Over the course of the third quarter, we will be actively meeting with investors across the country including San Francisco next week. If you are interested in the meeting, please contact LHA, our Investor Relations firm, whose contact information is in today's earnings release.

Just a couple comments as we wrap up here, I guess that you can tell that we've made substantial progress and I'm very bullish on where CDTI is headed. We've got a really a world-class team of dedicated professionals and they're not only satisfying, in an outstanding way, our current customers, but they are executing very well against our technology and priority commercialization initiatives. We really believe we're on track, transforming CDTI into an advanced materials company of large-scale and what that means is that's going to drive shareholder value. So, I really am thankful to all our stakeholders and I appreciate the questions in this call today and I thank everyone for participating. Have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.

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