PARTICIPANTS

Corporate Participants

Kristi Cushing – Manager-Investor Relations, Clean Diesel Technologies, Inc.
Robert Craig Breese – President, Chief Executive Officer & Director, Clean Diesel Technologies, Inc.
Nikhil Atul Mehta – Chief Financial Officer & Treasurer, Clean Diesel Technologies, Inc.

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, and welcome to the Clean Diesel Technologies First Quarter 2013 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.

I would now like to turn the conference over to host, Ms. Kristi Cushing, Investor Relations Manager. You may begin.

Kristi Cushing, Manager-Investor Relations

Thank you. 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 Relations page of our 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 you will hear during our discussion today will consist of forward-looking statements, including without limitation those regarding expected growth, improved performance and expansion of markets.

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 the other risk factors previously detailed in our filings with the SEC.

For more information, please refer to the risk factors discussed in our Form 10-K for 2012. CDTi assumes no obligation to update any forward-looking statements or information, which speak as of the reported date.

I'd now like to turn the call over to Craig Breese.

Robert Craig Breese, President, Chief Executive Officer & Director

Thank you, Kristi, and good morning, everyone.

I'll start with a summary of our first quarter, including comments on the performance of our business, followed by Nikhil Mehta, the CDTi's CFO, who will take you through more details of our first quarter financial performance.

So to begin, our revenues totaled $13.3 million, which represents a decline of 21.7% year-over-year. While we did see an increase in our Catalyst division, and we'll speak more about that, the Heavy Duty Diesel Systems division was down against a difficult comp due to a $4.3 million sales total which spilled into the first quarter of 2012 from the 2011 London Low Emission Zone program, which many of you will recall.

Nevertheless, we continued to invest in new product verifications and market development, and expect growth to result as we continue to make strategic and operational improvements in our business and the outlook for most of our end markets improves.

We delivered significant reductions in SG&A costs against the year-over-year comparison, due in part to the restructuring actions which we implemented last year and a continued focus on our cost controls in the first quarter of this year. We're resolutely focused on reducing our overall cost structure in order to lower our breakeven point.

Overall, the numbers were in the range we expected. I would characterize the first quarter as one in which we made good progress in several key areas. In my mind, progress proof points that I would put at the top of the list would include our structural cost actions, which are now reflected in the bottom line results, and we have experienced a meaningful increase in our Catalyst division sales.

In addition, I'm very encouraged by the meaningful progress we've made towards the goal of enhancing our technology position through the filing of new patents surrounding our MPC zero-platinum group metals or PGM technology. Finally, we've successfully formed a joint venture with an important partner, the Pirelli Group, to more effectively pursue new OEM business opportunities in the European arena.

The Catalyst division delivered strong results for the first quarter. External sales were up nearly 37% versus last year and our gross margins improved sequentially. We are also very pleased to report that this division was actually moderately profitable on an operating basis.

Our success as a supplier of catalysts to Honda for the new 2013 model of the Accord, in both the four and six-cylinder versions has been the primary contributor to growth. While we're optimistic that we can achieve improving results going forward for this business, and while the volumes will be incremental, we're working on other Honda models in North America such as the Acura and new hybrid vehicles as well. Given our long-standing success with Honda and our demonstrated technology leadership position in the zero-PGM initiative, we're working hard to leverage this now with other OEMs, particularly in Europe, as I mentioned, through the new established joint venture with Pirelli.

This progress is just getting underway, although we're very excited about the early progress that we've made and early discussions we've had with select European OEs and the initial sales and marketing efforts that are now ramping up.

While we pursue opportunities with our joint venture partner Pirelli, we are also substantially increasing our focus on expanding our patent portfolio, particularly patents related to zero-PGM technology. In fact, we filed 18 new patents since our last conference call in March, and we plan to file an additional 15 to 20 patents during the remainder of this Q2 period. Our expectation is that we will be very active in this area in the year 2013, as part of our goal of securing a potentially dominant position in the zero-PGM products for gasoline and diesel applications.

In doing so, we believe we can forge a path that could significantly expand our potential business in both catalysts for light duty vehicles and diesel engine markets as well as potentially for applications in other verticals as well.

Our Q1 Heavy Duty Diesel Systems activity has been mixed. Some sectors are exhibiting increased signs of activity, while others remain sluggish due to soft economic macro conditions. In the California market, specifically, we're seeing increased data logging by fleet operators and better and more active quoting activity, as we've discussed in previous calls. We have added new distributors selectively, which are more encouraged to go after specific opportunities that we've seen in addition to our existing distributor network, and we do see new demand now for our new verified EGR product. We believe that the California Air Resources Board is committed to ensuring compliance after many discussions we've had with them recently. And we understand that enforcement efforts have actually started to increase.

We were also pleased to see the availability of additional school bus funding in California, and we are working hard to capture this important retrofit opportunity where we've played and been successful in the past.

In addition, in the other 49 states, although DERA funding is lower due to budgetary constraints overall in the United States, we are seeing a modest pickup in activity in a number of states as well and we are aggressively pursuing those activities.

We are also continuing our focus on efforts to expand our Heavy Duty Diesel Systems division sales from non-retrofit sources that represent a more sustainable original equipment manufacturing and after-market business for the reduction of exhaust emissions.

For first quarter, non-retrofit sales, which include both off-highway and stationary diesel, gasoline and alternative fuel engines, represented a total of 49% of our heavy duty diesel sales compared to 32% in the first quarter of 2012. The share of non-retrofit activity increased as a result of lower retrofit activity as well.

However, we did actually experience an 11% decline in non-retrofit sales due primarily to reduced activity in the mining and materials sectors in Europe, which are continuing to be sluggish impacted by the European recession. As well as a slow start to the year in our exhaust accessories sales, our business that's based in Reno, Nevada.

In summary, while the sales were fundamentally in line with our expectations, we're clearly not satisfied with the first quarter revenue performance of the Heavy Duty Diesel Systems division. However, we believe that the combination of new leadership in this business, a more aggressive enforcement by the CARB, or California Air Resource Board, improved quoting activity and the exit of the retrofit significant market competitor, which was Clear Air, which as some of you know, has recently, the assets have been acquired by ESW, is expected to lead to improved future performance for – certainly for CDTi.

We've seen many positives as we start the second quarter and are excited about our prospects. As we look forward to the remainder of this year, 2013, this quarter's performance is encouraging and the highlights of the operational improvements we've talked about and are making and will continue to make will contribute going forward. We still have significant opportunities in our core markets, operations and cost structure in the existing global footprint. I'm convinced that the foundation that we've now set should position us well as our activity picks up across all of our business divisions.

So now, I'll turn the call over to Nikhil for his comments on our financial results and operations. So, Nikhil, over to you.

Nikhil Atul Mehta, Chief Financial Officer & Treasurer

Thank you, Craig, and good morning, everyone. Following Craig's operations review of the first quarter and business outlook, let me discuss in greater detail, some of our financial highlights.

Revenue of $13.3 million was down 21.7% compared to last year. As Craig mentioned, our prior year results included over $4 million in sales in the London Low Emission Zone, which were not repeated this year.

Gross margin was 23.4%, compared to 23.2% in the prior year period. Gross margin also improved sequentially from the fourth quarter of 2012 and was within our expectations. Gross margin was slightly positive year-over-year, despite a slightly unfavorable revenue mix. The revenue mix of our Heavy Duty Diesel Systems division and the Catalyst division was approximately 55% Heavy Duty Diesel and 45% Catalyst versus approximately 75% and 25% last year. This mix change had a small negative impact on our margins in the current period compared to last year.

We anticipate that gross margins will gradually improve as sales volumes increase in both our Heavy Duty Diesel Systems and Catalyst divisions. Loss from operations was $2 million compared to a loss of $2.4 million last year. Loss per diluted share was $0.29 versus $0.39 last year.

Our Heavy Duty Diesel Systems division sales of $7.3 million were down over 40% from $12.6 million last year due to the reduction in retrofit sales in London. However, gross margins improved from 22% last year to over 25% resulting from a richer product mix sold in California and North America compared to the mix achieved in London last year as well as due to lower inventory obsolescence cost year-over-year. We recorded approximately $2.7 million of sales under the California Retrofit Program compared to approximately $2.1 million in the year-ago quarter.

Our catalyst OEM sales were up nearly 37% compared to last year driven by increased sales volumes from Honda, partially offset by lower rare earth prices year-over-year. Gross margin was down slightly from last year due to unfavorable product mix driven by lower volumes of inter-company sales into our diesel catalyst.

Operating expenses were down $1.3 million or nearly 20% from $6.4 million a year-ago to $5.1 million. Operating expenses, excluding about $500,000 restructuring charge in the fourth quarter of 2012, our operating expenses were up sequentially, primarily due to higher audit and legal expenses and also the increased expenses associated with the patent filing that Craig just mentioned. We had $4.7 million of cash at the end of the first quarter and cash usage for the quarter was $2.3 million.

That includes my prepared comments on our financial results and operations. Back to you, Craig.

Robert Craig Breese, President, Chief Executive Officer & Director

So thank you very much Nikhil for that update. And what I would like to say is that, this really concludes our formal comments and we're now ready for any questions that we may have from those on the line.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instructions] Our first question comes from Philip Shen of ROTH Capital Partners. Your line is open. Pardon me, Philip. If you're line is on mute. Could you please un-mute it.

<Q – Philip Shen – ROTH Capital Partners LLC>: Hi, everyone. Can you hear me now?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yes, we can, Philip.

<Q – Philip Shen – ROTH Capital Partners LLC>: Okay, great. Thank you for taking my questions. I'd like to start off by making sure I heard something correctly. I think you talked about the Catalyst division working now on the Honda Acura? Or the – some Acura – the Acura brand, if you will. And also, hybrid vehicles? Is that correct?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: That's correct, Philip. Keep in mind that the Acura uses the same engine platform as the Accord, all right? Some of the Acura's – and also the other point is this hybrid is also a similar engine platform. But as you know, there's a specific hybrid version of it, which Honda is launching.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great. So do you have a sense for when this could impact revenues?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: I mean, I would just say the sense we have is that it could impact revenues certainly as early as this year, fiscal year. But we're actually still doing some testing trials and end-work with the Honda organization at this point.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great. And would it be – what versions of the Acura? Or is it the entire fleet of models or very specific models?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Again, that's probably getting into a pretty specific forward-looking discussion because they don't have a commitment yet, nor by volume nor by SKU. But it's definitely – it would be material to the company if we could win the types of business that we're working with on, but we have no assurance until we actually get POs from Honda.

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

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

<Q – Philip Shen – ROTH Capital Partners LLC>: Okay. So let's – you talked about the division – the Catalyst division being moderately profitable on an operating basis. To what degree is this sustainable going forward? Have the new contracts – not the new contracts, but the – I guess, the rare earth governing contracts, have they kicked in such that we can expect this kind of profitability going forward?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yeah. I mean, you'll recall there was a lot of discussion in 2012 around the rare earth component of the pricing and some of the discussions we had back and forth with Honda. Fortunately, all of those, I will call them more contentious discussions, are behind us. And we have a clear understanding now with Honda as to how the rare earth pricing is constructed and how it's being determined on an ongoing basis. So as you know, this business is heavily volume-dependent. And as long as we can sustain the kind of volumes we're seeing certainly in Q1 and with any additional new business that could come from different platforms or what-have-you, then I think it's a pretty fair statement to make that we should see sustainable profit in this particular division going forward.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great. We noticed that Honda Accord sales really took off in Q1. To what degree did that drive a strong Q1 for you? Or is the lag time such that you benefited more in Q4?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Well, I think as we launched the model year 2013, if you go all the way back to July of last year and even a little before that, we've been seeing very strong orders from Honda through that entire period. And I actually have the opportunity to sit in on a Honda supplier conference in Indianapolis a few weeks ago and listened to some of their forecasts and some of their planning, not just for Accord version but for their entire product range. And they're – as a company, I would say Honda is very optimistic about their opportunity to capture additional market share and additional volume in the North American market in 2013. We are certainly seeing and benefiting from a surge in not only their market share gains, but also just the overall improving health of the North American automobile sales volume. And as you know, Honda enjoys, with the Accord version, probably one of the leading mid-sized sedan monikers in the North American market. So, clearly, we benefit from that.

<Q – Philip Shen – ROTH Capital Partners LLC>: Good. Let's transition to the Heavy Duty Diesel segment. Data checks suggest a slow Q1 and likely Q2. Can you comment on that? As well as maybe discuss the trajectory of retrofits for the balance of 2013?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yeah. I mean, I think your market checks are very accurate and are in line with ours. I think that what we've tended to notice now, over the last two years in California is that the retrofit business at least tends to be back-loaded in the calendar year. So as we transition now from Q2 into Q3 and Q4, enforcement picks up, but also the penalties start being assessed and the companies that put retrofits on their fleets or on their individual units for either budgetary reasons or because they just want to get in compliance because they're afraid of a penalty, we tend to see more activity in the second half of the year for sure than we do in the first half.

I think I touched on the fact that we brought a couple of new distributors aboard, Philip. We tended to rely on distributors in California that we've had in the mix for a number of years. And I would say there's – they're journeymen, they do a good job and they sell. But we brought on two specific dealers here in the last six months and, actually, they're certainly of the top five distributors in California. They're in the top five, both of those new distributors. So they're generating a lot of activity that we haven't been seeing because it's a different real channel and customer mix that they're serving and so I'm encouraged by that.

I think our footprint in California has evolved a bit. We've gotten a little bit better at deciding who's a real supporter of ours from a distributor/installer standpoint and we're, in turn, supporting them much more heavily than, I would say, that we've had the opportunity to do in the past. So it's as much about channel management, if you will, as it is about the overall market.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great. I'll ask you more quick ones on HDD and I'll jump back in queue. So given the two recent wins of distributors, is that a – are these tangentially or somewhat related to Clear Air's exit of the business? And the second one's for Nikhil. I think I heard you say the California Retrofit Program drove about $2.7 million in revenues in Q1? I just want to confirm that number.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Yes, that's correct.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So I'll take the easy question first, Philip. The answer is yes. The exit and the resulting difficulties around the Clear Air exit certainly favored our ability to get in and take these two new distributors and been able to access new market segments that we hadn't been in before. Nikhil?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Yes. I answered your question, Phil. The California revenue was $2.7 million in the quarter.

<Q – Philip Shen – ROTH Capital Partners LLC>: Great. I have a few more, but I'll jump back in queue for others.

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

<Q – Philip Shen – ROTH Capital Partners LLC>: Thank you very much.

Operator: Thank you. [Operator Instructions] Our next question comes from Ian Gilson of Zacks Investment Research. Your line is open.

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

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

<Q – Ian Gilson – Zacks Investment Research, Inc.>: I got a few questions. First of all, I don't know what the mix change was on the Heavy Duty Diesel business, but if I run a ratio analysis, it looks like the Catalyst system has external sales of about $2.5 million and internal sales of about $4 million of the $6.5 million. Am I in the ballpark?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: No. No. No. Actually if you look at our – total sales in the Catalyst division are $6.4 million...

<A – Craig Breese – Clean Diesel Technologies, Inc.>: $6.5 million.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: ...$6.5 million. And if you see there an inter-company revenue of $0.5 million, that $0.5 million is, in fact, our Catalyst division sales to our Diesel division. So if you take that out, the $6 million of external sales and $0.5 million of internal sales, okay? And if you look at it last year, it was a total revenue of $6.1 million, of which $1.7 million was internal sales. So the external sales were in the $4.4 million range.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Okay. So you went from roughly $4.4 million to $6 million?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: That's correct. And you got to remember that last year the rare earth prices were a lot higher.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Yeah.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: That $4.4 million included higher rare earth prices than the $6 million included this year. So the underlying volume was actually even a little higher than what the revenue would suggest.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Okay. Are we now building a net operating loss carry-forward?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: I'm sorry, are we – yes, we are. Yes.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: So you have no, basically, back tax impact as we go forward?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Yes. But remember that in the U.S. we are building a net operating loss carry-forward.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Yeah.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: But we have profits in Canada, Sweden, some other outside U.S. countries. You've got to remember that our tax provision is based on all of those countries' tax laws.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: And in California, of course, you pay taxes to the state.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Yes, of course. Yes.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Okay. I think that – yeah, that gives me – that answers my question. Thank you very much.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Thanks.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: You're welcome, Ian. Philip, if you have more questions, you're more than welcome to come back on. Karen, I think we've got one from...

Operator: Thank you. [Operator Instructions] Our next question comes from Gary Cooper of Pace Capital. Your line is open.

<Q – Gary Cooper – Pace Capital>: Hey, thanks for taking my questions. A couple of questions. The additional customer that's referenced in the Catalyst business, can you talk about who that is and what the – what sort of product line the sales went into?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Gary, the Catalyst business has had – we've been doing business with GM and Renault for a while. A lot of our business with them remains essentially service parts. And there was a little increase in sales to both of those customers in the first quarter. And those are not very big numbers, most of our sales are, in fact, driven by Honda.

<Q – Gary Cooper – Pace Capital>: So was that – would you describe that as after-market sales as opposed to...

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Yeah.

<Q – Gary Cooper – Pace Capital>: Okay.

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Yes. Yes.

<Q – Gary Cooper – Pace Capital>: Yeah, okay. There's a comment in here regarding Pirelli and in your release and it uses the word, extremely. And I'm wondering if you could maybe give us a little bit of color about what you mean by extremely, beginning on April 1. And in doing so, maybe describe what the infrastructure looks like at Pirelli now? How many sales people you have? Maybe who you're calling on and so forth.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So, Gary, it's Craig. Good morning. Well, the word extremely is because I think, for the first time, we actually have access to an infrastructure and a footprint in Europe that we really never had before. And what has happened is we've fused two sales organizations essentially into one. And we've eliminated any redundancy that might have existed had we been a standalone and Pirelli had remained standalone. And we've really refocused all of our efforts not on the retrofit segment in Europe, but really on the OEM, the after-market and the fuel-borne Catalyst segments.

And so as a result, we gained access to additional sales people that have been working in the Pirelli business that really weren't representing our product line. And they gained some access to people that we have working in our business that they haven't had access to. Typically, just to keep it kind of at a high level, Pirelli tended to be stronger in their marketing and sales activities in Southern and Eastern Europe, and we tended to be stronger in our sales and marketing activities in Northern Europe, primarily, Scandinavia where we have a subsidiary and, say, Germany, but also the UK.

So if you can kind of look at it from a geographic standpoint, now we've got stronger coverage geographically along the breadth and width of the European continent, but also we have access to other products, as they do, which would include substrates, coating, a consolidated substrate that is coated and even packaged into a system. So we've got a complete range of products now to sell, not just really just a fairly limited one. So the portfolio has expanded. So that's why the word, extremely. Because I think in all respects, we've beefed up and improved our ability to be more successful in Europe and do it in a more cost-effective way because our infrastructure costs over time will come down, which is really our SG&A costs.

<Q – Gary Cooper – Pace Capital>: So do you have one salesperson at the Pirelli JV? Do you have two, three, what is it?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yes, I mean, from a competitive standpoint, I'm not sure I want to share that open -- on an open line like this. But I would just give you a simple answer, we've almost doubled the number of feet on the street that we would've had, had we been a standalone.

<Q – Gary Cooper – Pace Capital>: Okay. And then I want to ask you a question on your profitability or, I guess, rather your breakeven point. And in doing so, when you describe it, and the second question I have is regarding these patents. So, first, do you have a breakeven point in mind in terms of revenue because you've lowered your cost structure and so forth? And if you do, what is that?

And related to that, I don't quite understand the patent situation. Your operating costs are coming down really quite significantly, and yet at the same time, you're filing 15 to 20 patents per quarter and I'm having a tough time understanding where the costs related to these patents are showing up in the P&L?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Yeah. That's a very good question, Gary. In terms of the breakeven point, I really don't want to go out and put it out there on what we want or what we expect our breakeven point to be. But you could see that our operating costs are down in the $5 million and even sub-$5 million range depending on the quarter. Actually, the question on the patents is very important because while our operating costs have come down significantly, and a lot of it came down in R&D because we had significant R&D over the last two, three years, which really didn't – doesn't really qualify as basic research, a lot of it was related to verifying products, developing or scaling up for the Honda model year 2013. A lot of those costs have just gone away naturally because it's not – we don't need those anymore.

We are putting back some of that into this patent filing. And yes, you will – if our patent strategy holds over the next – over the rest of this year, you will see an increase in our R&D expense related to patent filings. 10 to 15 patents a month is a lot. Even though we do have – we do have a very, very cost-effective way to file these patents through an organization that has a very innovative business model in terms of writing patents and filing them, we've outsourced a lot of that work at very cost-effective rates. But it is still – the sheer volume is going to show up in our operating expenses a little bit.

<Q – Gary Cooper – Pace Capital>: Okay. My last question. So you're working on, apparently, Honda Acura. And as you say, usually when you're trying to get approved for some of these suppliers, there is a cost. And I think it shows up in R&D. Is that occurring? Are you incurring costs to get approved in Honda Acura?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: So it's not like if we were in a model year approval process, Gary, where it would be like a five-year cycle, like the Accord was. That was a big project, it took us several years, there was a lot of investment upfront and iterative testing and an approval. This is not like that. This is really – I call it an incremental program over the base program that we've been awarded already. And because it is the same engine platform, you don't really need to go through all those approval processes and such, like if it was a brand-new engine platform, okay? So really, I would say, I'd put it in the category of refinement and tweaking. And, yeah, there's a little bit of incremental cost, there's going to be some test material and some engineering time, but I would say it's probably not even material to be speaking of it in the P&L.

<Q – Gary Cooper – Pace Capital>: Okay. Sorry, last question. So when Clear had filed, there were several reports out there that Clear had just recently, before filing, they had installed a number of products. And it was a pretty big number, into buses or trucks or what-have-you. And this article seem to suggest that the Clear product that had just recently been installed was going to have to be swapped out. That was my reading of these articles. Is that true? Is there some number of recently installed Clear product that's going to be swapped out? And if so, is that happening? Are you seeing any of that business and so forth?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: All right. I mean, that's a good question. So in our discussions with CARB and also some of the releases of CARB on their website I will tell you to the best of my ability what my understanding is. Point number one, there were approximately 3,200 systems installed by Clear Air and these are the CARB numbers that were the subject to recall, okay? Which meant that, in fact, what was happening was the old Clear Air organization even through their installers and distributors was being required to go out to those trucks and get the actual system taken off of the truck. And actually, what we refer to as an empty can, was put in there as a replacement. And that was CARB-approved in a sense that although it's not compliant, it was an exception that CARB granted these owners given the situation that Clear Air had to recall.

Now here's where it gets interesting. So Clear Air basically goes out of business. So now you've got all these trucks running around the State of California, if they've all been swapped out, not all of them were by the way, many of them were not, but most of them would have been. And so now you have, essentially, no Clear Air organization and you have a truck that's in compliance, if you will, only because of an exception that CARB has made stating that they will not fine them under the circumstances.

Now to the best of our knowledge, that is where it gets a little bit gray even for us. We have had some owners come into distributors and say, you know what? I'm not sure I want this on my truck going forward. Can you give me a quote if you guys were to put on a new system for me? But on the other hand, you've also got situations where now, the owner of the truck is saying, you know, as long as I got this exception, I don't need to do anything. I'm not really complying with getting the diesel particulate matter out of the air, but on the other hand, CARB's giving me an exception. And unless CARB comes back and removes that exception, there's really not an impetus for that truck owner to do anything.

So that's kind of the situation we see evolving here, okay? Now remember, over time, some of these trucks, as they get older, are going to be eventually be swapped out or new trucks will come into the fleet and what-have-you. So over time the tail on this gets smaller and smaller. But that's the state of play as best we understand it right now. So it's a long answer to your short question.

<Q – Gary Cooper – Pace Capital>: Okay. Okay. Thanks guys.

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

Operator: Thank you. Our next question comes from Philip Shen of ROTH Capital Partners. Your line is open.

<Q – Philip Shen – ROTH Capital Partners LLC>: Hi, everyone. Just a quick follow-up for me, it's on the Pirelli joint venture. I think in your Q, you talked about a potential as this relationship ramps up, there could be some gross margin impact as it takes a bit of time to strip out the operating costs, for the sales force and so forth, in place. Can you just talk to me about what the potential margin impact might be in Q2 and Q3? And how long might it take to just, kind of, get everything out of the system, if you will?

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: Philip, yeah, well, I'm not going to project what our margins are going to be, but I can just tell you conceptually that since that we've essentially taken what were our European sales, and if you look at our Q, we report our sales in Europe. And we've indicated from Q2 onwards they're going to be billed through the JV, all right?

And what happens is that CDTi will sell products to the joint venture and then the joint venture will sell back to their end-user customer. And in selling that product to the joint venture, we will be giving the joint venture a commission or a discount or whatever it is, like a normal – like we would any normal distributor. And that's the revenue loss, if you will, and our gross margin loss from prior historical numbers. So if you can take our first quarter or last year's European sales, you can kind of do some kind of math on that.

In terms of the infrastructure reduction, a lot of it is related to not having two sets of back-offices and not having two sets of overhead. And that takes time in Europe, as you know and that – we expect that to be pretty much completed during the second half of this year. And we think that, overall, it's a net positive, even if sales don't increase by the joint venture, which we certainly expect is – we really expect sales to be increasing on the joint venture side is the best reason why we did that.

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

<A – Nikhil Mehta – Clean Diesel Technologies, Inc.>: A long-winded answer, I really don't want to speculate because that little discount or whatever that discount we give to the joint venture compared to – we do have higher margins in our North American retrofit business than we did in London. And that is the primary driver in the first quarter of our HDD margin improvement.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: One thing that I would add to that, Philip, is that we don't envision, nor is it in scope of the joint venture to address the retrofit business in Europe. Pirelli continues to do that separately outside the joint venture. We are not pursuing it at all and we're really focusing this joint venture on, again, as I might have said earlier, the development of OE business, heavy duty OE as well as automotive, both coating and substrate, as well as system sales, which we enjoy already through our Swedish operation, but we feel there's additional opportunity really across Europe. And due to Pirelli's contacts, we think that there's opportunities there that we wouldn't have been able to generate on our own in a more cost-effective way.

<Q – Philip Shen – ROTH Capital Partners LLC>: Okay. That's really helpful. I'll jump back in queue. Thank you.

<A – Craig Breese – Clean Diesel Technologies, Inc.>: You're welcome.

Operator: Thank you. We have a follow-up question with Ian Gilson of Zacks Investment Research. Your line is open.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Thank you. When you start up a new distributor agreement, does that distributor take inventory?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: That's an interesting question. So of the two new distributors, Ian, that we've signed up since the beginning of the year, one actually did take inventory, a rather significant amount, and the other did not. So it's – I'd say based on that small example it's a mixed bag. But obviously, the one that didn't, we're trying to get to take inventory as well. And that inventory is clearly a selling tool to meet immediate demands, short-term demands in the market. And a lot of our distributors in the past haven't done much inventory loading. So I think this is an additional opportunity that we're seeing that we're trying to push.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Okay. Is that recorded as a sale or is that a – not a sale until the distributor sells it?

<A – Craig Breese – Clean Diesel Technologies, Inc.>: Yeah, it's a sale. I mean, we invoice it, we book it. It's a sale to us. And then these guys are turning that inventory. I mean, they typically are going to order it for inventory items that are pretty standard. And that they've got a pipeline of opportunity that they see in their market. And really, it's just a means for them priming the pump in terms of them selling more. So these are things that tend to turn pretty quickly.

<Q – Ian Gilson – Zacks Investment Research, Inc.>: Okay, fine thank you.

Operator: Thank you. [Operator Instructions] Okay, I'm showing no further questions in the queue at this time. I'll hand the call back to management for closing remarks.

Robert Craig Breese, President, Chief Executive Officer & Director

So again, thanks, everyone, for attending our call this morning. Again, we're encouraged by a number of the different activities and improvements that we've discussed on the call and we look forward to speaking with you again at the conclusion of our second quarter results.

Operator: Thank you. Ladies and gentlemen, this concludes the conference for today. You may all disconnect and have a wonderful day.