



March 31, 2011

Clean Diesel Technologies, Inc. Reports Fourth Quarter and Fiscal Year 2010 Financial Results

VENTURA, Calif., March 31, 2011 (GLOBE NEWSWIRE) -- Clean Diesel Technologies, Inc. (Nasdaq:CDTI) ("Clean Diesel" or the "Company"), a cleantech emissions reduction company, announced today its financial results for the fourth quarter and year ended December 31, 2010.

On October 15, 2010, Clean Diesel completed its business combination with Catalytic Solutions, Inc. ("CSI") following which CSI became a wholly-owned subsidiary of Clean Diesel. Clean Diesel refers to this transaction as the "Merger." In light of the Merger, Clean Diesel is now a vertically integrated global manufacturer and distributor of emissions control systems and products. The Merger was accounted for as a reverse acquisition and, as a result, Clean Diesel's (the legal acquirer) consolidated financial statements are now those of CSI (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of Clean Diesel being included with those of CSI effective from the date of the closing of the Merger. The current and historical information released today reflects the accounting treatment of the Merger.

Earnings per share information is based upon a weighted average of (1) outstanding shares of CSI for 2009 and for the period up to October 15, 2010, recast for the conversion of CSI common shares to Clean Diesel shares to take into account the Merger; and (2) the total Clean Diesel shares outstanding after October 15, 2010, including shares issued in connection with the Merger. Weighted average shares for the years ended 2010 and 2009 were 1,238,198 and 550,189, respectively. Weighted average shares for the fourth quarter of 2010 and 2009 were 3,279,792 and 550,189, respectively. Total shares outstanding as of December 31, 2010 was 3,959,208.

Financial Summary and Recent Business Developments

- Total revenue for the fourth quarter of 2010 was \$11.8 million compared to \$18.0 million for the same quarter in 2009. Net loss for the fourth quarter of 2010 was \$5.7 million, or \$1.73 per share, compared to net income of \$3.3 million, or \$6.00 per share on a fully diluted basis, in the comparable period in 2009.
- Total revenue for 2010 was \$48.1 million compared to \$50.5 million for the year 2009. Net loss for 2010 was \$8.4 million, or \$6.77 per share, compared to a loss of \$8.0 million, or \$14.50 per share for 2009. Gross margin increased to 25.0% for the year ended December 31, 2010 from 23.7% for the year ended December 31, 2009. Operating expenses of \$15.9 million in the year ended December 31, 2010 were down \$4.0 million from the year ended December 31, 2009.
- Finalized a new financing agreement in February 2011 as part of the continuing effort to improve working capital.
- Following ISO9001 certification at its newly formed UK subsidiary, named by Transport for London (TfL) as an accredited supplier of approved diesel emission reduction systems for vehicles to comply with the London Low Emission Zone (LEZ). Clean Diesel estimates that approximately 150,000 vehicles will be affected by the new regulations, with approximately 20,000 of these vehicles requiring diesel emission retrofit solutions by January 2012.

Comments on 2010 and 2011

Charles F. Call, Chief Executive Officer of Clean Diesel, stated, "While the financial results for the quarter and full year weren't as strong as we would like, there is much to be positive about as we look forward into 2011. We accomplished a number of important strategic and operational initiatives to position the Company for growth in 2011. The most prominent of these initiatives was our successful completion of the business combination between Clean Diesel and CSI, which strengthened our product offering, expanded our geographic presence and enhanced our operating efficiencies.

"Our Heavy Duty Diesel Systems division continues to strengthen with expanded distribution channels in the United States, and continues to benefit from funding allocated to diesel emission control under the American Recovery and Reinvestment Act of 2009 (commonly referred to as the Stimulus Bill), which provides customers with an incentive to acquire our emission control products. Fourth quarter sales for this business were in line with our expectations but compare unfavorably to an exceptionally strong fourth quarter in 2009 where we benefited from a major diesel retrofit program in California. Full year sales were up 20% from last year.

"Our Catalyst division sales in 2010 decreased as a result of an automaker accelerating the manufacture of a vehicle that requires a catalyst product meeting a higher regulatory standard than the product we supplied to the automaker. We expect that sales of our Catalyst products to this automaker will resume towards the end of 2011 once we have received the

necessary regulatory approvals and customer qualifications. Our focus is on the technology-driven automotive industry customer and we are very pleased that we have added a new OEM customer and expect revenues in the Catalyst division for the first quarter of 2011 to exceed the fourth quarter of 2010.

"Looking at our operating performance for the full year, we continued to improve gross margins, despite a difficult operating environment, due to a combination of better product mix and from our efforts at cost improvement. We anticipate that following approval by the regulatory agencies (expected sometime in the second quarter of 2011) we will have the ability to supply our own manufactured catalyst products to our Heavy Duty Diesel Systems division, which we believe will improve our total gross margins. CSI's restructuring activity in 2008 and 2009 to realign its Catalyst division operations to improve operating efficiencies was the right decision given the slowdown in the automotive market. We have seen the full benefit of that action in 2010 having reduced the cost structure of this division by approximately \$12 million on an annualized basis.

"In 2011, depending on the timing of certain heavy duty diesel retrofit programs, we expect to see continued improvement in our business as we capture the opportunities available in both the London LEZ and in the U.S. We believe there are more than 160 LEZs in operation throughout Europe, with others being planned in Europe and Asia. The London LEZ regulations are estimated to require 20,000 heavy duty diesel vehicles entering the LEZ to meet certain emission standards by January 2012. With a broad array of existing products, new products in the pipeline and our advanced catalyst technology, we expect to benefit from this market growth. Although it is early in the process, we have begun to receive orders for the London LEZ program and we anticipate that most of the retrofit activity for this program will take place in the second half of 2011. Additionally, we see renewed commitment for on-road diesel emission reductions from state governments, such as California, which has mandated that all 1996 through 2006 Class 7 and 8 diesel trucks be retrofitted with diesel particulate filters to meet state emission standards between 2012 and 2014."

Commenting on the balance sheet, Mr. Call said, "We successfully finalized a new financing facility that replaced a credit line which was operated under forbearance from the lender. The Merger was expected to provide sufficient cash to the combined Company, however, unforeseen delays in completing the Merger led to significantly higher transactional costs for both Clean Diesel and CSI. In addition, the reduction in Catalyst sales discussed above has resulted in lower cash inflows. Due to these circumstances, we will need additional cash on our balance sheet to support sales, marketing and product verification expenditures in advance of realizing sales in the London LEZ and to complete verification of certain catalyst products for use by our Heavy Duty Diesel Systems division. We are pursuing various alternatives to secure additional financing; however, failure to secure additional funding will result in the Company not having sufficient cash to operate. We will keep our shareholders informed of progress made in this respect over the next few months."

Mr. Call concluded, "Heading into 2011, we are excited about our growth prospects. We plan to continue to invest in our businesses, as well as in new growth areas and markets, to deliver value to both our customers and stockholders."

Financial Results

Fourth Quarter 2010

Total revenue for the fourth quarter ended December 31, 2010, was \$11.8 million compared to \$18.0 million for the same period in 2009.

- Revenue for Clean Diesel's Heavy Duty Diesel Systems division for the fourth quarter ended December 31, 2010 decreased \$2.8 million, or 25%, to \$8.4 million from \$11.2 million for the fourth quarter ended December 31, 2009. Revenue for the fourth quarter ended December 31, 2010 includes \$0.4 million from Clean Diesel's business as a result of the Merger.
- Revenue for Clean Diesel's Catalyst division for the fourth quarter ended December 31, 2010 decreased \$3.1 million, or 45%, to \$3.8 million from \$6.9 million for the fourth quarter ended December 31, 2009.

Net loss for the fourth quarter ended December 31, 2010 was \$5.7 million, or \$1.73 per share, compared to net income of \$3.3 million, or \$6.00 per share on a fully diluted basis, for the comparable period in 2009.

- Results for the fourth quarter of 2010 include a non-cash interest expense of \$1.4 million (pre-tax) related to the convertible debt issued in 2010 and converted to equity at the time of the merger and non-cash losses of \$0.9 million (pre-tax) related to the value of liability classified warrants and the convertible notes, compared to zero in both categories for the year ended 2009. Additionally, the net loss in the fourth quarter included a pre-tax loss of \$0.7 million from Clean Diesel's business as a result of the merger. For the fourth quarter net income from discontinued operations was \$0.4 million in 2010 compared to \$2.6 million in 2009.

Full Year 2010

Total revenue for the year ended December 31, 2010, was \$48.1 million compared to \$50.5 million for the same period in

2009.

- Revenue for Clean Diesel's Heavy Duty Diesel Systems division for the year ended December 31, 2010 increased \$5.3 million, or 20%, to \$31.2 million from \$25.9 million for the year ended December 31, 2009. Revenue for the year ended December 31, 2010 includes \$0.4 million from Clean Diesel's business as a result of the Merger.
- Revenue for Clean Diesel's Catalyst division for the year ended December 31, 2010 decreased \$7.4 million, or 29%, to \$17.7 million from \$25.1 million for the year ended December 31, 2009.

The Company's net loss increased for the year ended December 31, 2010 to \$8.4 million, or \$6.77 per share, compared to \$8.0 million, or \$14.50 per share on a fully diluted basis, for the comparable period in 2009.

- Results for the year ended 2010 include a non-cash interest expense of \$3.1 million (pre-tax) related to the secured convertible notes issued by CSI in 2010 and converted to CSI equity immediately prior to the Merger and into Clean Diesel equity at the effective time of the Merger, and non-cash losses of \$1.1 million (pre-tax) related to the value of liability classified warrants and the secured convertible notes, compared to \$0.2 million of non-cash gain related to the value of liability classified warrants for the year ended 2009. Additionally, the net loss for 2010 included a pre-tax loss of \$0.7 million from Clean Diesel's business as a result of the merger. Full year net income from discontinued operations was \$1.0 million in 2010 compared to \$1.5 million in 2009.

At December 31, 2010 and 2009, respectively, Clean Diesel had cash and cash equivalents of \$5.0 million and \$2.3 million. Working capital surplus was \$2.9 million at December 31, 2010 compared to a deficit of \$4.4 million at December 31, 2009. Additional information about the Company's financial results is available in its Annual Report on Form 10-K filed with the U.S. Securities & Exchange Commission: <http://www.sec.gov>. A copy of the 10-K is posted on the Company's website at www.cdti.com.

Conference Call and Webcast Information

Clean Diesel will host a conference call and simultaneous webcast over the Internet beginning at 2:00 p.m. Pacific Time today to discuss its financial results and its business outlook. This conference call will contain forward-looking information. To participate in the conference call, dial (877) 303-9240 and use confirmation code 55585999. International participants should dial +1 (760) 666-3571 and use the same confirmation code. The conference call will be webcast live on the Clean Diesel website at www.cdti.com under the "Investor Relations" section. To listen to the live webcast, participants should visit the site at least 15 minutes prior to the conference to download any required streaming media software. An archived recording of the conference call will be available on the Clean Diesel website for 30 days.

About Clean Diesel Technologies, Inc.

Clean Diesel Technologies ("CDT") is, a vertically integrated global manufacturer and distributor of emissions control systems and products, focused on the heavy duty diesel and light duty vehicle markets. CDT utilizes its proprietary patented Mixed Phase Catalyst (MPC®) technology, as well as its ARIS® selective catalytic reduction; Platinum Plus® Fuel-Borne Catalyst, and other technologies to provide high-value sustainable solutions to reduce emissions, increase energy efficiency and lower the carbon intensity of on- and off-road engine applications. CDT is headquartered in Ventura, California, along with its wholly-owned subsidiary, CSI, and currently has operations in the U.S., Canada, U.K., France, Japan and Sweden as well as an Asian joint venture. For more information, please visit www.cdti.com and www.catsolns.com.

The Clean Diesel Technologies, Inc. logo is available at <http://www.globenewswire.com/newsroom/prs/?pkgid=5742>

Forward-Looking Statements Safe Harbor

Certain statements in this news release, such as statements about market share, cost-savings, spending on government emission reduction programs, ability to capitalize on LEZ opportunities, regulatory approvals for Catalyst products, sales of Catalyst products to a new OEM customer and resumption of sales to former automaker customer, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known or unknown risks, including those detailed in the Company's filings with the U.S. Securities and Exchange Commission, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company assumes no obligation to update the forward-looking information contained in this release.

Clean Diesel Technologies, Inc. Summary Income Statements (\$ millions)

	3 Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Revenues	\$11.8	\$18.0	\$48.1	\$50.5
Gross profit	2.7	5.1	12.0	12.0
Operating expenses:				
Selling, general and administrative	3.5	3.3	11.9	12.5
Research and development	1.2	1.4	4.4	7.3
Recapitalization expense	1.8	0.3	3.2	1.3
Severance expense	0.2	1.2	0.3	1.4
Gain on sale of intellectual property	--	--	(3.9)	(2.5)
Total operating expenses	\$6.7	\$6.2	\$15.9	\$19.9
Loss from operations	\$ (3.9)	\$ (1.1)	\$ (3.9)	\$ (8.0)
Other (expense) income	(2.6)	0.8	(5.5)	(2.6)
Loss from continuing operations before income tax	(6.5)	(0.2)	(9.3)	(10.5)
Income tax (benefit) expense	(0.4)	(0.9)	--	(1.0)
Net (loss) income from continuing operations	(6.1)	0.7	(9.3)	(9.5)
Discontinued operations	0.4	2.6	1.0	1.5
Net (loss) income	<u>\$ (5.7)</u>	<u>\$ 3.3</u>	<u>\$ (8.4)</u>	<u>\$ (8.0)</u>

Clean Diesel Technologies, Inc.
Segment Information
(\$ millions)

	3 Months Ended		Year Ended	
	December 31		December 31	
	2010	2009	2010	2009
Revenue				
Heavy Duty Diesel Systems	\$8.4	\$11.2	\$31.2	\$25.9
Catalyst	3.8	6.9	17.7	25.1
Eliminations	(0.4)	(0.1)	(0.8)	(0.5)
Total	<u>\$11.8</u>	<u>\$18.0</u>	<u>\$48.1</u>	<u>\$50.5</u>
Income (loss) from operations				
Heavy Duty Diesel Systems	\$ (0.5)	\$1.4	\$1.9	\$1.9
Catalyst	0.4	(1.9)	(2.6)	(5.7)
Corporate	(3.8)	(0.6)	(3.2)	(4.2)
Total	<u>\$ (3.9)</u>	<u>\$ (1.1)</u>	<u>\$ (3.9)</u>	<u>\$ (8.0)</u>

Clean Diesel Technologies, Inc.
Summary Balance Sheets
(\$ millions)

As of
December 31
2010 2009

Total current assets	\$17.6	\$18.6
Total assets	\$32.6	\$30.2
Total current liabilities	\$14.8	\$22.9
Total long-term liabilities	\$2.6	\$1.4
Stockholders' equity	\$15.3	\$5.9

Short-term debt	\$2.4	\$8.1
Long-term debt	\$1.5	\$0.1

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Source: Clean Diesel Technologies, Inc.

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