



August 11, 2011

Clean Diesel Technologies, Inc. Reports Second Quarter 2011 Financial Results

VENTURA, Calif., Aug. 11, 2011 /PRNewswire/ -- Clean Diesel Technologies, Inc. (NASDAQ: CDTI) ("Clean Diesel"), a cleantech emissions reduction company, announced today its financial results for the second quarter ended June 30, 2011.

- Total second quarter 2011 revenue was \$11.5 million, down 10.8% compared to the same period in the prior year.
- Second quarter 2011 revenue for Clean Diesel's Heavy Duty Diesel Systems division increased \$1.3 million, or 15.6% compared to the same period in the prior year.
- Gross margin was 29.8% for the second quarter of 2011 compared to 24.5% for the same period in the prior year.

Second Quarter 2011 vs. Second Quarter 2010

The October 15, 2010 business combination with Catalytic Solutions, Inc. (or "CSI"), which Clean Diesel refers to as the "Merger" was accounted for as a reverse acquisition. Accordingly, Clean Diesel's (the legal acquirer's) consolidated financial statements are now those of CSI (the accounting acquirer), with the assets and liabilities and revenues and expenses of legacy Clean Diesel being included in CSI's financial statements effective from October 15, 2010, the closing date of the Merger. As such, the amounts discussed below for periods prior to the Merger are those of CSI and its consolidated subsidiaries, with amounts of legacy Clean Diesel operations included from the date of the Merger.

Total revenue for the second quarter of 2011 was \$11.5 million, a decrease of \$1.4 million or down 10.8% from \$12.9 million for the same quarter in 2010. Total revenue includes \$0.8 million from legacy Clean Diesel business as a result of the Merger.

Revenue for Clean Diesel's Heavy Duty Diesel Systems division for the quarter ended June 30, 2011 increased \$1.3 million, or 15.6%, to \$9.6 million from \$8.3 million for the quarter ended June 30, 2010. This includes \$0.8 million from legacy Clean Diesel business as a result of the Merger, all of which is included in Clean Diesel's Heavy Duty Diesel Systems division. The remaining growth in revenue was driven primarily by an increase in early incentive sales pertaining to the California Air Resources Board (or "CARB") Truck and Bus program. Clean Diesel expects sales in this division to be higher in the third quarter of 2011 compared to the same quarter in 2010, as well as higher than the second quarter of 2011, as anticipated sales in the London Low Emission Zone (or "LEZ") are expected to gain momentum.

Revenue for Clean Diesel's Catalyst division for the quarter ended June 30, 2011 decreased \$1.4 million, or 29.5%, to \$3.4 million from \$4.8 million for the quarter ended June 30, 2010. The decrease in revenue was primarily due to an automaker accelerating the manufacture of a vehicle that requires a catalyst product meeting a higher regulatory standard than the product Clean Diesel currently supplies to the automaker and lower sales to a customer impacted by the earthquake and tsunami in Japan. This decrease was partially offset by higher intercompany catalyst sales, which are eliminated in consolidation, and growth in sales to a new automaker customer. Clean Diesel anticipates revenues in its Catalyst division to be higher in the third quarter of 2011 compared to the same quarter in 2010, as well as higher than the second quarter of 2011, as it expects intercompany sales of Catalyst products to increase, the return to normal operations in August of a customer that was impacted by events in Japan, as well as continued sales to the new automaker customer.

Total operating expenses for the second quarter of 2011 were \$7.0 million, compared to \$4.4 million in the prior-year quarter. The \$2.6 million increase from the year-ago quarter was primarily the result of higher stock based compensation expense and amortization of intangibles resulting from the Merger. Additionally, Clean Diesel incurred higher expenditures in product verification, engineering, and sales and marketing in preparation for anticipated sales in the London LEZ, increased expenses associated with the qualification of catalysts for intercompany sales to Clean Diesel's Heavy Duty Diesel Systems division and pre-production testing of catalysts for a model year change over expected in 2012, and increased legal and professional costs associated with being a U.S. listed public company.

Net loss for the second quarter of 2011 was \$3.7 million, or \$0.93 per share, compared to net loss of \$1.9 million, or \$3.54 per share, in the comparable period in 2010. Net loss for the second quarter of 2011 included non-cash expense of approximately \$0.8 million related to stock based compensation expense and \$0.4 million related to amortization of intangible assets, including those acquired in the Merger, for a total of approximately \$1.2 million compared to \$0.1 million and \$0.1 million, respectively, for a total of approximately \$0.2 million in the same period in 2010. The second quarter of 2011 also included \$0.7 million in gains related to the change in fair value of liability classified common stock warrants issued in connection with

the Merger. Diluted common shares outstanding were 4,009,000 in the current quarter compared to 550,000 in the same quarter a year ago, with the increase in the number of shares due principally to the effect of the Merger and related transactions and the subsequent exercise of certain warrants issued in connection with the Merger.

At June 30, 2011 and December 31, 2010 Clean Diesel had cash and cash equivalents of \$3.1 million and \$5.0 million, respectively. Not included in such amounts are the net proceeds from the July 2011 public offering in which Clean Diesel sold 3,053,750 shares and its existing shareholders sold 80,000 shares at a price of \$3.5208 per share, which represents the discount from the public offering price of \$3.75 per share. The net proceeds of the offering to Clean Diesel after deducting underwriting discounts and commissions and offering expenses were \$10.1 million and are to be used for general working capital purposes.

Charles F. Call, Chief Executive Officer of Clean Diesel, commented, "While the results for the second quarter largely met our expectations, we are most excited about the growth opportunities ahead of us. Over the near term, the California and London markets represent two key drivers of revenue growth for our Heavy Duty Diesel Systems division. Sales for this division were up 16% in the second quarter compared to the prior year, driven by an early action compliance credit for trucking fleets under the Truck and Bus Regulation mandate in California and initial orders related to the London LEZ regulations. Our Catalyst division is expected to see steady improvements through the remainder of 2011 as sales resume to an automaker disrupted by the events in Japan and we benefit from the addition of our new customer, Fisker Automotive. We are pleased that gross margins continue to expand and we expect continued progress in the second half of 2011 as the product mix in our Heavy Duty Diesel segment improves, catalyst sales recover and the volume of intercompany catalyst sales grows.

"Our balance sheet was strengthened by our successful completion of a public offering in early July which resulted in net proceeds to Clean Diesel of \$10.1 million. Our plan is to continue investing in our Heavy Duty Diesel selling organization, which today includes over 100 distributors in the United States and nearly 200 distributors worldwide, to support sales and to ensure that we have all of the necessary supplier accreditation and product verification in place to expand our broad portfolio of products and to capitalize on the opportunities and grow our market share. Our decision to invest strategically to support our growth has resulted in increased operating expenses for the first half of 2011. We expect that operating expenses as a percentage of sales will improve in the second half as anticipated sales growth based on recent order trend develops and our expenses related to our Merger, public company expense, and stock based compensation expense begin to normalize. We intend to continue to manage costs prudently while supporting our growth."

Mr. Call concluded, "Our internal business fundamentals are healthier and many of our external markets improved throughout the second quarter and as we enter the second half of 2011. Overall, we are encouraged by our first half performance and look forward to delivering improving results for the remainder of the year."

First Six Months 2011 vs. First Six Months 2010

Total revenue for the first six months of 2011 was \$25.3 million, a decrease of \$0.1 million or down 0.2% from \$25.4 million for the first six months in 2010. Total revenue includes \$1.5 million from legacy Clean Diesel business as a result of the Merger.

Revenue for Clean Diesel's Heavy Duty Diesel Systems division for the first six months of 2011 increased \$3.2 million, or 20.6%, to \$19.0 million from \$15.8 million for the first six months of 2010. This includes \$1.5 million from legacy Clean Diesel business as a result of the Merger, all of which is included in Clean Diesel's Heavy Duty Diesel Systems division.

Revenue for Clean Diesel's Catalyst division for the first six months of 2011 decreased \$1.8 million, or 18.6%, to \$8.1 million from \$9.9 million for the first six months of 2010.

Total operating expenses for the first six months of 2011 were \$13.1 million, compared to \$4.7 million for the first six months of 2010. Total operating expenses for the six months ended June 30, 2010 include a \$3.9 million gain, which arose from the sale of specific three-way catalyst technology and intellectual property to TKK, Clean Diesel's partner in its Asian investment. The remaining \$4.5 million increase from the prior year six month period was the result of a number of factors, including higher stock based compensation expense and amortization of intangibles resulting from the Merger. Additionally, Clean Diesel incurred higher expenditures in product verification, engineering, and sales and marketing in preparation for anticipated sales in the London LEZ, increased expenses associated with the qualification of catalysts for sale to Clean Diesel's Heavy Duty Diesel Systems division and pre-production testing of catalysts for a model year change over expected in 2012, and increased legal and professional costs associated with being a U.S. listed public company.

Net loss for the first six months of 2011 was \$6.0 million, or \$1.51 per share, compared to net income of \$0.7 million, or \$1.16 per share, in the comparable period in 2010. Net loss for the first six months of 2011 included non-cash expense of approximately \$1.2 million related to stock based compensation expense and \$0.8 million related to amortization of intangible assets, including those acquired in the Merger, for a total of approximately \$2.0 million compared to approximately \$0.1 million and \$0.3 million, respectively, for a total of approximately \$0.4 million in the same period in 2010. The first six months of 2011 also included \$1.1 million in gains related to the change in fair value of liability classified common stock warrants issued in connection with the Merger. The six months ended June 30, 2010 include a \$3.9 million gain, which arose from the sale of

specific three-way catalyst technology and intellectual property to TKK, Clean Diesel's partner in its Asian investment. Diluted common shares outstanding were 3,997,000 for the first six months of 2011 compared to 554,000 for the first six months of 2010, with the increase in the number of shares due principally to the effect of the Merger and related transactions and the subsequent exercise of certain warrants issued in connection with the Merger.

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 87191321. 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 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. Clean Diesel 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. Clean Diesel is headquartered in Ventura, California and currently has operations in the U.S., Canada, U.K., France, Japan and Sweden. For more information, please visit www.cdti.com.

Forward-Looking Statements Safe Harbor

Certain statements in this news release, such as statements about anticipated sales in the London LEZ, the growth of intercompany catalyst sales, improved product mix in the Heavy Duty Diesel Systems division, growth in sales of catalyst products to a new automaker customer, return to normal sales of another automaker customer in August 2011 and resumption of sales to a former automaker customer upon receipt of necessary verifications 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 (unaudited)
(\$ millions, except per share and share amounts)**

	3 Months Ended June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ 11.5	\$ 12.9	\$ 25.3	\$ 25.4
Gross profit	3.4	3.2	7.4	6.8
<i>Gross margin</i>	29.8%	24.5%	29.4%	26.7%
Operating expenses:				
Selling, general and administrative	4.8	2.7	9.4	5.7
Research and development	2.2	1.2	3.7	2.2
Recapitalization expense	—	0.5	—	0.7
Gain on sale of intellectual property	—	—	—	(3.9)
Total operating expenses	\$ 7.0	\$ 4.4	\$ 13.1	\$ 4.7
(Loss) income from operations	\$ (3.6)	\$ (1.2)	\$ (5.7)	\$ 2.1
Other income (expense)	0.2	(0.3)	0.2	(0.8)
(Loss) income from continuing operations before income tax	(3.4)	(1.5)	(5.5)	1.3
Income tax expense from continuing operations	0.3	0.3	0.5	0.5
Net (loss) income from continuing operations	(3.7)	(1.8)	(6.0)	0.8
Net loss from discontinued operations	—	(0.1)	—	(0.1)

Net (loss) income	\$	<u>(3.7)</u>	\$	<u>(1.9)</u>	\$	<u>(6.0)</u>	\$	<u>0.7</u>
Diluted EPS	\$	(0.93)	\$	(3.54)	\$	(1.51)	\$	1.16
Diluted shares outstanding (in thousands)		4,009		550		3,997		554

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

	3 Months Ended June 30,		6 Months Ended June 30,	
	2011	2010	2011	2010
Revenue				
Heavy Duty Diesel Systems	\$ 9.6	\$ 8.3	\$ 19.0	\$ 15.8
Catalyst	3.4	4.8	8.1	9.9
Eliminations	(1.5)	(0.2)	(1.8)	(0.3)
Total	\$ 11.5	\$ 12.9	\$ 25.3	\$ 25.4
Income (loss) from operations				
Heavy Duty Diesel Systems	\$ (0.4)	\$ 0.8	\$ (0.1)	\$ 1.9
Catalyst	(0.9)	(0.6)	(1.4)	3.1
Corporate	(2.2)	(1.4)	(4.1)	(2.9)
Eliminations	(0.1)	—	(0.1)	—
Total	\$ (3.6)	\$ (1.2)	\$ (5.7)	\$ 2.1

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

	As of	
	June 30, 2011	December 31, 2010
Total current assets	\$ 20.3	\$ 17.6
Total assets	\$ 34.8	\$ 32.6
Total current liabilities	\$ 17.8	\$ 14.8
Total long-term liabilities	\$ 5.6	\$ 2.6
Stockholders' equity	\$ 11.4	\$ 15.3
Short-term debt	\$ 4.4	\$ 2.4
Long-term debt	\$ 4.5	\$ 1.5

SOURCE Clean Diesel Technologies, Inc.

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