CDTi ADVANCED MATERIALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**06-1393453**
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

1700 Fiske Place
Oxnard, CA 93033
(Address of principal executive offices) (Zip Code)

CDTi ADVANCED MATERIALS, INC.

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Rose, Snyder & Jacobs LLP
ACCOUNTANTS & ADVISORS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
CDTi Advanced Materials, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of CDTi Advanced Materials, Inc. (the Company) as of December 31, 2018, and the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred recurring losses from operations and negative cash flows from operations, resulting in an accumulated deficit of $(232.7) million as of December 31, 2018. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted un the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Rose. Snyder & Jacobs LLP

Rose, Snyder & Jacobs LLP
Encino, California

We have served as the Company's auditor since 2017

August 1, 2019

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CDTi ADVANCED MATERIALS, INC.

Consolidated Balance Sheet

(in thousands, except share and per share amounts)

	December 31, 2018
ASSETS	
Current assets:	
Cash	$ 1,811
Accounts receivable, net	2,414
Inventories	1,349
Prepaid expenses and other current assets	139
Current assets of discontinued operations	104
Total current assets	5,817
Property and equipment, net	313
Intangible assets, net	889
Deferred tax asset	10
Other assets	48
Assets of discontinued operations	105
Total assets	$ 7,182
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 1,179
Accrued expenses and other current liabilities	1,300
Income taxes payable	812
Liabilities of discontinued operations	1,071
Total current liabilities	4,362
Liabilities of discontinued operations	505
Total liabilities	4,867
Commitments and contingencies (Note 16)	
Stockholders' equity:	
Preferred stock, par value $0.01 per share: authorized 100,000; no shares issued and outstanding	—
Common stock, par value $0.01 per share: authorized 50,000,000 at December 31, 2018; issued and outstanding 4,070,533 shares at December 31, 2018	41
Additional paid-in capital	241,105
Accumulated other comprehensive loss	(6,103)
Accumulated deficit	(232,728)
Total stockholders' equity	2,315
Total liabilities and stockholders' equity	$ 7,182

See accompanying notes to the consolidated financial statements.

CDTi ADVANCED MATERIALS, INC.

Consolidated Statement of Comprehensive Loss

(in thousands, except per share amounts)

	Years Ended December 31,
	2018
Revenues	$ 9,837
Cost of revenues	6,012
Gross profit	3,825
Operating expenses:	
Research and development	2,295
Selling, general and administrative	5,094
Severance and other charges	363
Total operating expenses	7,752
Loss from continuing operations	(3,927)
Other income:	
Gain on change in fair value of liability - classified warrants	660
Other income, net	181
Total other income	841
Loss from continuing operations before income taxes	(3,086)
Income tax expense from continuing operations	771
Net Loss from continuing operations	(3,857)
Net loss from discontinued operations	(525)
Net loss	(4,382)
Foreign currency translation adjustments	(217)
Comprehensive loss	$ (4,599)

See accompanying notes to the consolidated financial statements.

CDTi ADVANCED MATERIALS, INC.

Consolidated Statement of Stockholders' Equity

(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2017	3,161	32	238,581	(5,886)	(228,346)	4,381
Net loss	—	—	—	—	(4,382)	(4,382)
Foreign currency translation adjustment	—	—	—	(217)	—	(217)
Issuance of common stock	886	9	2,068	—	—	2,077
Restricted stock unit vesting	24	—	—	—	—	—
Stock-based compensation	—	—	456	—	—	456
Balance at December 31, 2018	4,071	$ 41	$ 241,105	$ (6,103)	$ (232,728)	$ 2,315

See accompanying notes to the consolidated financial statements.

CDTi ADVANCED MATERIALS, INC.

Consolidated Statement of Cash Flows

(in thousands)

	Years Ended December 31,
	2018
Cash flows from operating activities:	
Net loss	$ (4,382)
Net loss from discontinued operations	525
Adjustments to reconcile net loss to cash used in operating activities:	
Depreciation and amortization	262
Stock-based compensation expense	464
Gain on change in fair value of liability-classified warrants	(660)
Deferred income tax provision	633
Gain on foreign currency transactions	(98)
Other	(42)
Changes in operating assets and liabilities:	
Accounts receivable	(570)
Inventories	(16)
Prepaid expenses and other assets	525
Accounts payable, accrued expenses and other current liabilities	(46)
Income taxes	27
Cash used in operating activities of continuing operations	(3,378)
Cash provided by operating activities of discontinued operations	368
Net cash used in operating activities	(3,010)
Cash flows from investing activities:	
Purchases of property and equipment	(8)
Proceeds from sale of property, equipment and other assets	42
Net cash provided by investing activities	34
Cash flows from financing activities:	
Net proceeds from issuance of common stock	2,077
Cash provided by financing activities of continuing operations	2,077
Cash used in financing activities of discontinued operations	—
Net cash provided by financing activities	2,077
Effect of exchange rates on cash	(97)
Net change in cash	(996)
Cash at beginning of year	2,807
Cash at end of year	$ 1,811

See accompanying notes to the consolidated financial statements.

CDTi ADVANCED MATERIALS, INC.

Notes to Consolidated Financial Statements

1. Description of Business

CDTi Advanced Materials, Inc. ("CDTi" or the "Company") is a leading provider of technology and solutions to the automotive emissions control markets. The Company possesses market leading expertise in emissions catalyst design and engineering for automotive and off-road applications

The Company has a proven ability to develop proprietary materials incorporating various base metals that replace costly platinum group metals ("PGMs") in coatings on vehicle catalytic converters. Recently, the Company has expanded its materials platform to include new synergized-PGM diesel oxidation catalysts (SPGM™ DOC), Base-Metal Activated Rhodium Support (BMARS™), and Spinel™ technologies, and it is in the process of introducing these new catalyst technologies to OEMs and other vehicle catalyst manufacturers in a proprietary powder form. The Company believes that this powder-to-coat business model will allow it to achieve greater scale and higher return on its technology investment than in the past.

The Company's business is driven by increasingly stringent global emission standards for internal combustion engines, which are major sources of a variety of harmful pollutants. It has operations in the United States ("U.S."), the United Kingdom and Sweden.

2. Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. Therefore, the condensed consolidated financial statements contemplate the realization of assets and liquidation of liabilities in the ordinary course of business. The Company has suffered recurring losses and negative cash flows from operations since inception, resulting in an accumulated deficit of $232.7 million at December 31, 2018. The Company has funded its operations through asset sales, credit facilities and other borrowings and equity sales. At December 31, 2018, the Company had $1.8 million in cash.

The Company's continuation as a going concern is dependent upon its ability to obtain adequate financing, which the Company has successfully secured since inception, including financing from equity sales and asset divestitures. However, there is no assurance that the Company will be able to achieve projected levels of revenue and maintain access to sufficient working capital, and accordingly, there is substantial doubt as to whether the Company's existing cash resources and working capital are sufficient to enable it to continue its operations within one year from the financial statement issuance date. If the Company is unable to obtain the necessary capital, it will be forced to license or liquidate its assets, significantly curtail or cease its operations and/or seek reorganization under the U.S. Bankruptcy Code. The condensed consolidated financial statements do not include any adjustments that may be necessary if the Company is unable to continue as a going concern.

On May 19, 2015, the Company filed a shelf registration statement on Form S-3 with the SEC, which was declared effective on November 17, 2015. The Form S-3 permits the Company to sell in one or more registered transactions up to an aggregate of $50.0 million of various securities not to exceed one-third of the Company's public float in any 12-month period. As of December 31, 2018, the Company had sold an aggregate of $3.1 million using the Form S-3. In July 2018, the Company sold approximately $2.2 million of common stock in a rights offering to existing shareholders utilizing the Form S-3.

3. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All intercompany transactions, including intercompany profits and losses and intercompany balances, have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S requires management of the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. These estimates and assumptions are based on management's best estimates and judgment. On an ongoing basis, the Company evaluates its estimates and assumptions, including those related to impairment of goodwill and long-lived assets, stock-based compensation, the fair value of financial instruments including warrants, allowance for doubtful accounts, inventory valuation, taxes and contingent and accrued liabilities. The Company bases its estimates on historical experience and various other factors, including the current economic environment, which it believes to be reasonable under the circumstances. Estimates and assumptions are adjusted when facts and circumstances dictate. Actual results may differ from these estimates under different assumptions and conditions. Management believes that the estimates are reasonable.

Discontinued Operations

Upon divesture of a business, the Company classifies such business as a discontinued operation, if the divested business represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results.
For disposals other than by sale such as abandonment, the results of operations of a business would not be recorded as a discontinued operation until the period in which the business is actually abandoned. The Company completed manufacturing commitments to Honda for production catalysts. In line with the Company's strategy to provide its catalyst technology to other catalyst manufacturers in the form of functional powders or material systems, the Company will no longer sell coated catalysts and have exited its Coated Catalyst business.

The Company's exit of the Coated Catalyst business qualifies as discontinued operations and therefore has been presented as such for all reporting periods. Results of discontinued operations include all revenues and expenses directly derived from such businesses; general corporate overhead is not allocated to discontinued operations. The Company also presents cash flows from discontinued operations separately from cash flows of continuing operations.

All discussions and amounts in the consolidated financial statements and related notes for all periods presented relate to continuing operations only, unless otherwise noted.

Cash

Cash consists of cash balances on hand and on deposit at banks. Cash on deposit at banks at times may exceed the Federal Deposit Insurance Corporation (FDIC) limits. The Company believes no significant concentration of credit risk exists with respect to these cash balances.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Accounts receivable are presented net of a reserve for doubtful accounts of less than $0.1 million at December 31, 2018. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience and past due balances over 90 days that are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off balance sheet credit exposure related to its customers.

Inventories

Inventories are stated at the lower of cost (FIFO method) or market (net realizable value). Finished goods inventory includes materials, labor and manufacturing overhead. The Company establishes provisions for inventory that is obsolete or when

quantities on hand are in excess of estimated forecasted demand. The creation of such provisions results in a write-down of inventory to net realizable value and a charge to cost of sales.

The Company's inventory includes precious metals (platinum, palladium and rhodium) for use in the manufacturing of catalysts. The precious metals are valued at the lower of cost or market (net realizable value), consistent with the Company's other inventory.

Property and Equipment

Property and equipment is capitalized at cost and is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is determined using the straight line method over the estimated useful lives of the various asset classes. Machinery and equipment are depreciated over 2 to 10 years; furniture and fixtures, computer hardware and software and vehicles are depreciated over 2 to 5 years. Property and equipment held under capital leases and leasehold improvements are amortized over the shorter of estimated useful lives or the lease term. Repairs and maintenance are charged to expense as incurred and major replacements or betterments are capitalized.

Intangible Assets

The Company's intangible assets consist of trade names, acquired patents and technology, and customer relationships and have finite lives. Intangible assets are carried at cost, less accumulated amortization. Amortization is computed on a straight-line or accelerated basis over the estimated useful lives of the respective assets, ranging from 4 to 20 years.

Long Lived Assets

Assets such as property and equipment and amortizable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the sum of the expected undiscounted future net cash flows of an asset or asset group is less than its carrying amount and is measured as the amount by which the carrying amount of the asset or asset group exceeds its fair value.

Warrants and Derivative Liabilities

The Company accounts for the issuance of Company derivative equity instruments in accordance with Accounting Standards Codification ("ASC") 815-40 "Derivative and Hedging". The Company reviews common stock purchase warrants at each balance sheet date based upon the characteristics and provision of each particular instrument and classifies them on the balance sheet as equity or a liability. Below are some of the factors the Company considers with the corresponding balance sheet classification:

- Equity if the awards (i) require physical settlement or net-share settlement, or (ii) give the Company a choice of net-cash settlement or settlement in the Company's own shares (physical settlement or net-share settlement), or as
- Liabilities if the awards (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the Company's control), or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement of net-share settlement).

The Company assesses classification of common stock purchase warrants and other freestanding derivatives at each reporting date to determine whether a change in classification between assets and liabilities and equity is required.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are

expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance against deferred tax assets is required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Changes in recognition or measurement are reflected in the period in which the change occurs. The Company records interest and penalties related to unrecognized tax benefit in income tax expense.

Revenue

Adoption of Recent Accounting Pronouncement

Effective January 1, 2018, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 supersedes the revenue recognition requirements in FASB Accounting Standards Codification ("ASC") 605, *Revenue Recognition*, and is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue, cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The adoption of ASU 2014-09, using the modified retrospective approach, had no significant impact on the Company's results of operations, cash flows or financial position.

Revenue Recognition

Net sales include products and shipping and handling charges, net of estimates for product returns as well as royalties earned under licensing agreements. Revenue for products and shipping and handling charges are measured as the amount of consideration the Company expects to receive in exchange for transferring products. All revenue is recognized when the Company satisfies its performance obligations under the contract. The Company recognizes revenue by transferring the promised products to the customer, with revenue recognized at the point in time the customer obtains control of the products. The Company recognizes revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. The Company estimates product returns based on historical return rates. The majority of the Company's contracts have a single performance obligation and are short term in nature. The Company recognizes revenue for its usage based royalties when the usage has occurred.

Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore excluded from the transaction price and net sales.

Research and Development

Research and development costs are generally expensed as incurred. These expenses include compensation expense for employees and contractors engaged in research, design and development activities, as well costs paid to outside parties for testing, validation and certification of our products. Also included is any depreciation related to assets utilized in the development of new products.

Stock-Based Compensation

Equity awards consist of stock options and restricted stock units ("RSUs"). The Company measures the compensation cost for all stock-based awards at fair value on the date of grant and recognizes it on a straight-line basis over the service period for awards expected to vest, which is generally three years.

The Company measures the fair value of stock options using the Black-Scholes option-pricing model and certain assumptions, including the expected life of the stock options, an expected forfeiture rate and the expected volatility of its common stock. The fair value of RSUs is based on the closing price of the Company's common stock on the grant date.

Product Warranty

The Company provides for the estimated cost of product warranties in cost of sales, at the time product revenue is recognized. Warranty costs are estimated primarily using historical warranty information in conjunction with current engineering assessments applied to the Company's expected repair or replacement costs.

Foreign Currency

The functional currency of our subsidiary Engine Control Systems Europe AB in Sweden is the Swedish krona and the Clean Diesel Technologies Limited U.K. subsidiary, is the British pound sterling. Accordingly, the assets and liabilities of the foreign locations are translated into U.S. dollars at period-end exchange rates. Revenue and expense accounts are translated at the average exchange rates for the period. The resulting foreign currency exchange adjustments are charged or credited directly to other comprehensive income or loss as a separate component of stockholders' equity. Unrealized foreign currency exchange gains and losses on certain intercompany transactions that are of a long-term investment nature (i.e. settlement is not planned or anticipated in the foreseeable future) are also recorded in other comprehensive income or loss in stockholders' equity. Accumulated other comprehensive loss contained only foreign currency translation adjustments as of December 31, 2018

The Company has exposure to multiple currencies. The primary exposure is between the U.S. dollar, the Canadian dollar, the Euro, British pound sterling and Swedish krona. Gains and losses arising from transactions denominated in currencies other than the functional currency of the entity are included in other income (expense) in the consolidated statements of comprehensive loss. Gains and losses arising from transactions denominated in foreign currencies are primarily related to inter-company loans that have been determined to be temporary in nature, cash, accounts receivable and accounts payable denominated in non-functional currencies.

Net Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of common shares and dilutive potential common shares. Dilutive potential common shares include employee stock options, RSUs, warrants and debt that are convertible into the Company's common stock.

Diluted net loss per share excludes certain dilutive potential common shares outstanding as their effect is anti-dilutive. Because the Company incurred net losses in the year ended December 31, 2018, the effect of potentially dilutive securities has been excluded in the computation of net loss per share as their impact would be anti-dilutive. Potentially dilutive common stock equivalents excluded were 0.4 million shares during the year ended December 31, 2018, respectively.

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset and liability. As a basis for considering such assumptions, a fair value hierarchy has been established that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable including quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active; and
- Level 3: Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Fair Value of Financial Instruments

ASC Topic 825, "Financial Instruments", requires disclosure of the fair value of financial instruments for which the determination of fair value is practicable. The fair values of the Company's cash, trade accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities approximate carrying values due to the short maturity of these instruments. The fair value for the warrants classified as liability and the bifurcated derivative liabilities were calculated using level 3 inputs, including Black-Scholes option-pricing model as well as Monte Carlo Simulation model. These inputs are disclosed in Note 12 "Fair Value Measurements"

Recently Issued Accounting Guidance

In February 2016, the FASB issued ASU 2016-2, *Leases (Topic 842)*. ASU 2016-2 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. generally accepted accounting principles. It is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company expects the adoption of ASU 2016-2 will have no impact on its consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815).* The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact that ASU 2017-11 will have on its consolidated financial statements.

Reclassifications

Certain amounts reported in the prior years in the financial statements have been reclassified to conform to current year's presentation.

4. Inventories

Inventories consist of the following (in thousands):

		December 31, 2018
Raw materials	$	882
Work in process		256
Finished goods		211
	$	1,349

5. Property and Equipment

Property and equipment consists of the following (in thousands):

		December 31, 2018
Furniture and fixtures	$	464
Computer hardware and software		58
Machinery and equipment		2,687
		3,209
Less accumulated depreciation		(2,896)
	$	313

Depreciation expense was $0.1 million for the year ended December 31, 2018.

6. Intangible Assets

Intangible assets consist of the following (in thousands):

	Useful Life in Years		December 31, 2018
Trade name	15 - 20	$	1,208
Patents and know-how	5 - 12		1,267
Customer relationships	4 - 8		227
			2,702
Less accumulated amortization			(1,813)
		$	889

The Company recorded amortization expense related to amortizable intangible assets of $0.2 million for the year ended December 31, 2018.

Estimated amortization expense for existing intangible assets for each of the next five years is as follows (in thousands):

Years ending December 31:		
2019	$	162
2020		162
2021		162
2022		143
2023		71
Thereafter		189
	$	889

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	December 31,	
	2018	
Accrued salaries and benefits	$	457
Accrued severance and other charges(1)		311
Accrued warranty(2)		87
Warrant liability(3)		9
Other		436
	$	1,300

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(1) For additional information, refer to Note 8, "Severance and Other Charges".

(2) For additional information, refer to Note 9, "Accrued Warranty".

(3) For additional information, refer to Note 12, "Fair Value Measurements".

8. Severance and Other Charges

Severance, exit and other charges consist of the following (in thousands):

	Years Ended December 31,	
	2018	
Employee severance expense	$	363
Lease exit costs		—
Total severance and other charges	$	363

In the fourth quarter of 2018, the Company incurred severance charges related to a reduction in workforce consistent with the Company’s efforts to align costs with its current business strategy.

The following summarizes the activity in the Company's accrual for severance and other exit costs (in thousands):

	Severance		Total	
December 31, 2017	$	28	$	28
Provision		363		363
Payments		(80)		(80)
December 31, 2018	$	311	$	311

9. Accrued Warranty

The Company establishes reserves for future product warranty costs that are expected to be incurred pursuant to specific warranty provisions with its customers. The Company generally warrants its products against defects between one and five years from date of shipment, depending on the product. The warranty reserves are established at the time of sale and updated throughout the warranty period based upon numerous factors including historical warranty return rates and expenses over various warranty periods. Historically, warranty returns have not been material.

The following summarizes the activity in the Company's accrual for product warranty (in thousands):

	Years Ended December 31,	
	2018	
Balance at beginning of period	$	125
Accrued warranty expense		26
Warranty claims paid		(65)
Translation adjustment		1
Balance at end of period	$	87

10. Stockholders' Equity

On July 25, 2018, the Company issued and sold an aggregate of 4,427,563 shares of its common stock at the subscription price of $0.50 per share, pursuant to a rights offering to its existing stockholders. The Company received aggregate gross proceeds of approximately $2.2 million from the rights offering before deducting offering expenses.

On August 24, 2018 at the Company’s Annual Meeting of Stockholders, the stockholders voted to approve the amendment of the Restated Certificate of Incorporation to effect a reverse stock split of the Company’s common stock. The amendment became effective on September 21, 2018. As a result of the Reverse Stock Split, every five (5) shares of the Company’s issued and outstanding common stock were combined and reclassified into one (1) share of the Company’s common stock, which began trading on a split-adjusted basis on the NASDAQ Capital Market on September 24, 2018 with a new CUSIP number of 12514V2014. The Reverse Stock Split did not change the par value of the Company’s common stock. All share and per share information disclosed as of September 20, 2018 and for all other comparative periods provided, have been retroactively adjusted to reflect the Reverse Stock Split.

On November 14, 2018, the company announced that it would voluntarily delist its common stock from The Nasdaq Stock Market and, based upon ownership of its shares by fewer than 300 holders of record, deregister its common stock under the Securities Exchange Act of 1934 and suspend its public reporting obligations. Our Board of Directors concluded that the costs of maintaining the Nasdaq listing and remaining a public reporting company, including costs of compliance, the demands on management time and the Company resources required to maintain its listed and registered status, outweigh the benefits to the Company and its stockholders of continued Nasdaq listing and SEC reporting.

The Nasdaq delisting became effective on December 6, 2018, at which time trading on Nasdaq ceased. The common stock is trading on the Pink tier of OTC Markets Group. The Company can provide no assurance that trading in its common stock will continue on the OTC Markets Group or otherwise.

The Company filed a Form 15 with the Securities and Exchange Commission on December 10, 2018, at which time the Company's obligation to file periodic reports under the Exchange Act, including annual, quarterly and current reports on Form 10-K, Form 10-Q and Form 8-K, was suspended, and all requirements associated with being an Exchange Act-registered company, including the requirement to file current and periodic reports, terminated permanently 90 days thereafter.

11. Warrants

From time to time, the Company issues warrants to purchase its common stock. Warrants have been issued for consulting services, in connection with the Company's issuance of debt and sales of its common stock.

Warrants activity is summarized as follows:

	Shares(1)		Weighted Average Exercise Price	Range of Exercise Prices
Outstanding at December 31, 2017	180,894	$	26.35	$11.00 - $105.00
Issued	—		—	—
Exercised	—		—	—
Expired	(3,988)	$	31.25	—
Outstanding at December 31, 2018	176,906	$	24.87	$2.50 - $105.00
Exercisable at December 31, 2018	176,906	$	24.87	$2.50 - $105.00

(1) Outstanding and exercisable information includes 3,000 equity-classified warrants as of December 31, 2018.

Warrant Liability

The Company's warrant liability is carried at fair value and is classified as Level 3 in the fair value hierarchy because the warrants are valued based on unobservable inputs.

The Company determines the fair value of its warrant liability using the Black-Scholes option-pricing model unless the awards are subject to market conditions, in which case it uses a Monte Carlo simulation model, which utilizes multiple input variables to estimate the probability that market conditions will be achieved. These models are dependent on several variables such as the instrument's expected term, expected strike price, expected risk-free interest rate over the expected term of the instrument, expected dividend yield rate over the expected term and the expected volatility. The expected strike price for warrants with full-ratchet down-round price protection is based on a weighted average probability analysis of the strike price changes expected during the term as a result of the full-ratchet down-round price protection.

The assumptions used in the Black-Scholes option-pricing model to estimate the fair value of the warrant liability were as follows:

	December 31, 2018
Expected volatility	117.0%-176.4%
Risk-free interest rate	2.47%-2.61%
Dividend yield	—
Expected life in years	0.7-3.0

The assumptions used in the Monte Carlo simulation model to estimate the fair value of the warrant liability were as follows:

	December 31, 2018
Expected volatility	153.6%
Risk-free interest rate	2.61%
Dividend yield	—
Expected life in years	0.9

The warrant liability, included in accrued expenses and other current liabilities in the accompanying consolidated balance sheet, is re-measured at the end of each reporting period with changes in fair value recognized in other income (expense), net in the consolidated statements of comprehensive loss. Upon the exercise of a warrant that is classified as a liability, the fair value of the warrant exercised is re-measured on the exercise date and reclassified from warrant liability to additional paid-in capital.

12. Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value in accordance with a hierarchy which requires an entity to maximize the use of observable inputs which reflect market data obtained from independent sources and minimize the use of unobservable inputs. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable including quoted prices for similar instruments in active markets and quoted prices for identical or similar instruments in markets that are not active; and

Level 3: Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Assets and liabilities measured at fair value on the Company's balance sheet on a recurring basis include the following at December 31, 2018 (in thousands):

Warrant Liability	Level 1	Level 2	Level 3
December 31, 2018	—	—	$ 9

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the year ended December 31, 2018.

The following is a reconciliation of the warrant liability, included in accrued expenses and other current liabilities in the accompanying consolidated balance sheet, measured at fair value using Level 3 inputs (in thousands):

	Years Ended December 31,
	2018
Balance at beginning of period	$ 669
Issuance of common stock warrants	—
Exercise of common stock warrants	—
Remeasurement of common stock warrants	(660)
Balance at end of period	$ 9

13. Stock-Based Compensation

The Clean Diesel Technologies, Inc. Stock Incentive Plan (formerly known as the Clean Diesel Technologies, Inc. 1994 Incentive Plan), as amended (the "Plan"), provides for the awarding of incentive stock options, non-qualified stock options, stock appreciation rights, restricted shares, performance awards, bonuses or other forms of share-based awards, or combinations of these to the Company's directors, officers, employees, consultants and advisors (except consultants or advisors in capital-raising transactions) as determined by the board of directors. At the Company's Annual Meeting of Shareholders held on May 23, 2012, the Company's shareholders approved certain amendments to the Plan, the most significant of which changed the Plan name, removed the evergreen provision and established a maximum number of 1.4 million shares to be reserved for issuance under the Plan, disallowed the repricing of outstanding stock options without shareholder approval, removed the ability to issue cash bonus awards under the Plan and modified the change in control provisions within the Plan. As of December 31, 2018, there were 81,766 shares available for future grants under the Plan.

Effective December 16, 2016, the Company adopted the Clean Diesel Technologies, Inc. 2016 Omnibus Incentive Plan (the "Omnibus Plan"), pursuant to the approval of the Omnibus plan by the Company's stockholders by written consent dated October 24, 2016. The Omnibus plan was adopted by the Company's Board of Directors (the "Board") on October 11, 2016. Under the Omnibus Plan, the Company is authorized to grant equity-based awards in the form of stock options, restricted common stock, restricted stock units, stock appreciation rights, and other stock based awards to employees (including executive officers), directors and consultants of the Company and its subsidiaries. The Omnibus Plan authorized the issuance of 2,250,000 shares of the Company's common stock.

Total stock-based compensation expense was $0.5 million for the year ended December 31, 2018.

Stock Options

Stock option activity is summarized as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (thousands)
Outstanding at December 31, 2017	206,671	$ 17.06	8.8	—
Granted	186,000	$ 1.50	—	—
Exercised	—	—	—	—
Canceled	(79,807)	$ 5.72	—	—
Outstanding at December 31, 2018	312,864	$ 10.71	7.7	$ —
Vested and expected to vest at December 31, 2018	312,864	$ 10.71	7.7	$ —
Exercisable at December 31, 2018	182,027	$ 14.89	6.7	$ —

The aggregate intrinsic value represents the difference between the exercise price and the Company's closing stock price on the last trading day of the year.

Stock options granted under the Plan typically expire ten years from the date of grant and are issued at a price equal to the fair market value of the underlying stock on the date of grant. The Company's board of directors may establish such vesting and other conditions with respect to options as it deems appropriate.

The Company estimates the fair value of stock options using a Black-Scholes option-pricing model. The weighted-average assumptions and grant date fair value for the options granted during year ended December 31, 2018 were as follows:

Expected volatility		50.7%
Risk-free interest rate		3.1%
Dividend yield		—
Expected life in years		5.80
Weighted average grant date fair value	$	0.76

The expected term of the options has historically been based upon the historical term until exercise or expiration of all granted options. Due to the significant change in the Company following the Merger and significant change in the terms of the options granted, CDTI's pre-Merger historical exercise data was not considered to provide a reasonable basis for estimating the expected term for current option grants. As such, the expected term of stock options granted in 2015 and later was determined using the "simplified method" as allowed under ASC 718-10-S99, "Compensation—Stock Compensation: Overall: SEC Materials." The "simplified method" calculates the expected term as the average of the vesting term and original contractual term of the options. The expected volatility is based on the volatility of the Company over the corresponding expected term of the option. The risk-free interest rate is the constant maturity rate published by the U.S. Federal Reserve Board that corresponds to the expected term of the option. The dividend yield is assumed as 0% because the Company has not paid dividends and does not expect to pay dividends in the future.

Compensation costs for stock options that vest over time are recognized over the vesting period on a straight-line basis. As of December 31, 2018, the Company had $0.5 million of unrecognized compensation cost related to stock option grants that remained to be recognized over vesting periods. These costs are expected to be recognized over a weighted average period of 5.7 years.

Restricted Stock Units
RSU activity is as follows:

	Shares		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	320	$	9.25
Granted	49,484	$	2.03
Vested	(3,492)	$	2.88
Forfeited	(160)	$	9.25
Nonvested units at December 31, 2018	46,152	$	1.95

As of December 31, 2018, the Company had approximately $0.1 million of unrecognized compensation expense related to RSUs, which will be recognized over a weighted average estimated remaining life of 0.7 years.

14. Income Taxes

On December 22, 2017 the U.S. government enacted comprehensive tax reform commonly referred to as the Tax Cuts and Jobs Act (“TCJA”). Under FASB Accounting Standards Codification (“ASC 740”), the effects of changes in tax rates and laws are

recognized in the period which the new legislation is enacted. The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to: (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (3) bonus depreciation that will allow for full expensing of qualified property; (4) creating a new limitation on deductible interest expense; (5) eliminating the corporate alternative minimum tax ("AMT"); (6) limitation on the deductibility of executive compensation under Internal Revenue Code §162(m); and (7) new tax rules related to foreign operations.

On December 22, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 118, which provides guidance on accounting for the tax effects of TCJA. The purpose of SAB No. 118 was to address any uncertainty or diversity of view in applying ASC Topic 740, Income Taxes in the reporting period in which the TCJA was enacted. SAB No. 118 addresses situations where the accounting is incomplete for certain income tax effects of the TJCA upon issuance of a company's financial statements for the reporting period that includes the enactment date. SAB No. 118 allows for a provisional amount to be recorded if it is a reasonable estimate of the impact of the TCJA. Additionally, SAB No. 118 allows for a measurement period to finalize the impacts of the TCJA, not to extend beyond one year from the date of enactment.

In connection with the initial analysis of the impact of the TCJA, the Company has recorded a provisional decrease in our deferred tax assets and liabilities with a corresponding adjustment to its valuation allowance. While the Company is able to make a reasonable estimate of the impact of the reduction in the corporate rate, it is subject to further analysis, interpretation and clarification of the TCJA, which could result in changes to this estimate during 2018.

Income (loss) from continuing operations before income taxes include the following components (in thousands):

	Years Ended December 31, 2018
U.S.-based operations	$ (4,412)
Non U.S.-based operations	1,326
	$ (3,086)

Income tax expense (benefit) attributable to loss from continuing operations is summarized as follows (in thousands):

	Current	Deferred	Total
Year ended December 31, 2018:			
U.S. Federal	$ —	$ —	$ —
State and local	6	—	6
Foreign	96	669	765
Total	$ 102	$ 669	$ 771

Income taxes attributable to loss from continuing operations differ from the amounts computed by applying the U.S. federal statutory rate of 21% to loss from continuing operations before income taxes as shown below (in thousands):

	Years Ended December 31, 2018
Expected tax benefit	$ (758)
Net tax effects of:	
Foreign tax rate differential	(33)
State taxes, net of federal benefit	(181)
Return to provision adjustment	696
Research and other credits	-
Permanent difference on convertible notes and warrants	(138)
Other	55
Change in deferred tax asset valuation allowance	1,130
	$ 771

Deferred tax assets and liabilities consist of the following (in thousands):

	December 31, 2018
Deferred tax assets:	
Research and development credits	$ 2,486
Other credits	—
Operating loss carry forwards	7,383
Interest	315
Inventories	316
Allowance for doubtful accounts	(3)
Depreciation	294
Deferred research and development expenses for income tax	(3)
Non-cash compensation	859
Other	468
Total gross deferred tax assets	12,115
Valuation allowance	(11,944)
Net deferred tax assets	$ 171
Deferred tax liabilities:	
Other identifiable intangible assets	$ (161)
Total gross deferred tax liabilities	(161)
Net deferred tax assets (liabilities)	$ 10

The Company had approximately $25 million and $21 million of federal and state income tax net operating loss carryforwards at December 31, 2018, respectively. The foreign net operating losses can be carried forward indefinitely. Future utilization of the federal and state net operating losses and credit carryforwards is subject to a substantial annual limitation due to ownership change limitations as required by Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), as well as similar state limitations.

Of the $25 million federal loss carryforwards approximately $4.9 million of the loss will be subject to an annual limitation of $0.4 million within the next 5 years and $0.2 million for the next 15 years. In addition, approximately $6.9 million of the loss will be subject to an annual limitation of $0.9 million within the next 5 years and $0.1 million for the following 15 years. The federal net operating loss carryforwards will expire in fiscal year 2038. As a result of the "ownership change" the federal research and development credits have been limited and based on the limitation the Company does not anticipate being able to use any of these credits that existed as of the date of the Merger in future tax years.

Of the $21 million of state net operating loss carryforwards approximately $1.4 million of the loss will be subject to an annual limitation of $0.1 million for the next 20 years. The state net operating loss carryforwards will expire in fiscal year 2038. The Company has state research and development credits of $3.1 million. The Company has a full valuation allowance against the related deferred tax assets for its U.S. and U.K. entities as it is more likely than not that they will not be realized by the Company.

In assessing the potential realization of deferred tax assets, consideration is given to whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the Company attaining future taxable income during the periods in which those temporary differences become deductible. In addition, the utilization of net operating loss carryforwards may be limited due to restrictions imposed under applicable federal and state tax laws due to a change in ownership. Based upon the level of historical operating losses and future projections, management believes it is more likely than not that the Company will not realize the deferred tax assets.

The Company has not recognized a deferred tax liability on undistributed earnings of its foreign subsidiaries, because these earnings are intended to be permanently reinvested. The amount of the unrecognized deferred tax liability depends on judgment required to analyze the withholding tax due, the applicable tax law and factual circumstances in effect at the time of any such distributions. Therefore, the Company believes it is not practicable at this time to reliably determine the amount of unrecognized deferred tax liability related to its undistributed earnings; however, these undistributed earnings are immaterial. If circumstances change and it becomes apparent that some or all of the undistributed earnings of a subsidiary will be remitted and income taxes have not been recognized by the parent entity, the parent entity shall accrue as an expense of the current period income taxes attributable to that remittance.

The following changes occurred in the amount of unrecognized tax benefits including related interest and penalties, included in the income taxes payable on the consolidated balance sheet (in thousands):

	Years Ended December 31, 2018
Balance at beginning of year	$ 738
Additions for current year tax provisions	36
Additions/Reduction for tax positions of prior years	—
Reduction for prior year tax provisions	—
Balance at end of year	$ 774

If recognized, the entire amount of the unrecognized tax benefits would affect the effective tax rate. As of December 31, 2018 the Company had $0.3 million accrued for payment of interest and penalties related to unrecognized tax benefits.

The Company operates in multiple tax jurisdictions, both within and outside of the United States. Although the timing of the resolution and/or closure of audits is not certain, the Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next twelve months. The following tax years remain open to examination by the major domestic taxing jurisdictions to which it is subject:

	Open Tax Years
United States—Federal	2015 – 2018
United States—State	2014 – 2018
Canada	2013 – 2018
Sweden	2016 – 2018
United Kingdom	2014 - 2018

15. Commitments and Contingencies

Lease Commitments

The Company leases its facilities under operating leases that expire through 2019. The Company recognizes its minimum lease payments, including escalation clauses, on a straight-line basis over the minimum lease term of the lease. Rent expense was $0.5 million during the year ended December 31, 2018.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2018 are (in thousands):

Years ending December 31:		
2019	$	75
2020		25
2021		—
2022		—
2023 and thereafter		—
Total minimum lease payments	$	100

Litigation

The Company is involved in legal proceedings from time to time in the ordinary course of its business. Management does not believe that any of these claims and proceedings against it is likely to have, individually or in the aggregate, a material adverse effect on the Company's condensed consolidated financial condition, results of operations or cash flows. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the consolidated financial statements as of December 31, 2018, nor is it possible to estimate what litigation-related costs will be in the future.

Applied Utility Systems, Inc.

The Company is undergoing a sales and use tax audit by the State of California (the "State") with respect to Applied Utility Systems, Inc., a former subsidiary of the Company that was sold in 2009, for the period of 2007 through 2009. The audit has identified a project performed by the Company during that time period for which sales tax was not collected and remitted and for which the State asserts that proper documentation of resale may not have been obtained and that the Company owes sales tax of $1.5 million, inclusive of interest. The Company contends and believes that it received sufficient and proper documentation from its customer to support not collecting and remitting sales tax from that customer and is actively disputing

the audit report with the State. On August 12, 2013, the Company appeared at an appeals conference with the State Board of Equalization ("BOE"). On July 21, 2014, the Company received a Decision and Recommendation ("D&R") from the BOE. The D&R's conclusion was that the basis for the calculation of the aforementioned $1.5 million tax due should be reduced from $12.2 million to $9.0 million with a commensurate reduction in the tax owed to the State. Regardless of this finding, the Company continues to believe that it will prevail in this matter, as it believes that the State did not adequately address the legal arguments related to the Company's acceptance of the valid resale certificate from its customer. The Company has not agreed to these findings, and therefore, it will be appealing at a higher level at the BOE. Based on a re-audit, the BOE lowered the tax due to $0.9 million, inclusive of interest. The Company continues to disagree with these findings based on the aforementioned reasons. However, in October 2015, the Company offered to settle this case for $0.1 million, which is based on the expected cost of continuing to contest this audit. Accordingly, an accrual was charged to discontinued operations during the year ended December 31, 2015 to reflect the offer to settle this case. Should the Company not prevail with the offer to settle this case, it plans to continue with the appeals process. Further, should the Company not prevail in this case, it will pursue reimbursement from the customer for all assessments from the State.

16. Geographic Information

Net sales by geographic region based on location of sales organization is as follows (in thousands):

	Years Ended December 31, 2018
United States	$ 3,294
Canada	987
Mexico	707
Europe	4,297
Asia	552
Total international	6,553
Total revenues	$ 9,837

Property and equipment, net and total assets by geographic region as of December 31, 2018 is as follows (in thousands):

	Property and Equipment, net 2018	Total Assets 2018
United States	$ 310	$ 5,697
Europe	3	1,485
Total international	3	1,485
Total	$ 313	$ 7,182

17. Concentrations

For the year ended December 31, 2018, no customer represent 10% or more of the Company’s revenues, however one customer accounts for 20% of the accounts receivable balance as of December 31, 2018.

For the year ended December 31, 2018, the Company had one supplier that accounted for approximately 26% of the Company's material purchases.

18. Discontinued Operations

The Coated Catalyst operations are presented below as discontinued operations. The following table presents the major classes of assets and liabilities of discontinued operations in the consolidated balance sheets as of December 31, 2018 (in thousands).

		December 31, 2018
Assets		
Accounts receivable, net	$	22
Inventories		76
Prepaid expenses and other current assets		6
Current assets of discontinued operations		104
Property and equipment, net		—
Other assets		105
Assets of discontinued operations		105
Total assets of discontinued operations		209
Liabilities		
Accounts payable		82
Accrued expenses and other current liabilities		989
Current liabilities of discontinued operations		1,071
Other liabilities		505
Net liabilities of discontinued operations	$	1,367

The following table presents revenue and expense information for discontinued operations for the years ended December 31, 2018 (in thousands).

		December 31,
		2018
Revenues	$	3,467
Pre-tax loss from operations		(225)
Loss on disposal		(300)
Income tax expense		—
Net loss from discontinued operations	$	(525)

19. Subsequent event

On March 10, 2019, the Company's previously filed Form 15 with the Securities and Exchange Commission, which at the time temporarily suspended Company's obligation to file periodic reports under the Exchange Act, including annual, quarterly and current reports on Form 10-K, Form 10-Q and Form 8-K, became a permanent suspension. Management has evaluated events occurring after the date of the accompanying balance sheet through August 1, 2019, the date the financial statements were available for issuance.