
Operator

At this time, I would like to turn the conference over to Darren Seed, Vice President of Investor Relations and Communications. Please go ahead.

DARREN SEED speaking

VP, Capital Markets and Communications, Westport Innovations Inc.

Thank you and good afternoon. Welcome to our second quarter conference call for Fiscal 2014. It's being held to coincide with the disclosure of our financial results earlier this afternoon. For those who haven't seen the release and financial statements yet, they can be found on Westport's website at www.westport.com.

Speaking on behalf of the Company will be Westport's Chief Executive Officer, David Demers, and Westport's Chief Financial Officer, Ashoka Achuthan, and Westport's President, Nancy Gougarty. Attendance at this call is open to the public and the media, but for the sake of brevity we are restricting questions to analysts.

You are reminded that certain statements made in this conference call and our responses to various questions may constitute forward-looking statements within the meaning of US and applicable Canadian securities law, and such forward-looking statements are made based on our current expectations and involve certain risks and uncertainties. Actual results may differ materially from those projected in the forward-looking statements. Information contained in this conference call is subject to and qualified in its entirety by information contained in the Company's public filings, and except as required by applicable securities laws, we do not have any intention or obligation to update forward-looking information after this conference call. You are cautioned not to place undue reliance on any forward-looking statements.

Now, I will turn the call over to David Demers.

DAVID DEMERS speaking

Chief Executive Officer, Westport Innovations Inc.

Thanks Darren and good afternoon everyone. Q2 saw excellent progress in our business with some key milestones in both our operational transition and our long-term investment programs. As I said last quarter, 2013 was a significant transition year as Westport shifted from our focus on market creation and proof of our technologies to product development, sales and profit growth now that OEMs around the world are shifting to include natural gas products in their offerings. We told you that we'd completed our transition work and that we had laid out three primary goals for 2014. Let me just reiterate those for you and I'll focus my remarks on those topics.

Number one, positive Adjusted EBITDA from operations by Q4 2014, and continued profitable growth in our joint ventures.

Number two is careful management of our investment programs to ensure that operational cash flow from Westport direct sales, as well as our joint venture dividends, will cover investment by the end of 2015 and allow Westport to achieve overall consolidated positive Adjusted EBITDA.

Third, we have to deliver on our contractual commitments to strategic partners and key OEMs to develop attractive new customer relationships and continue to help removing barriers to rapid adoption of natural gas as a transportation fuel around the world.

Moving to slide 6, I'm very pleased to report that our team has delivered on the first strategic goal two quarters early with a strong move to positive Adjusted EBITDA from operations. As you can see from the graphic, there's been a consistent Adjusted EBITDA loss of around \$9 million per quarter from operations over the last two years. Last quarter, we achieved a step change to a \$1.6 million Adjusted EBITDA loss from operations, and this quarter we've achieved a \$1 million positive Adjusted EBITDA on roughly the same revenue base.

I'm very pleased that we're able to deliver this milestone ahead of schedule and I now want to expand our guidance by confirming that we intend to achieve full-year positive Adjusted EBITDA from operations this year, in 2014.

Now let me remind you that our existing guidance calls for revenue of \$175 million to \$185 million this year, excluding our joint venture, of course. Despite political uncertainty and macroeconomic challenges in many of our key markets, we believe this is still realistic and we see continued growth from our existing product portfolio. New product such as the Weichai Westport WP12 HPDI system, the Westport WP580 engine management system, new models of Ford and Volvo vehicles and the iCE PACK LNG Tank System and LNG tenders in the rail business will deliver platforms for future growth in the operating business.

Now turning to the Corporate, the strategic investments on slide 7, as you know, Westport's co-investing with OEMs to develop a portfolio of new natural gas vehicle technologies and related systems and components. Since 2012 we've invested over \$239 million into these development programs in three major application areas: global trucking, automotive products and off-road applications such as rail and large mine trucks. We've also allocated a portion of this investment to advance engineering and capital expenditures. Now, these investments typically have a three- to five-year development cycle from the start of development to actual sales. We are carefully managing these programs and allocating our investment capital to products and technologies that are designed to deliver higher returns in the future, of course, as this market develops.

Much of this expense is going to be incurred in 2014 and 2015 and with development of this broad portfolio of vehicle components, which includes spark-ignited, dual fuel and HPDI engine systems for applications from forklifts to locomotives, and with fully-integrated intelligent fuel supply systems for CNG and LNG applications, we believe that we'll be in a unique position by the end of this cycle to support virtually any OEM natural gas vehicle program in the near to middle term.

We think it's important that in this next phase of the development of natural gas transportation we have significant flexibility as markets and our customers gain experience with this new fuel. We need to balance investment in future product and technology with commitments from customers and partners and sales from existing products. By that definition really, this is the Adjusted EBITDA positive that we've been talking about and we intend to hit this balance point by the end of 2015, as I said earlier.

Now let me wrap up by reiterating that 2014 is the beginning of our phase in the development of our long-term vision of high-performance Westport natural gas

vehicles in markets around the world. We've laid out a plan. We believe that the last two quarters demonstrate that the plan is realistic and working. I firmly believe that Westport and our shareholders are in the right place to take advantage of this global growth opportunity.

Thanks for your continued interest and support and I'll pass the call to Ashoka to run through the quarter financials. Ashoka?

ASHOKA ACHUTHAN
speaking

Chief Financial Officer,
Westport Innovations Inc.

Thank you, David. Good afternoon everyone. As David just mentioned, the second quarter of 2014 marked a significant milestone for Westport as we recorded positive Adjusted EBITDA of \$1 million from our operating business units, two quarters ahead of guidance. As noted on slide 9, this compares to a loss of \$8.9 million in the prior year period, and a loss of \$1.6 million in the first quarter of this year. This year-over-year sequential improvement in Adjusted EBITDA is the direct result of increasing our operational efficiencies, optimizing our product portfolio and controlling our expenses.

I'll now provide a brief overview of our second quarter results. For the quarter ended June 30th, 2014, we recorded consolidated revenue, excluding joint venture revenue, of \$40 million compared with \$34.9 million in the prior year period, a 15% increase.

The breakdown of revenue by segment is \$24.8 million for Applied Technologies, \$11.6 million for On-Road Systems, \$1.5 million for Off-Road Systems, and \$2.1 million for Corporate and Technology Investments.

Our consolidated gross margin and gross margin percentage for the second quarter were \$13.6 million and 34%, compared to \$8.3 million and 23.8% in the prior year period. This increase in gross margin and gross margin percentage for the quarter is due primarily to product mix, service revenue and our exiting production of the first generation of the Westport high pressure direct injection, or HPDI system.

Research and development expenses were \$18.7 million for the quarter compared to \$23.9 million in the prior year period. Selling, general and administrative expenses were \$16.2 million for this quarter compared with \$20.9 million in the prior year period. These operating expenses decreased as a result of prioritization of investment programs and our exiting the first generation HPDI system.

For the second quarter of 2014, our net loss was \$35.4 million or \$0.56 per share compared with a net loss of \$33.9 million or a loss of \$0.61 per share in the prior year period. Included in our net loss for the second quarter 2014 is an unrealized foreign exchange loss of \$8.6 million compared to an unrealized foreign exchange gain of \$3.4 million in the prior year period. Excluding this foreign exchange loss and gain, Westport's net loss for the quarter was \$26.8 million in 2014 versus a loss of \$37.3 million in the same period—in 2013. This represents a 28% improvement year-over-year.

Moving on to our joint ventures, Cummins Westport Inc., generated \$79.6 million in revenues during the quarter on delivery of 2,479 units, which is a 9% decrease over prior year period. This decrease is primarily due to the timing of international orders which are typically uneven over quarters. Shipments in North America for trucking applications however, increased by 22% for the quarter compared with the prior year period as a result of a strong demand for the ISX12 G.

During the second quarter, CWT's operating performance was impacted by \$10.2 million of one or two related adjustments, primarily related to the 8.9 litre ISLG engine, which will reduce our EPS by \$0.05 per share. Excluding this warranty impact, our portion of CWT's net income would have been approximately \$3.7 million instead of \$400,000.

The CW team has made significant progress in identifying and resolving these warranty issues and we expect gross margins and net income to improve significantly in upcoming quarters.

Weichai Westport Inc., our other joint venture, generated \$133.1 million in revenues during the quarter on delivery of over 11,000 units, which is a decrease of 11% over the prior year period. This decline in volume is primarily due to softer macro economic conditions, credit tightening and higher natural gas prices in China. Westport, however, continues to invest in China to capture the significant market opportunity there with the launch of the Weichai Westport WP12 engine featuring Westport HPDI technology, the sale of Westport components to the

JV and other vehicle OEMs, and the expansion of other product offerings with differentiated technology.

As of June 30th, 2014, our cash, cash equivalents and short-term investment balance was \$168.8 million. During the second quarter, cash used in operations was \$28.9 million compared to \$23.1 million in the first quarter of 2014. This increase of \$5.8 million is primarily due to investments in working capital to support product sales of products such as the Westport iCE PACK System, offset by lowering operating expenses and lowering spending on investment programs.

At the end of June, we extended the maturity date of our 9% unsecured subordinated debentures to September 15th, 2017, and secured an additional \$19 million CDN\$ in debentures on the same terms, bringing the total outstanding debentures to \$55 million CDN\$.

We continued to make progress towards our goal of consolidated positive Adjusted EBITDA by the end of 2015. As noted on slide 10, for the second quarter of 2014, our consolidated Adjusted EBITDA was a loss of \$17 million compared with the loss of \$27.8 million in the prior year period, an improvement of \$10.8 million or 39% year-over-year.

To achieve this goal of consolidated Adjusted positive—positive Adjusted EBITDA by end of 2014—or 2015, I'm sorry—we will manage spending on corporate and technology investments so that by the end of 2015 such spending will not exceed the sum of, one, our income generated by our operating business units; two, the earnings from our JVs; and three, contributions from our program development partners. We are carefully managing our investment programs and methodically allocating capital to products and technologies designed to deliver attractive returns in the future. We believe this model will deliver great value to our shareholders as the market shift to natural gas inevitably plays out.

As outlined in the press release, we have added a new goal. While the path may not be linear, we expect that our operating business units combined, will attain positive Adjusted EBITDA for the full year ended December 31st, 2014.

To conclude, we are reiterating our revenue guidance for the year 2014 to be between \$175 million and \$185 million, which represents a growth of 7% to 13% over 2013. This growth will be primarily driven by sales of new products such as the Westport iCE PACK System, the Westport WiNG Power System on 2015 model year vehicles, the Weichai Westport WP12 HPDI System, the Westport WP580 controller, and component sales to new

OEM customers. We believe that these new products will continue to power our growth in future years.

With that, I will pass the call on to Nancy.

NANCY GOUGARTY speaking

President and Chief Operating Officer, Westport Innovations Inc.

Thank you, Ashoka. Good afternoon everyone. As David and Ashoka have pointed out, the second quarter of 2014 marked a significant milestone for Westport as we have recorded a positive Adjusted EBITDA of \$1 million from our operating business units. This is two quarters ahead of guidance. This was achieved through improving our operational efficiencies and optimizing our product portfolio and controlling expenses. However, this is not without any headwinds. Major challenges in our Applied Technology business continue to be from Europe, particularly Italy, our largest market, which saw a significant drop in year-over-year revenues for the quarter. Growth in Russia has been flattened by weaker currency, however China, our third largest market, continues to grow but the growth rate has slowed from last year.

Our immediate focus in North America is prioritization of the investments and the return on product sales with the next phase of growth. With the expansion of our 2015 model year Ford vehicle lineup, we further solidify our position of having the largest Ford CNG product portfolio for the Ford QVM program.

I will now provide some operational highlights and initiatives.

Final development of Volvo HPDI program continues at a high pace. Design of the new generation HPDI injectors with Delphi is also underway. We are now engaged in development—of developing detailed manufacturing process and equipment plans for a dedicated HPDI injector product or production line. HPDI and spark-ignited activities with other OEMs are progressing on many fronts with a series of innovative products.

We delivered the second and the third LNG tender to Canadian National Railroads in Quarter 2, while the stationary testing of our first tender continues at EMD.

We are exploring opportunities in marine application with focus on inland waterways, off-shore service vehicles - ferries - and LNG bunkering segments.

Westport-designed WP580 controller validation activities are substantially complete and Tata vehicle production has commenced.

To improve our operational efficiency, we have restructured the Beijing office, implemented a process of improving and training throughout the Company, completed the consolidation of the Ford business in Dallas, implemented lean manufacturing in Italy and it's progressing as planned.

To improve the cost and optimization of our product portfolio, we have identified a number of opportunities where we can supply our own components to the different products we have. For example, the Ford WiNG Power System uses components manufactured by Applied Technologies Italian operation. The Westport iCE PACK LNG Tank System uses the Emer regulator designed primarily for iCE PACK, but is also used on other LNG products as well. We have expanded our vehicle lineup with the 2015 model year dedicated or bi-fuel CNG for the Ford Transit Connect. We have launched the bi-fuel CNG version of the Ford 150 featuring the Westport WiNG Power System.

We continue to focus on creation of shareholder value in making sure that we're getting full value out of every dollar we spend. We are also working diligently with our OEM partners to ensure—to satisfy their needs and their quest to participate in this market. We still have a lot of heavy lifting to do but we're on our way. Execution focus with accountability continues.

With that, I will now turn the call back to the Operator to open the call for questions.

Operator

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star, and one, on your touch-tone phone. You will hear a tone to indicate you're in queue. For participants using a speaker phone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star,

and two. There will be a brief moment while we poll for questions.

The first question today is from Jerry Revich of Goldman Sachs. Please go ahead.

Jerry Revich - Goldman Sachs

Good afternoon.

Darren Seed - Westport Innovations, VP, Capital Markets & Communications

Good afternoon, Jerry.

Jerry Revich - Goldman Sachs

I'm wondering if you can talk about order trends in the Applied Technologies business or touch on inquiries. It looks like the business has generally been flattish over the past 18 months. Sounds like you have a couple of new products maybe. Can you just flesh out or do you expect to pick up the back half of the year?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Okay, this is Nancy. I would say that what we're finding is that the products that we have are doing quite well. We're seeing a significant uptake and many, I'll say emerging markets. One of the things that we have run into a bit on is some of the geopolitical activity that's going on around the world and some currency on that front, and that—I think some uncertainty in certain regions of the world right now we believe has impacted some of the orders that we have seen in the first, or in the second quarter.

I would say in general, our product portfolio continues to remain very strong and we're seeing quite a bit of uptake not only on the individual components but also on the activity where people are buying full kit systems in order

to do, you know, modifications on a full vehicle basis and we're finding that to be quite a successful piece of our business and an area of focus.

Jerry Revich - Goldman Sachs

Okay, thank you. In Cummins Westport, in the press release you cited some delays in international sales. Can you just say more? Which markets was that? Do you expect to make up for those volumes next quarter? In the press release, you gave us the North America shipments year-to-date. I'm wondering if you could share the North America year-over-year shipments in the quarter if you have it.

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Yes, I'll take that Gerry. This is Ashoka. You know international shipments have always been pretty lumpy and while, you know, there can be no assurance about timing, we have no reason to believe that on a full year basis it is going to be significantly different. So, it's purely a matter of timing. Towards the end of last year we picked up a big chunk of international shipments and there is no regularity to it.

Jerry Revich - Goldman Sachs

Ashoka, the other part of the question? North America CWI shipments in the quarter on a year-over-year basis?

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Yes, I mean it is—the shipments are pretty much as we expect. We have been—the reaction to the ISX12 G has been positive and there have been no surprises there as far as we are concerned. I mean, we are seeing that customers typically are placing seed orders for five and 10 units until such point they are comfortable with the integration of the vehicle with infrastructure and with the

support. But for the most part, all reactions we are getting on the ISX12 G has been extremely positive.

Jerry Revich - Goldman Sachs

Okay, and lastly Ashoka, I'd love your perspective on the warranty side. You know, we've been talking about Cummins Westport warranties for a while. Should we just think of these products as having structurally higher warranty rates than other products? Or—just love your perspective and, you know, if you anticipate warranties will come down based on, I guess, the data at your fingertips. When would that be?

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Yes. Jerry, I mean the good news here is that the warranty is not related to the new ISX12 G engine. It's primarily, almost entirely I'd say, related to the 8.9 litre engine that's out there. We have addressed the quality issues that we've found on the 8.9 in the production of the 12 litre, so we don't expect the 12 litre to have the kind of warranty issues that we are seeing on the 8.9. Specifically, the issues that we're seeing on the 8.9, we have, the CWI team has put in a tremendous effort to identify the issues and come up with a solution. We believe they have a solution on-hand and it's just a matter of the effect of those, shall we say repairs, rolling out into the general population. So, there is little doubt in my mind that these warranty adjustments will come down significantly in the upcoming quarters.

Jerry Revich - Goldman Sachs

Okay. Thank you.

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Sure.

Operator

The next question is from Ann Duignan of JP Morgan. Please go ahead.

Ann Duignan - JP Morgan

Hi. Good afternoon. Yes, I just wanted to focus a little bit on the balance sheet. It appears that, Nancy, you and your team have done a good job on the profit and loss side, but I was curious. On the balance sheet is seemed like receivables went up quarter-over-quarter, inventory days went up quarter-over-quarter, and payables went up quarter-over-quarter in terms of days outstanding. Can you address that and tell us what's going on there and, you know, what we should expect going forward?

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

No. I mean, Ann, there is nothing systemic here. It's just—it's essentially a matter of timing. One of the reasons you see an uptick in both in inventories and receivables is we are ramping up iCE PACK sales and we had some collections on that and as well as some prepayments on inventories that we are building up to meet our delivery targets for Q3 and Q4. Outside of that, there is a small—there's a \$2 million timing issue on Italy, which is also not typical, because we did have a ramp up of sales towards the end of the quarter.

Again, nothing systemic, nothing extraordinary; purely timing and it has to do with our ramping up of production.

Ann Duignan - JP Morgan

Okay. Thank you, that's helpful to understand. Then more a strategic question. On your locomotive development with Caterpillar, I know you're pursuing HPDI. GE's making big noise about pursuing dual fuel and saying publicly that they believe that customers will prefer the dual fuel option rather than natural gas only. Can you just talk about what you're seeing out there, what you're hearing, or what customer feedback you're getting? Or is it too early to know which technology will win?

David Demers - Westport
Innovations, Chief Executive
Officer

Hi Ann, it's David. No, I mean there's actually no question about this. EMD is also launching dual fuel. I think everyone is keen to get their hands on something that uses natural gas. Dual fuel, as you know, is going to have relatively low substitution rate so this is not a technology that is going to be a long-term deal, but it certainly can let people get used to the idea of running on natural gas. Until there is LNG infrastructure out there though, the industry needs 100% diesel backup and that's the only way you can do that is with some sort of dual fuel technology. So, I think you should expect to see, you know, a few dual fuel locomotives. I don't think you're going to see thousands, but you're going to see a handful, maybe, in the next couple of years and maybe a couple of double handfuls as people get their head around how they're going to deploy this. But long term, you know, I've got no doubt you're going to need high pressure and direct injection to deliver the kind of torque and power and fuel economy that the locomotive industry is going to need.

Getting all this in place is going to take years though, so let's not expect anything magic. Our fuel tenders are going to support low pressure or high pressure. We obviously want people to have reusability among this capital investment and so as the industry starts to roll out natural gas, these tenders are going to flow no matter what the locomotive technology is going to be. But long term, I fully expect that it's going to be direct injection and high pressure that dominates the industry.

Ann Duignan - JP Morgan

So we're talking about, you know, the next decade at least, is that...?

David Demers - Westport
Innovations, Chief Executive
Officer

Yes, I'd say rail industry is certainly longer term. You'd know this as well as we do. Certainly, you've got a longer sense of what, you know, a short-term or medium-term time horizon might be. For a truck fleet it might be a few

years; for rail industry it might be a decade. So, you know, they have a lot of enthusiasm for going to natural gas and the lower price fuel but it is going to take significant capital investment to get that LNG and get it rolled out and there's a product cycle that is fairly long. So, we believe it's a very interesting market for us, but for us that's medium- to long-term. It's not going to happen—it's certainly not going to be the thing we're relying on to get to profitability next year. How's that?

Ann Duignan - JP Morgan

Yes. No, I totally agree with that. Okay, I'll leave it there and pass it on. Thanks.

David Demers - Westport
Innovations, Chief Executive
Officer

Thanks, Ann.

Operator

The next question is from Rob Brown of Lake Street Capital Markets. Please go ahead.

Rob Brown - Lake Street
Capital Markets

Good afternoon. On the unit trends at CWI in the 12-litre, I guess just wanted to get a sense do you still think you're on track for that 3% to 5% market penetration rate this year?

Darren Seed - Westport
Innovations, VP, Capital
Markets & Communications

Well the—hi Rob. The 3% to 5% does encompass a 9-litre—8.9-litre applications in trucking as well as the 12, and right now we're still looking at 3% to 5% of the truck—North American truck market, Class 7 and 8 being natural gas. We can't unfortunately, break down the individual engine unit sales at the request of our partner, so the only thing we can say is we are still seeing this 3%

to 5% trend of Class 7 and 8 trucking in North America for calendar 2014.

Rob Brown - Lake Street
Capital Markets

Okay, good. Thank you. Then in terms of your reiterating revenue guidance, could you maybe just go through the buckets or sort of the—rank order the drivers for the revenue step up in the back half of the year? What are there kind of the things coming in the back half of the year that'll help drive revenue over what you've seen thus far this year?

Ashoka Achuthan - Westport
Innovations, Chief Financial
Officer

Yes. You know, I don't think we can give specific details but, the obvious one is iCE PACK, and as I mentioned, we are ramping up iCE PACK and we are going to see a significant uptick in Q3 and Q4. For the rest of which is—which falls into the On-Road segment. For the rest of the businesses, you know, we've got Off-Road and ATG pretty much on-track and we expect to come through as guided.

Darren Seed - Westport
Innovations, VP, Capital
Markets & Communications

Yes, I think, Rob, just building on it. So it's On-Road Systems, it's really the only major brand new product availability. Obviously, we expect to ship some HPDI systems over the next couple of quarters to various markets around the world too, so. But again, that also shows up in On-Road Systems, so other than we can't break down specific business units, On-Road definitely has some of the bigger catalysts in it.

Rob Brown - Lake Street
Capital Markets

Okay, great. Thank you. I'll turn it over.

Operator

The next question is from Nicole DeBlase of Morgan Stanley. Please go ahead.

Nicole DeBlase - Morgan
Stanley

Yes, hi guys. Good afternoon.

David Demers - Westport
Innovations, Chief Executive
Officer

Hi Nicole.

Nicole DeBlase - Morgan
Stanley

Hello. So just maybe starting with EBITDA. Reaching the breakeven operating EBITDA was a nice positive surprise this quarter, but you guys are now expecting, you know, full year EBITDA to be positive which implies a continued step up in 3Q and 4Q. So, I'm just curious, you know, clearly revenue's going up. Is that the key driver of EBITDA getting better or is there more cost cutting? If you could just kind of elaborate on that.

Ashoka Achuthan - Westport
Innovations, Chief Financial
Officer

Yes, I mean the revenues will certainly help, and again I come back to, you know, iCE PACK which will show improving margins as we have increased volumes of the product going out quarter-over-quarter. So, it is primarily increase of revenue and also to some extent, our continued controlling of operating expenses and operational improvements. As Nancy mentioned, we are seeing streamlining of businesses and process improvements in Italy. We are going to see some impact of that. We are already seeing the impact of consolidation of the Ford business in Dallas. There is still some, shall we say, residual effect of that, that we will see. So, that's what we expect will get us to our full year Adjusted EBITDA. But I must caution you, yes, this doesn't necessarily mean that it is going to be linear. We do have challenges in the third quarter. It is a quiet

quarter in Europe, as you know, with a lot of our customers being on vacation there. So, I'm not suggesting that it's going to be linear between now and the end of the year, but yes, we expect we will be Adjusted positive EBITDA for the full year.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Right. Let me just add on. I think that again it's all down to prioritization of activities and with a strong decision at the top, with the leadership team getting together and ensuring that we're making the right investments and we're putting our efforts against the right things. What you can say is the team here is very focused on getting that done. We have major projects and we have small projects but all of them or, you know, collectively together add up and I think that that's where our focus is, is just making sure that we are focused on big and small and making sure that we're being able to get the best use out of every dollar and its value.

Nicole DeBlase - Morgan Stanley

Okay, got it. That's really helpful, thank you. Then secondly, maybe speaking of investment, your CapEx fell pretty dramatically this quarter. Can you just talk about the sustainability of the CapEx that you guys spent or, you know, the potential for it to pick up from here?

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Yes. Our CapEx spend, again, it's not linear and we spent about—if I recollect a little less than \$5 million in the first half of the year. We've always expected our CapEx to be skewed towards the second half of the year and we expect some of it will pick up, particularly with our Delphi development program on injectors picking up steam, and we have some CapEx investment that we have committed in Italy, primarily related to the consolidation of our warehouse and some process improvement implementations, as well as some equipment for new products in Italy.

So, no, the first half spend of \$5 million is not indicative of what it is going to be for the rest of the year. I expect it will pick up significantly in the third and fourth quarters.

Nicole DeBlase - Morgan Stanley

Okay, got it. Thank you very much. I'll pass it on.

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Sure.

Operator

The next question is from Jeffrey Schnell of Jefferies. Please go ahead.

Jeffrey Schnell - Jefferies & Company

Hi. If you look at your R&D, can you talk about the opportunities you may have shelved or discontinued because, you know, it's been coming down in the last couple of quarters, and any of those opportunities you can potentially bring back later on when the market's more developed?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I would say that what we have found and we've taken the opportunity and you can see it across the Company, is looking at projects that we do have and understanding what's going on. So, as you've heard, we had a very heavy focus on iCE PACK and what we have found is, is that we had some projects that we're working in multiple regions and what we've decided is to bundle them all together and to go to a fuelling system approach that allows us to have similar products throughout the world. So, it's not so much that we are shelving products; we're just trying to figure out how to consolidate them better and try to

use the same resources around the world to build on them versus having each region do their own activity. We found that that has been quite successful. We're bringing all the voices around the world together to get the specs done, but then having a very focused team looking at that and then moving very quickly forward in order to serve all the markets. It's a slight different approach than we've had in the past but we think that that is going to serve us well. That's one of the things that has helped us—one of the areas that has helped us on R&D.

Jeffrey Schnell - Jefferies

Great. Then there's been increased competition especially in light duty on the tank side. Is there still room for you to take out costs and drive down ASPs to get a better payback period for fleets?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I don't know that—to be honest with you, on the light duty side it's primarily in the CNG side and I would say I don't think I'm the best person to respond to what the market sees. We have had very good success with the suppliers that we work with into order for us to be quite competitive on the products that we're offering and so I would guess that if the kinds of things that we're seeing through our supply base is happening elsewhere, then I would say your theory is likely correct.

David Demers - Westport Innovations, Chief Executive Officer

I'll jump in on that just because it is a theme that we keep hitting that, you know over time, the cost of the vehicles has to come down, just like the cost of fuel has to become more competitive. Everyone understands this and 10 years from now the market is going to be much more mature, and I think this is good evidence of the maturation of the supply chain. We're getting a lot more choice of suppliers who are building quality products and investing because they see the market opportunity and they want to participate. So, CNG tanks has come on very well over the last 18 months, I'd say, and we're able to take advantage of that in our light duty products. We

don't make CNG tanks, obviously. This is a supply chain issue.

The same thing has to happen everywhere else though, and that's why we're investing with people like Delphi on the fuel injector side. The goal here is to get volumes up and costs down while still making a nice return for our shareholders. So, we're in the early days of this transition. The market 10 years from now I think is going to be a lot more competitive, but also going to be a lot more sizeable, worth chasing, yes.

Operator

The next question is from Vishal Shah of Deutsche Bank. Please go ahead.

Vishal Shah - Deutsche Bank

Yes, hi. Thanks for taking my question. I just wanted to better understand your revenue guidance functions. Has anything changed? Has the mix improved or decreased? You know, you said that Applied Technologies, order trends have been weakening, so can you talk about how should we be thinking about the mix of business for this year, and is that part of the reason why the EBITDA performance was so strong in the second quarter?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Well, I think that—let me just try to take a shot at it and I'll let Ashoka take it from here. But if you look at where we were last year, as you know that we have our first generation HPDI product and this year we have introduced some new products such as iCE PACK and I think that, you know, from my perspective that's one of the strong contributors relative to where we are. We have been able to, you know, introduce products to the market that we believe are quite competitive cost-wise, but also are well-honed in terms of their builds of material and their competitiveness relative to the, you know, I'll say the cost of goods sold. So, I would say those are activities that are taking place.

Ashoka, I think beyond that on guidance, my guess is, you know.

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Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Yes, I don't think the mix has fundamentally changed, Vishal, and I think our Q2 performance has to do quite simply with, you know, strong operating margins on ATG. You'll notice a significant improvement quarter-over-quarter in ATG. We had good product mix. Our efforts at rationalizing operations are beginning to pay off. I come back to, you know, ICE PACK as it picks up volumes and we will expect to see improved margins there.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

You know, another point is, you know, you can see on the Ford product that we've introduced now a Ford F-150 that's now bi-fuel and we now have dedicated. We now have the Ford Transit Connect, so I think that you can see that you would—as we move forward, our product portfolio is getting richer on lots of different fronts, whether it's fuelling systems, whether it's truck offerings or whether it's technologies, and I think those are all things that are going to bear with us as we look at our revenue.

Vishal Shah - Deutsche Bank

That's helpful. You mentioned that the growth rate in China is slowing down. Do you see any changes in pricing or margins in that market particularly?

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I wouldn't—I guess what I would tell you in China is what we find in China is it's—as the price of liquid natural gas or CNG in the market has influence relative to growth and as you know that in China there is some relative control of that price, so as that fluctuates we do see some items. I would say in general though, in China, I would say in most cases we're still seeing strong growth but it

isn't the kind of growth that they had last decade. I mean, you know—and I think that that is true regardless of what industry you're in. So yes, it is still strong growth but it's just not as strong as it was in the last couple of years.

Vishal Shah - Deutsche Bank

Thank you.

Operator

The next question is from Eric Stine of Craig-Hallum Capital Group. Please go ahead.

Eric Stine - Craig-Hallum Capital Group

Hi everyone. Thanks for taking the questions. Maybe just on Weichai; just wondering if you can give some commentary on how that pipeline is shaping up now that it's been announced, finalized agreement for a couple of months, you know, with—I guess you've got a few units hitting the road but just your thoughts on that and how that takes shape in 2015 and beyond.

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Okay. Eric, I'm assuming you're referring to Weichai HPDI, the HPDI program for Weichai.

Eric Stine - Craig-Hallum Capital Group

Yes, the WP12.

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Yes. You know, we expect to deliver about 30 customer validation units this year and we expect that'll happen. We expect that'll be successful. Next year, we're probably

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talking of, you know, in big, round numbers, hundreds and the year after that, you know, we expect that we could be sitting on a gold mine. So...

Eric Stine - Craig-Hallum
Capital Group

Okay.

Nancy Gougarty - Westport
Innovations, President and
Chief Operating Officer

So I guess, just to add, you know, to the Weichai, at this point in time I think that, as you know, in China the infrastructure for the LNG and those kinds of things is much—one of the most developed markets that exists. So, you can imagine that having the fuelling infrastructure as mature as it is in that market really will lend itself, we strongly believe, to the product that they're currently selling, but also the introduction of this HPDI.

Eric Stine - Craig-Hallum
Capital Group

Got it. Okay. I guess we'll stay tuned on that. Maybe just high level, just turning to the WiNG business, I mean you've clearly built out a pretty significant presence there. Just thoughts longer term. I mean what do you think Ford needs to see before they think about taking that in-house, and then taking it a step further? I know you acquired ServoTech as part of the BAF acquisition. Just thoughts on, you know, what kind of leg up that gives you as part of the process with Ford?

Nancy Gougarty - Westport
Innovations, President and
Chief Operating Officer

Well I—maybe I start with the second part first. I would say that we're very pleased with here we are just one year into the acquisition of BAF last year and we now have the operation fully consolidated in our Dallas facility. We found that, you know, that the product—I'll say the combination of the products that we had from the WiNG and what BAF brought to us, as well as the kitting activity

where BAF was very strong in providing kits to the market, really has served us well on the business. I would indicate—I guess I'm not in a position at all to give you any sense of where Ford's threshold is of where they bring it in-house, so I don't think I'm able to comment on that. I would say that we're very pleased that we are in such strong with the BAF acquisition and our product portfolio lineup that we do have the strongest portfolio relative to vehicle offering in this. I think that that, you know, is serving us quite well in the market and is very helpful to Ford as they service their market in the variety of different customers they have. So, I think that we work quite well together and - but I can't speak to what Ford has on their mind.

Eric Stine - Craig-Hallum
Capital Group

No, understood. What I was getting at was ServoTech. I mean I—as I remember when that was part of Clean Energy that that was a business that, you know, there was some access to Ford's control software and just some thoughts on what that means for you in terms of your relationship with Ford.

Nancy Gougarty - Westport
Innovations, President and
Chief Operating Officer

Well, I would say that yes, the good news for us is that the combination of BAF, I mean still continue to be the, you know, part of their QVM, but also with ServoTech having the ability and the authority to touch the controllers is also powerful for us. You know, ServoTech also is very strong in clean exhaust, so we believe all-in-all that the combination of the companies has served us not only for Ford but we're finding that this is also being a nice, I'll say entrée, to some other customers in a variety of different ways.

Eric Stine - Craig-Hallum
Capital Group

Okay, that's helpful. Thank you.

Operator

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The next question is from Colin Rusch of Northland Capital Markets. Please go ahead.

Noah Kaye - Northland Capital Markets

Yes, hello. This is Noah Kaye in for Colin. Was just hoping to get a little bit of granularity on iCE PACK. Unit shipments, bookings, backlog, just to help us understand this ramp a little bit better. We've obviously seen a few key announcements. I just wanted to get a sense of how you see it shaping up for the rest of the year.

Darren Seed - Westport Innovations, VP, Capital Markets & Communications

Hey Noah, it's Darren. We've previously announced the order for roughly 900 iCE PACKs to be delivered over two years. That's pretty much the run rate, the kind of agreement we're working against. Otherwise we don't really—we're not in a position I guess just to publish backlog. Traditionally working with OEMs and different suppliers they should have a function of build slot commitments which can be moved, so it's very dangerous for companies, let alone public companies, to get into forecasting backlogs when build slots are such flexible items.

So unfortunately, all we can comment on is just what we've already publicly announced as it pertains to iCE PACKS. So, sorry about that.

Noah Kaye - Northland Capital Markets

You're still expecting about half of that 900 will ship this year?

Darren Seed - Westport Innovations, VP, Capital Markets & Communications

That's currently the goal, yes. Yes. It was split pretty evenly between '14 and '15.

Noah Kaye - Northland Capital Markets

Okay. Could you give us a little bit of an update on where Volvo is? Have they started taking orders or indicated when they're going to start taking orders for the 13-litre?

David Demers - Westport Innovations, Chief Executive Officer

I don't think so. I mean, I'm looking around the table. Nancy, I don't think there's formal order. I think Nancy said in her comments, you know, we're working very hard, as everyone is. I think the opportunity in Europe is firming up really well. We've got a strong interest in LNG as a transport fuel and as you know, Cummins Westport hasn't had a lot of presence in Europe there because the OEMs are much more vertically integrated. So, Europe is I think looking forward to their first natural gas trucking products and we're keen to make that happen, but there's a lot of work to be done yet and we will have the same sequence that you've heard us do before. There will be some customer trial units and there will be some early production and then there will be a release for production, but that's really up to Volvo to sort out.

Darren Seed - Westport Innovations, VP, Capital Markets & Communications

The timing at this point, Noah, is it's all in—it's Volvo's call. It's their product, in essence, so unfortunately it's up to them to comment on timing.

Noah Kaye - Northland Capital Markets

Great. Finally, can you just talk a little bit about traction in terms of increasing component sales into China? Have you been able to add any customers, you know, for any meaningful volumes going forward? How do you see that shaping up? You mentioned that there's been some

reorganization in Beijing and, you know, I know this is obviously a great source of potential growth for you guys.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Absolutely. We see China as one of our, you know, growth engines. For sure, as I mentioned earlier, with the fuelling infrastructure, we are getting pulled in lots of different directions from a variety of different constituents in the market. The component side is certainly one of the areas that we're seeing but we're also talking to a variety of folks that want to offer, I'll say LNG/CNG vehicles of all sorts. We just talked about Weichai, obviously, on the trucking side but we also— from the light duty side. I'm not in the position with any of those customers, at this point in time, to reveal who they are. I would just indicate to you that, at this point in time, there is a lot of activity. Our focus, at this point in time, and why we did some restructuring in China was partly because we want to get relatively close to our customers, and as you know, a lot of the customer base is in the Shanghai area. So, we're looking to utilize that area because that puts us in many cases closer zone-wise to the customers as we're doing these development projects.

Noah Kaye - Northland Capital Markets

Okay. Thanks so much for the colour and congrats on reaching your milestones ahead of time.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

Thank you.

Darren Seed - Westport Innovations, VP, Capital Markets & Communications

Thanks Noah. Good to see you back.

Operator

As a reminder, it is star, one, to ask a question. The next question is from Aditya Satghare of FBR Capital Markets. Please go ahead.

Aditya Satghare - FBR Capital Markets

Thank you. Good afternoon all. So two questions. One is I wanted to make sure I understood the investment criteria and R&D investment criteria as you think of 2015, and then does that mean that once you get past this phase of investment we should see some sort of step down as you go past that period?

Ashoka Achuthan - Westport Innovations, Chief Financial Officer

Yes. I mean we have a pretty rigorous process of evaluating what gets – we have what we call the IRB process – an Investment Review Board that has a pretty thorough and methodical process of evaluating programs that they have put forward for approval. So yes, I mean when we look to a program, we look at the business case. We make sure that it meets our thresholds. We make sure it meets our hurdle rates, and more importantly, that it's a substantial business. So, you know, it doesn't necessarily mean that it trends down year-over-year. It's on a case-by-case basis. You know, each program could have its own individual spend pattern, but at the end of the day, it doesn't get our approval unless it meets, one, the criteria I just mentioned, and two, it supports our position of getting to Adjusted EBITDA positive by the last quarter of 2015.

Nancy Gougarty - Westport Innovations, President and Chief Operating Officer

I think there's also an opportunity and we continue to find opportunities where with our technology and our technology lead in the market that we have customers that are coming to us that are, you know, teamed with us—not a whole lot different than what Volvo has—and that we are, you know, able to team with them, which

then helps us with the R&D spend activity. So, I think that that's a continuation and I would say, at this point in time, we're seeing a lot of activity and again, as David said in his comments, the market is getting more and more ready and so as this happens folks are looking at their product portfolios and deciding where they are against this industry and Westport is benefiting from that.

Aditya Satghare - FBR
Capital Markets

Got it. My second question is on the WiNG business. Given that the offering now is pretty broad and it touches multiple segments, maybe on a high level, can you sort of talk about, you know, which segments you're seeing the—which segments you expect to see the fastest growth and how does that sort of business evolve over the next 12 months or so?

Nancy Gougarty - Westport
Innovations, President and
Chief Operating Officer

I would say if you look at the amount of vehicles on the road, obviously, the 150s and Ford 250s are the big users on the road and to be honest with you, there's a lot of, you know—though we have a product portfolio that goes through all of them, no different than where Ford sees their volume is those tend to be the areas we see our volume.

Aditya Satghare - FBR
Capital Markets

Okay, got it. Thank you. That's all I had.

Operator

This concludes time allocated for questions on today's call. I will now turn the call back over to Mr. Seed for closing comments.

Darren Seed - Westport
Innovations, VP, Capital
Markets & Communications

Just to thank everyone for their attendance on the call and expect to see everyone back around the end of October for our Q3 conference call.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.