

Operator

Welcome to the Westport Innovations Quarter Three 2015 Financial Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there'll be an opportunity to ask questions. To join the question queue, simply press star and one on your touchtone phone. Should anyone need assistance during the conference call, they may signal an Operator by pressing star and zero on their telephone.

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

DARREN SEED speaking

Vice President, Investor Relations and Communications, Westport

Thank you and good afternoon, everyone. Welcome to our Third Quarter of Fiscal 2015 Conference Call. 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; Westport's Chief Financial Officer, Ashoka Achuthan; and Westport's Executive Vice President, Heavy Duty Engine Systems, Jim Arthurs.

Attendance at this call is open to the public and to media, but for the sake of brevity, we're 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

Thanks, Darren. Good afternoon everyone and thank you for your interest and support of Westport. Q3 saw several important milestones, including the announcement of a transformational merger with Fuel Systems Solutions. I'm briefly going to touch on what I see as the major strategic points during the quarter and then we'll turn the call over to Ashoka for the financial highlights. Nancy is traveling in Asia this week, so we've got Jim Arthurs who's Chair of the Cummins Westport joint venture, as well as EVP of our Heavy Duty business, to comment on the operational highlights.

So, let's start with the Fuel Systems deal, which we announced on September 1. I'm sure many of you have seen the draft F-4 filings and the story of this transaction from the Fuel Systems' side as laid out there. I think there are several significant benefits to the combination of Westport and Fuel Systems.

First, the combined Company will be one of the largest in the alternative fuel systems industry, providing the global reach, scale and expertise to compete effectively, and ultimately grow and deliver strong Shareholder returns as markets improve.

Second, the combined Company will benefit from a strengthened balance sheet and enhanced liquidity, and will be positioned for continued investment and long-term financial stability.

Third, consolidation will produce cost efficiencies. The transaction is expected to be accretive to the Company's combined Adjusted EBITDA and earnings in 2016, excluding one-time costs, but annual savings and merger synergies expected to reach \$30 million by 2018.

Fourth, and probably most important, the transaction will combine our technology and expertise in medium- and heavy-duty and high-horsepower applications, with Fuel Systems' core focus and development efforts in the light-duty and industrial applications. The resulting combined Company will have unique technological expertise and product development spanning from passenger cars and heavy-duty trucks to locomotive, marine and stationary power. Westport and Fuel Systems each bring long-standing relationships with key global OEMs, which will become strengthened as a result of this combination.

As you've seen, we've now cleared the Antitrust Review processes and we're now at a review period with the securities regulators. This timetable will mean that Shareholder meetings are expected to be held in January and we'll close the transaction shortly thereafter.

Before turning it over to Ashoka, I want to highlight three other items.

First, as you saw over the past few weeks, we've completed a major milestone with our HPDI 2.0 Development program, and with our production partners we'll be delivering B-level production design intent parts for integrated testing in the first half of 2016. We've concluded commercial negotiations with our lead customers and we're making excellent progress with several other OEMs. Collectively, this represents over 30% of the global production of diesel truck engines.

Second, we saw the announcement of Cummins Westport's newest engine, a near-zero emissions solution for buses and refuse trucks. Remarkably, this offering means that natural gas vehicles, like transit buses, will see NOx emissions that are indistinguishable from electric vehicles at much lower costs, and if the operator is using renewable natural gas, there's a large greenhouse gas benefit, as well. This announcement has triggered significant interest all over the world, as you can imagine.

Finally, I wanted to single out our Volvo Car Team who completed development of the first gasoline direct injection bi-fuel vehicles, which has recently resulted in the largest order in this Team's history. Notably, the Team has also reached profitability, even at these low production volumes, and we'd like to congratulate them.

Conditions around the world economy remain volatile and low oil prices continue to stress many of our markets, but the more important fact is that in most markets the spread between natural gas and conventional fuels remains attractive and our business prospects remain strong. Sales of our current products, including the Cummins Westport joint venture, remain steady and prospects for our new products are encouraging. We continue to expect to see revenue for 2015 between \$110 million and \$125 million for the full year, as we make progress toward our business development and product launch milestones in 2016.

Over to Ashoka.

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport

Thank you, David. Good afternoon, everyone. I'll be providing you with some highlights of our third quarter, actions we have taken to address our expenses and cash position, and will then cover our financial outlook for 2015.

As David noted, we have completed another quarter of steady progress towards reaching our 2015 operational targets. Despite continued economic weakness in certain markets, Westport reported strong results in the Cummins Westport joint venture, compared to last year, and achieved significant milestones with a number of global OEMs. Jim Arthurs will elaborate on this in his discussion on operational highlights.

Westport revenue from operations, including our Corporate and Technology Investments segment, was \$22.3 million for the quarter ended September 30, compared with \$25.3 million for the same period last year. The 12% decrease is due to the impact of low oil prices on some of our North American businesses, such as the Ford QVM business, weakness in our iCE Pack business, and the unfavorable impact of foreign currency translation from the Euro to the US dollar. Revenue from European operations, including acquisitions, in fact increased by €4.4 million, but was relatively flat on a US dollar basis. Westport is reiterating its revenue outlook and expects consolidated revenue from Westport operations and Corporate and Technology Investments to be between \$110 million and \$125 million for the year ended December 31, 2015.

Cummins Westport or CWI's revenue was \$82.4 million on 2,343 units for the quarter ended September 30, 2015, an increase of 17% over the same period last year. Revenues increased on a year-over-year basis due to strong performance in North America in the core segments of transit and refuse.

Weichai Westport's revenue, however, was \$33.6 million on 2,992 units for the quarter ended September 30, 2015, a decrease of 81% over the same period last year. General economic conditions in China have resulted in an industry-wide softness in truck demand, contributing to Weichai Westport's weaker sales.

Moving on to operating expenses, Westport consolidated reduced its combined operating expenses by \$6.5 million, or 20%, for the quarter ended September 30, 2015, compared to the same period last year, primarily due to prioritization of investment programs, cost discipline, as well as the favorable impact for the foreign exchange translation from the Canadian dollar and the Euro to the US dollar.

Moving on to net income, our income from CWI improved very significantly during the quarter. Westport's portion of CWI net income for the quarter was \$3.5 million, nearly a threefold increase compared to the same period in 2014. This improvement was largely related to the resolution of warranty issues associated with the ISL G engine and the continued strength in sales in Transit and Refuse segments.

For Weichai Westport, the net income for the quarter ended September 30, 2015 was \$400,000, a decrease of 88% over the same period last year, due to significantly lower units sold as a result of the reduction in industry-wide demand, as I mentioned earlier.

From a consolidated viewpoint, the third quarter ended September 30 resulted in a net loss of \$37.4 million or \$0.58 loss per share. Included in these results are an \$18.7 million goodwill impairment charge and a \$5.5 million inventory write-down. Combined, these charges represent a \$0.38 per share non-cash impact. Excluding these charges, our consolidated net loss would've been a loss of \$0.20 per share.

Moving on to our cash position, as of September 30, our cash, cash equivalents and short-term investment balance was \$42.1 million. Cash used in operations, excluding changes in working capital, plus dividends received from our joint ventures, was \$14.3 million, compared with \$25.3 million for the same period last year, an improvement of 44%. Note that this usage \$14.3 million includes costs related to the announced merger with Fuel Systems Solutions. Working capital changes generated \$2.6 million this quarter. We have ongoing initiatives in place to continue improving upon our working capital performance over the upcoming quarters. We also have an active term sheet related to non-core asset sales and have additional strategic initiatives underway. Our target is to complete these transactions by year end.

Moving on to Adjusted EBITDA and key steps on our path to profitability, Adjusted EBITDA from our Operations segment for the quarter ended September 30 was a loss of \$1.8 million, compared with a loss of \$5.4 million for the prior year period. This is the result of operational improvements and cost management initiatives across our businesses globally. Consolidated Adjusted EBITDA improved 56% in the third quarter, compared to the same period last year. Adjusted EBITDA for the third quarter was a loss of \$9.7 million, compared with a loss of \$22 million in the prior year. This was due to overall improvement in our cost structure, prioritization of investment programs and higher CWI net income to Westport.

We are facing some headwinds from lower oil prices and economic turbulence in certain markets, but have made the necessary adjustments to be able to capitalize on opportunities as they arise when industry conditions improve. We are making significant progress towards our goal of consolidated positive Adjusted EBITDA by mid-2016, and I look forward to bringing you further updates on our progress in the next quarter.

With that, I will pass the call on to Jim Arthurs to discuss our operational highlights.

JIM ARTHURS speaking

Executive Vice President, Heavy Duty Engine Systems, Westport

Thank you, Ashoka, and good afternoon, everyone. I'm going to focus on providing some operational highlights for the Company.

Our Operations Team has completed another strong quarter, delivering on targets on a variety of natural gas technology programs. Despite the economic weakness in certain markets, we continued to make a number of product announcements in the quarter, including the announcement of the dedicated liquid propane system for the 2016 Ford 5-liter F-150 pickup truck. It will join our dedicated and bi-fuel CNG offerings with the Westport WiNG Power System that we announced in May, also using a 5-liter engine, to provide F-150 customers with a wide range of alternative fuel solutions. All three systems will launch in 2016 and add to our full range of trucks from the F-150 to F-650 offered through our QVM program with Ford.

We introduced the Cummins Westport ISB6.7 G mid-range natural gas engine for the Type-C school bus market. This engine will also launch in mid-2016. As David mentioned, we certified the Cummins Westport ISL G engine to near-zero NOx emission standards, 90% below current regulated levels, and I'll talk a little bit more about that in a minute.

Finally, we delivered the first 2016 Volvo V60 direct injection bi-fuel cars to a key customer, Sunfleet in Sweden. As you heard from David, we're seeing good growth in our Volvo Car business.

In addition to these announcements, we made significant progress on our HPDI 2.0 programs, as we progressed from design and developed phases to final testing and validation. Our Team is dedicated to continuing our advancement towards commercialization of HPDI 2.0 technology, with a strong focus on component readiness. Since the announcement of the HPDI 2.0 system in September last year, we've worked with our development partners and suppliers to complete the design of all HPDI 2.0 components and to make good progress on testing and system validation. A key partner is Delphi, who is producing our fuel injection system components. The latest generation of HPDI fuel injectors were developed under the joint development agreement we have with Delphi and feature a new direct connected architecture and incorporate technologies from both Westport and Delphi. The new injector provides higher performance, lower cost and much easier packaging on the engine than prior HPDI Systems. We've also developed a new fuel rail, which is the component that supplies fuel to the injector, and it incorporates both natural gas and diesel fuels into a single rail. This also provides lower cost and easier packaging than earlier generation designs.

Our HPDI 2.0 components, including these latest generation fuel injectors and fuel rails from Delphi, are undergoing engine and truck testing here at Westport and will be delivered to OEM customers for validation and testing early in the first quarter of 2016. We expect to deliver B-level production design-intent components to our OEM customers in second the quarter of 2016. A B-level component is the final design component that uses materials from the production-intent material suppliers. So, this is the final stage before we get into manufacturing testing. They're used for vehicle integration, engine testing and certification, and customer field testing. We're also working on our injector production facility to be located at a Delphi plant in the UK, with production equipment now on order. Full commercial production will follow in accordance with our OEM customer launch plans.

Cummins Westport had a strong quarter, with significantly reduced warranty claims on the ISL G engine and strong sales in the transit and refuse markets. Despite the current low fuel price differential between diesel and natural gas in North America, Cummins Westport unit sales and revenue grew year-over-year in the third quarter and year to date.

David mentioned the new near-zero NOx technology that's being incorporated onto the 8.9-liter Cummins Westport ISL G engine. We received a very positive reaction in some markets, particularly California, where this new technology that reduces emissions of oxides of nitrogen, or NOx, to 0.02 grams per horsepower hour, which is almost unmeasurable, and 90% below regulated levels for heavy-duty and medium-duty vehicles. NOx is a toxic pollutant that contributes to smog formation and has negative health effects and has been getting a lot of news coverage lately. California's Air Resources Board has defined our certified near-zero NOx emissions level as equivalent to a 100% battery-powered truck using electricity from a modern combined cycle natural gas power plant, equal to electric is what they say. This is a powerful statement and is getting a lot of attention.

The near-zero NOx ISL G also features Closed Crankcase Ventilation, which reduces engine-related methane emissions by 70%, and the engine meets 2017 EPA greenhouse gas emission requirements. What's even better, when fueled with renewable natural gas,

which the ISL G is fully capable of using, an ISL G near-zero NOx vehicle can deliver greenhouse gas emissions reductions of up to 80%: 80% compared to conventional petroleum-based fuels. This makes it one of the most environmentally-friendly commercial vehicles available at a cost much lower than electric alternatives. Now, some people may consider renewable natural gas as a niche fuel, but according to the Air Resources Board's low carbon fuel standard reports, in the first half of 2015, 42% of the natural gas used in transportation in California was renewable. We're very excited about this new technology and expect to launch the ISL G near-zero NOx engine in April 2016.

As Ashoka mentioned, at Weichai Westport we faced economic challenges that have put downward pressure on sales. That said, our HPDI 2.0 development program continues to move ahead in China. We're delivering the latest generation HPDI 2.0 components at Weichai Westport right now and we expect to have field test units running in the first half of 2016, to complete validation and durability testing and for customer field testing.

Overall, our third quarter's been very busy and we're pleased with our progress across many product lines. At the same time, our Team is keeping a watchful eye on expenditures and is ensuring overhead SG&A and R&D expenses are carefully aligned to ensure we meet our business objectives. As a Team, we're pushing hard to meet our publicly stated goals on time and look forward to sharing with you the completion of further milestones to come.

With that, I will pass it back to the Operator for questions.

Operator

Thank you. We will now begin the question and answer session. If you'd like to ask a question, please press star and one on your touchtone phone. You'll 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'll be a brief moment while we poll for questions.

Thank you. Our first question is from Laurence Alexander from Jefferies. Please go ahead.

Jeff Nolan- Jefferies & Company

Hi. This is Jeff filling in for Laurence. Cummins Westport units are running about 6% above 2014 year to date, but that number would need to increase 25% sequentially to be flat on a unit basis year-over-year. Can you talk about what you're seeing on the demand side that gives you these expectations that maybe units could be more than flat year-over-year, and maybe what you're seeing into 2016?

Darren Seed - Westport Innovations - VP IR & Communications

I think, yes, Jeff, I know what we're not able to do, which is give guidance on Cummins Westport. I think the only thing, unfortunately, we can do and provide is what we're seeing in the stability, more so on the refuse market and the transit market. I think, so for this year, obviously a lot of volatility in energy price, a lot of pressure, but from our side, it could be some international market effects, muting of international sales. Don't forget, Jeff, too, we—as we actually did last year, we did get some fairly lumpy orders—I know you're familiar with that term—from international orders. I mean, obviously our revenue is up, so there's a function of product mix and where the units are going. I think, again, given that we don't consolidate the—I want to maybe stress the important point, that because we don't consolidate the revenue of Cummins Westport, it really is about the income, the net income it delivers, and as you saw in this quarter, we had fantastic income from Cummins Westport. Obviously, we want to see the business maintain, if not grow, but, fundamentally, we're happier seeing the net income and the positive effects on our income statement.

Jeff Nolan- Jefferies & Company

That's helpful, and if I can just expand on that. CWI gross margins improvement, as you mentioned. Is this a fair run rate to assume going forward or is there anything favorable or unfavorable that might impact this in Q4?

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

Yes, the gross margins are impacted by warranty accrual reversals, so there is an element of that in the current quarter's gross margin percentage, and as we've always said, a mid-20% range is a reasonable expectation for gross margins within this business.

Jeff Nolan- Jefferies & Company

Great. Thank you.

Darren Seed - Westport Innovations - VP IR & Communications

Thanks, Jeff.

Operator

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

Ann Duignan- JP Morgan Chase

Hi. Good evening, everybody.

Ann Duignan- JP Morgan Chase

Hey, can you just give us some more color on the inventory write-down; and on the impairment charge on the Italian business, can you just remind us how much you spent buying that Italian business?

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

I'll need to get back to you on the exact number, Ann, but it was—what year did we buy it in?

Darren Seed - Westport Innovations - VP IR & Communications

In 2010. We'll come back to you, Ann.

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

Yes, we'll get back to you on that, but there was an 18.7% goodwill impairment write-down. We essentially wrote down all the goodwill that was left that was related to that business, and, yes, it is the Italian business. On the inventory, we took a \$5.5 million inventory write-down. All I can tell you here is it was in the North American space and it was after a thorough review of our carrying costs of certain inventories here.

Ann Duignan- JP Morgan Chase

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Okay. Then, just separately, on the Chinese business, we've been hearing from our Chinese contacts that the Chinese government is de-emphasizing natural gas as a fuel, particularly in public transportation, and really trying to push for electric vehicles. Can you talk about that and the impact that might have on Weichai and your joint venture over the near- to mid-term?

Jim Arthurs - Westport Innovations - EVP Heavy Duty Engine Systems

Yes, Ann, it's Jim. We don't really see that so much, and, in fact, we hope our new near-zero NOx technology provides a better alternative to electric buses in emission-sensitive places like Beijing. Certainly, for the heavier transport, which is the 10- and 12-liter Weichai engines that form the majority of our volumes, that's not going electric any time soon; that will be LNG powered for quite some time. So, we're not seeing that as being something that's affecting our business.

Darren Seed - Westport Innovations - VP IR & Communications

We also, Ann, directly to your question on government policy and shifting times there, that's definitely not—we've actually seen the opposite. We've seen government activity that suggests in fact the opposite, that they are still supporting natural gas and still want to see a significant portion of transportation go to natural gas by 2020, definitely in the truck sector.

Ann Duignan- JP Morgan Chase

Okay, I'll leave it there and circle back. Thank you.

Darren Seed - Westport Innovations - VP IR & Communications

Okay, and we'll come back to you, Ann, on the historical purchase price for acquisitions, such as Emer and OMVL.

Operator

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

Eric Stine- Craig-Hallum Capital Group, LLC

Hi, everyone.

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

Hi, Eric.

Eric Stine- Craig-Hallum Capital Group, LLC

Good detail and good progress on HPDI. You know, any way, I mean, to estimate or just thoughts on 2Q? It sounds like final product design and components. You know, maybe what you would expect if you're able to share what the time would be between manufacturing and then what that means in terms of a commercial launch. Is that something you can share or is that something still in the category of "it's up to the OEM"?

Jim Arthurs - Westport Innovations - EVP Heavy Duty Engine

Systems

Yes, Eric, no, we can't really talk about that. Our OEM customers are the ones that make those decisions and we've got to go through lots of validation before they're ready to go. So, I would suggest you ask them.

Eric Stine- Craig-Hallum Capital Group, LLC

Right, okay, but, I mean, at least the progress you've made and the announcement you had with Volvo, I guess that would imply sooner rather than later?

Jim Arthurs - Westport Innovations - EVP Heavy Duty Engine Systems

Yes. What we're focused on is our production readiness. So, as I mentioned, we're into—the product design is finalized. Now we're just into durability testing, is particular type of steel exactly what we're using to getting the manufacturing capability in place, so we're heading down all that path. There's lots of work being done and we're happy with the progress.

Eric Stine- Craig-Hallum Capital Group, LLC

Okay. Maybe just turning to the asset sales, you called it out that you still expect it by year end. I mean, active term sheet, is that something where you've got multiple parties involved or is it something where you've kind of narrowed the list quite a bit? Is it still \$50 million? Is that still kind of the target by year end?

Darren Seed - Westport Innovations - VP IR & Communications

Yes, Eric, it's Darren. You know, we are and have an actual term sheet. We have a few parties interested in some non-core assets, so we have reiterated our line that we do expect to have something announced this quarter. I think we're kind of hoping here—obviously, we've only got a few weeks left and should be able to identify that shortly, and it's still the targeted amount. I think we still identified roughly \$50 million in non-core asset sales. We've got some strategic initiatives we've got on the go, as well. But, they have progressed since our last conference call and hoping here in the next two weeks or three weeks, or a few weeks before Christmas, you can see a press release.

Eric Stine- Craig-Hallum Capital Group, LLC

Okay. Then you touched on the additional strategic initiatives. I mean, is that something that would be above and beyond that \$50 million target that you talked about?

Darren Seed - Westport Innovations - VP IR & Communications

No, I think right now, Eric, we're just looking at them as the multiple ways to hit \$50 million for now.

Eric Stine- Craig-Hallum Capital Group, LLC

Okay, and maybe a last one for me, and this is just thinking about what fourth quarter looks like. Well, if my math is right, \$32 million or so could get to the bottom end of the range. It's a pretty big step-up. So, just visibility you've gone into that. Then, also, just thought process that you kept such a wide range, I mean, are there things that potentially get you to the top end of that, or what was your thought process there?

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

Eric, yes, your math is correct, it is \$32 million that we need to get to get to the bottom of the range, and, yes, we have a fair degree of visibility to get there and we expect that we will. No, no, no real magical secret to leaving the broad end, the higher end of the range intact. Some of the events that we are working on and some of the programs we are working on tend to be a little binary and lumpy, so in the absence of better information, we decided to leave the range untouched.

Darren Seed - Westport Innovations - VP IR & Communications

Just consistency, Eric, you know, for us it's been very consistent for the last several years. We just don't change the range until there is absolutely a necessity to do so.

Eric Stine- Craig-Hallum Capital Group, LLC

Right, okay. Thank you very much.

David Demers - Westport Innovations - Chief Executive Officer

Thanks, Eric.

Operator

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

Rob Brown - Lake Street Capital Markets

Good afternoon. Could you talk a little bit more about HPDI customers? I know you can't talk about them specifically, but what target markets are they going after, and what's sort of the timeline on other OEMs that you haven't announced, what's sort of the thinking on when they switch over to HPDI?

Jim Arthurs - Westport Innovations - EVP Heavy Duty Engine Systems

Well, the target market is heavy-duty trucking. In Europe, North America and China, that's the core market we're going after. As David mentioned, we've got—we're going on with OEMs that represent kind of the third of the marketplace, and more to come, but we really can't talk about timing, as I said earlier, that's up to the OEMs.

Darren Seed - Westport Innovations - VP IR & Communications

Yes, we've got the ...

Rob Brown - Lake Street Capital Markets

Sorry, the commercial development programs are targeted both Europe and the US market; is that right?

Darren Seed - Westport Innovations - VP IR & Communications

Well the ...

Jim Arthurs - Westport Innovations - EVP Heavy Duty Engine Systems

Europe primarily—yes, go ahead, Darren. Europe primarily and China, those are the first two.

David Demers - Westport Innovations - Chief Executive Officer

That's what we've publicly disclosed with the OEMs to date.

Jim Arthurs - Westport Innovations - EVP Heavy Duty Engine Systems

Yes. Again, clearly, the natural gas truck business in China is the biggest in the world and a big focus area for us, and we've got a great joint venture there that's the leading player, and in Europe, what we see is lots of countries in Europe where there's still a very, very strong differential between natural gas and diesel, so we've got lots of demand from customers in those markets for heavy-duty offerings at Euro 6 levels, which really aren't available.

Rob Brown - Lake Street Capital Markets

Okay, great, thank you. Then, on the Q4 question, do you have a chunk of development revenue and R&D revenue coming in, in the quarter, or are you thinking primarily product revenue that makes up the step-up?

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

Which quarter?

Darren Seed - Westport Innovations - VP IR & Communications

Which quarter, Rob?

Rob Brown - Lake Street Capital Markets

In the fourth quarter.

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

No, no, there is no service revenue of any significance.

Darren Seed - Westport Innovations - VP IR & Communications

That we expect.

Rob Brown - Lake Street Capital Markets

Okay, thank you. I'll turn it over.

Darren Seed - Westport Innovations - VP IR & Communications

Thanks, Rob.

Operator

The next question is from Jeff Osborne from Cowen and Company. Please go ahead.

Moses - Cowen and Company

Hi. This is Moses on for Jeff Osborne. Where in the US are you still seeing solid diesel gas spreads, if any, with possibly more stable demand?

Jim Arthurs - Westport Innovations - EVP Heavy Duty Engine Systems

Well, the biggest thing right now where we're seeing the most growth for Cummins Westport is where customers are tying into the pipeline. So, you could see prices online, where you can see CNG and LNG prices that are sort of posted prices at fuel stations, but we have a lot of customers that are taking advantage of the gas pipeline that often runs right in front of their locations. So, you see CNG and LNG prices in the low \$2.00 range, which is just kind of right below where diesel is in a lot of markets right now but we've got many customers who are buying their gas from the utility and compressing it themselves, and they're seeing natural gas pricing in the \$1.30 a diesel gallon equivalent range. So, there's still a really good price reduction or cost reduction there, and so that's where we've seen most of the activity in 2015.

Moses - Cowen and Company

Okay, that's very helpful.

Operator

The next question is from John Quealy from Canaccord Genuity. Please go ahead.

John Quealy - Canaccord Genuity

Hey, good afternoon, folks. I'm sorry if you covered this, but in terms of the light-duty Italian write-offs, how does that product line overlap or not with the pending Fuel Systems deal coming up?

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

There's very little overlap, John, was it?

Darren Seed - Westport Innovations - VP IR & Communications

Yes.

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

Very little overlap. Our focus is primarily on the OEM side of the market and Fuel Systems still has substantial strength on the aftermarket side. In terms of tiering and in terms of positioning within the light-duty space, we address different segments of the markets, so in our view there is very little overlap, quite to the contrary. I think we both bring in OEM, deep OEM, and aftermarket and distributor relationships that are complementary, as well, and will broaden our distribution base.

John Quealy - Canaccord Genuity

Okay. So the write-off was legacy OEM stuff; is that what it was?

Ashoka Achuthan - Westport Innovations - Chief Financial Officer

Substantially, yes.

John Quealy - Canaccord Genuity

Okay, thanks. Then, lastly, in terms of the visibility for Q4 in the range—I understand the methodology and things like that, but can you talk about visibility and Weichai? I'm sorry, I think there were some mix things there, that the heavy, heavy-duty side seems to be stronger. Again, I'm sorry, could you recap Weichai and visibility in Q4? Thanks, guys.

Darren Seed - Westport Innovations - VP IR & Communications

No problem, John. Actually, in the product mix, actually, the bus sectors actually is doing better for Weichai Westport right now. It's just the truck market, the heavy-duty truck market which took the brunt of the economic hit for the majority of this year. Obviously from visibility standpoint, we're probably looking to 2016 for better results.

Operator

This concludes the time for question-and-answer. I will now hand the call back over to Mr. Seed for closing comments.

Darren Seed - Westport Innovations - VP IR & Communications

Thanks so much, everyone, and we look forward to speaking to everybody in February, or late February, March for the Q1 and—sorry for the year-end financial conference call. Thanks very much.



Conference Call Transcript

2015 Q3 Financial Results: November 10, 2015



Operator

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