

**<DARREN SEED speaking>**  
**<Westport's Director, Investor Relations>**

Thank you, and good afternoon. Welcome to our second quarter conference call for fiscal 2010. It is 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](http://www.westport.com).

Speaking on behalf of the company will be Westport's Chief Executive Officer, David Demers, the Chief Financial Officer, Elaine Wong, and the President and Chief Operating Officer, Mike Gallagher.

Attendance at this call is open to the public and to the media, but for the sake of brevity, we are restricting questions to analysts and institutional investors.

You are reminded that certain statements may be 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 any undue reliance on any forward-looking statements.

Now I will turn the call over to David Demers.

**<DAVID DEMERS speaking>**  
**<Westport's Chief Executive Officer>**

Thanks, Darren, and good afternoon everyone. As usual I will lead off with some comments about our strategic plan and the progress we've made this quarter, and then we'll turn the floor over to Elaine who'll take you through the financial details, and Mike will wrap up with his comments on major projects like ports.

Conditions for the commercial vehicle market generally remained very weak through September, which was our second quarter, but as you can see from the numbers we saw good sequential growth, 27 percent growth,

over the admittedly weak Q1 this year. Year-to-date for the first six months we're about 12 percent behind the first six months of last year which was a record year. However, this is in the context of a market drop averaging 50 percent or more in the on-highway commercial vehicle markets around the world. So, relatively speaking, we are doing pretty well. As we said last quarter, the market remains very challenging and we expect this to continue for some time. Even presuming better economic outlook and willing customers, we've seen considerable credit challenges in many of our prospective fleets.

On balance then, we are continuing to grow our market share but deals are slow to close and we're certainly not out of this economic crisis yet. It seems clear that we've still got some bumpy quarters ahead of us and therefore we are still tightly managing expenses and the burn rate.

Looking out to the end of the year, although of course I can't give formal guidance and we don't do that, we have told you before that we are expecting to see year-over-year revenue growth despite the economic downturn and as economic conditions improve in 2010, we would expect to return to our more robust usual growth rates. This means we still have some catching up to do in the next half of the year. No doubt that we're going to see some turmoil with our suppliers and partners as we go through the complexities of the 2010 emissions regulation change, but I think we have enough near term opportunities to achieve that goal.

Looking beyond the short term, though, we continue to see rapid acceleration of market awareness and interest in natural gas as a transportation fuel in our segments. We are continuing our planned new product investments in all three business units. We do expect to see good returns from these investments and as major projects are completed such as our 2010 certification program for the GX engine and as Juniper starts shipping engines for the first time in early 2010, we expect to see new sources of revenue and margin at the same time as product development expenses will drop away.

As many of you are aware, we have been working with a leading European engine manufacturer for the last year to test our HPDI technologies on their engine platforms. This program has met its goal to date and we expect to complete the proof of concept data collection before the end of the year. Our objective with this program of course will be to launch product development in

collaboration with this leading manufacturer. We hope to be able to share some of those ideas with you in more detail soon.

So if I just give you a few specific comments on the three business units, Cummins Westport, our joint venture with Cummins, the heavy-duty business which revolves around our HPDI technologies, and in particular the GX 15 litre LNG truck engine, and third Juniper Engines. CWI as you can see has done reasonably well and Elaine will give you more detail. Some of this is due to the large order in Delhi which started to ship over the past year which has filled in some of the gaps caused by the drop in North American volumes. This project is going to continue well into 2010 so we think we are in reasonably good shape there. But CWI has a very strong backlog developing between the DOE stimulus contracts announced in August and port truck deliveries that incorporate the ISL G engine which we'll be shipping in our Q4. We expect continued strength into 2010 for CWI. I will leave the details to Elaine.

Juniper, which is our youngest venture, has secured its first OEM customers and we are negotiating final supply agreements as we speak. Juniper expects to be on track to ship beginning in mid-2010 to a range of industrial customers.

Now, Mike is going to spend more time on the heavy-duty business including what's going on at ports, but I wanted to give you a minute just to give you my perspective on this project. I met with many of you, many of the analysts and shareholders I've met in person over the past few months over the summer and the most common question I've been getting is whether or not we are disappointed about the delays and the apparent downsizing of the Clean Truck Program at ports.

My answer seems to surprise people so let me just repeat it for this wider audience. Frankly, the ports have been a breakthrough and runaway success for us. We owe a great deal to the visionary leadership at the ports who took this risk of launching a brand new technology never seen before on the face of the earth in the face of stiff resistance from many of their stakeholders. So just compare where we stand today LNG trucks are out there at the ports as an international success story and the situation we had before the ports launched the Clean Truck Program two years ago. There were not LNG trucks available in the market at that time. We now have a complete LNG ecosystem in

place in Southern California. I know a number of the people on this call have been to see it. If you haven't, it's worth the trip. I can highly recommend it because we have hundreds of trucks today and by the end of the year we will have almost 1,000 trucks in service at the ports operating on liquefied natural gas and anyone can see that not only can the trucks do the job they are a great product and a great solution.

Now of course in one sense I'd love to be shipping a few thousand more trucks at the port in the middle of this economic downturn but you know that we will get those thousands of LNG port drayage trucks over time. And why do I believe that? Because as our customers at port will tell you, they're great trucks and they're making money. Once we get past some of the noise in the market this year, with a bit of a gold rush mentality around the grant programs, of course there was a lot of disruption caused by the rapid economic downturn and a huge drop in good movement at the ports, this is all layered on top of a credit crunch. I think that we will see LNG trucks appear at ports all over the world. Why? Because our customers using these trucks will make more money as well as helping clean up the local air and that's what's going to drive a sustainable movement to our new fuel solutions and to a sustainable business.

Now, as I told you last quarter, despite the economic turmoil around us, or maybe because of it, we've never been busy. The ports have been a great reference site for people. The idea of natural gas as a fuel for commercial vehicles has never been more apparent. Awareness now of the broad range of commercial vehicles available with our engines and understanding their capabilities is spreading throughout the market. We are seeing great interest in all segments of the trucking market, not just at the ports, and we continue to launch new products with new manufacturers which are being sold everywhere of course. Which further compounds the awareness growth. Now, naturally there's a lag between awareness of an idea and putting trucks in service. Infrastructure needs to be planned and built for example. But our goals are not modest and not short-term after all, we want to see petroleum-based fuels, like diesel, be replaced by natural gas and have all those hundreds of thousands of new vehicles incorporate our engines and technologies. So this is a very large opportunity that won't happen overnight.

But now that the idea has been validated at the ports, and we have a complete system that's visible, we are seeing the idea spreading rapidly and with a lot of

enthusiasm. The idea of high-performance trucks built by major manufacturers that use a cheap fuel, a cheap, clean fuel, is inevitably getting attention at a time when fuel price and fuel price volatility are such big concerns.

So let me just close with a reminder of our three themes on our strategic plan and think of these in the context of what's happened around the world in this economic downturn and I think you'll understand why we've been so busy despite the turmoil. First, we believe the long-term driver for adoption of alternative fuels is going to be conventional fuel scarcity and therefore high prices. Not that we're going to run out of oil, it's that it's going to be very expensive. Now the IEA just released their annual energy outlook this week which has continued their annual trend of continuing to drop the outlook for oil supply in the near and medium term and also raising the visibility of a long-term oversupply situation of natural gas. Of course we believe that all that excess natural gas would be a great fuel for transportation and that will sop it up.

Now, second, because new fuel needs new re-fuelling infrastructure, we believe that the easiest path to market is high fuel use fleets like buses that are returned to base. So some sort of depot base or point to point operations are obviously the first place where we can start, which is what we've been doing.

But this doesn't mean that we can't tackle long-haul customers or more challenging infrastructure networks. In fact, as you saw in the DOE stimulus awards during the quarter, blue corridors are an idea that are coming true, we're seeing development of the infrastructure that we will need to see long-haul become a reality. Infrastructure is an obstacle that can and will be solved by a coordinated and thoughtful matching of customers who are ready to move to natural gas with the people who supply the infrastructure and supply the fuel.

Now, third, our last strategic pillar is to work with leading brands to help them introduce alternative fuel products. We use their already established production and distribution systems and will work with the world's best manufacturers to develop a scalable, efficient and high-quality supply chain. This completely out-sourced model offers us a fast path to market and it also gives us fast scalability as growth kicks in. Again, we have made great progress this year with new vehicle engine and component production partnerships. Momentum is building and I am convinced we will see significant portions of these markets come our way as a result.

Now I told you last quarter about changes in our leadership team across all of our business units to focus on market readiness. And what I mean by that is to recognize that despite challenging market circumstance today in every one of our markets, there is the potential for a substantial tipping point change in market dynamics that could swamp us with a relatively rapid shift to alternative fuels.

Now what could catalyze such a shift? I could think of a few, I'm sure you can think of a few more. If we see a sudden rise in oil prices, I think that will create a lot of concern about a repeat of what happened in 2008. Some sort of change in government regulation as we saw in Delhi last year that required the purchase of natural gas vehicles. A change in economic incentives or government programs such as the stimulus programs we saw from the US Department of Energy this summer or the Nat Gas Energy Security legislation that's in front of the house and the Senate. We can launch new products or new entrants into the market which would create broader awareness in availability and people just decide they want to move.

And last but not least, we can have leading customers decide that natural gas will create competitive advantage and a new dynamic in their own market and decide that they are ready to move.

Now we are seeing all five of these factors at play this year and any one of them we think could have a sudden impact on volumes so we have 100 percent market share of most of our markets. As you know, alternative fuels are still just a tiny fraction of the total potential so with a sudden shift in market preference for natural gas we could conceivably see a 10x growth or 100x growth in our current shipment volumes in a relatively short time period. Fortunately, with our out-sourced strategies, scale up doesn't require massive capital investment, but we do need to organize the entire ecosystem and make sure that we can deliver to this demand no matter what happens. We've made great progress already this year on this 10x, 100x strategy, and although we aren't finished yet, we are making good progress.

So, to wrap up my portion of this call, we think Fiscal '10 is shaping up to be an excellent year in the context of our long-term business plan despite the challenging markets and despite short-term volatility on the revenue side. We are well positioned to see significant breakthroughs in new markets and our current business

remains relatively healthy and even growing compared to the incumbents which is diesel fuel. We intend to use this period of economic turmoil to continue to strengthen our competitive position while continuing to be prudent managers of our resources.

So, I'll turn the floor over to Elaine now, Elaine.

**<ELAINE WONG speaking>**  
**<Westport's Chief Financial Officer>**

Thanks, David, and good afternoon everyone. The press release, financial statements, and management's discussion and analysis provide a considerable amount of detail regarding our second quarter fiscal 2010 and the financial results and the MD&A are posted on our website. Unless otherwise noted, I will be comparing second quarter and year-to-date results the same periods in the prior fiscal year.

For the second quarter ended September 30<sup>th</sup>, 2009, consolidated revenues was \$31.7 million, a decrease of 19% when compared to last year's record quarter of \$39 million. CWI revenue was \$30.1 million on 1,039 units shipped compared to \$33.3 million on 1,391 units shipped. Parts revenue increased by \$2.3 million in the quarter and engine shipments to China increased as well but these were offset by lower sales in North America where the weak economy has slowed automotive sales as Dave has noted.

New stimulus money for commercial vehicles as Mike will discuss has been announced but will still take some time to slow. Parts revenue has increased with an expanded parts list, fuel population, and warranty parts. Non-CWI revenues were \$1.6 million with 14 LNG systems shipped compared to \$5.7 million on 69 LNG systems shipped in the prior year. Non-CWI revenue also included about \$700,000 in BWI cryogenics tanks deliveries. Average prices for HD/LNG systems in North America decreased with a shift from upfit truck model last year to OEM production model at Kenworth this year.

For the six months ended September 30, 2009, consolidated revenues were down 12 percent, to \$56.6 million on 1,675 units shipped compared to \$64.5 million on 2,538 units shipped in the same period last year. In US dollar terms we were down 19 percent year-over-year. Revenues were down in North America for both CWI and Westport HD system sales but we saw higher parts revenues and are up \$1.5 million on kit sales year to date in India.

Net loss for the three months ended September 30, 2009, was \$9 million, or \$0.28 per share compared to net income of \$700,000, or \$0.02 per share for the same quarter in the prior year. The prior year results included a net after tax gain on sale of Clean Energy shares of \$0.9 million compared to \$0.2 million in the current fiscal year quarter.

Net loss for the period without the inclusion of realized gains on the sale of investments was relatively flat at \$9.2 million compared with \$9.1 million in the comparative period.

For the six months ended September 30, 2009, and 2008, net loss was \$18.2 million or \$0.56 per share and \$2.8 million or \$0.10 per share respectively. Excluding the effects of the gains on the sale of investments net of related taxes, our net loss for the six months ended September 30<sup>th</sup> increased by \$2.9 million from \$15.5 million in the prior fiscal year to \$18.4 million in the current fiscal year. \$1.3 million of the increase related to the drop in our 50 percent share of CWI net income which decreased from \$3 million to \$1.7 million primarily on lower revenues and gross margin percentages. The remaining \$1.6 million related to higher customer support costs and increase in stock based compensation, a reduction in program funding and higher costs relating to professional consulting and other public company related expenses offset by foreign exchange.

Gross margin percentages on a consolidated basis were 25 percent for the three months ended September 30, 2009, compared to 24 percent in the three months ended September 30, 2008. CWI gross margins were 25 percent in both the current and comparative periods. Non-CWI margins increased from 14 percent to 29 percent due to higher parts margins on BWI cryogenic tank sales which included a one-time cost of sales adjustment relating to recoveries of value added taxes in China.

Non-CWI product margins was impacted by foreign exchange as inventory was acquired when the US dollar was high relative to the Canadian dollar and sold during the second quarter when our exchange rate was closer to par.

For the six months ended September 30, 2009, and 2008, consolidated gross margin percentages were 25 percent and 27 percent respectively. For Cummins Westport gross margins were 25 percent and 28 percent

respectively for non-CWI, including Westport HD gross margins were 24 and 16 percent respectively.

Our research and development expenses were relatively flat year-over-year at \$7.1 million and \$13.9 for the three and six months ended September 30, 2009, compared to \$7.1 million and \$14.3 million for the same periods in the prior year.

Funding for the quarter was down \$0.5 million for the three months ended September 30, 2009, and \$0.9 million for the six months year to date. CWI R&D expenses were down \$0.4 million in the quarter but up \$0.2 million year to date, a drop in the technology royalty fee for Cummins was offset by higher material spending related primarily to the timing of the spend.

Non-CWI R&D expenses for the three and six months ended September 30, 2009, were up \$0.3 million and down \$0.6 million respectively. Overall, costs are trending flat or slightly down year-over-year, however we do expect some cost to increase over the latter half of the year as we complete our 2010 GX development program.

Consolidated SG&A costs were relatively flat at \$6.5 million this quarter compared to the last quarter but up \$2.5 million from \$12.9 million from \$10.4 million on a year to date basis with CWI up \$0.6 million. Stock based compensation up \$0.5 million and non-CWI SG&A up \$1.4 million excluding stock based compensation. Again, these costs were up due to increased customer support costs, consulting travel, facilities and reallocation of internal charges.

Our cash and short-term investments balances as at September 30<sup>th</sup>, 2009 was \$57.7 million, compared to \$82.6 million as at March 31<sup>st</sup>, 2009.

For the six months ended September 30, 2009, cash used in operations was \$16.7 million, with \$14 million used in operations, and \$2.7 million used for working capital purposes including \$6.3 million associated with the timing of settlement of accounts payable during our first quarter.

Foreign exchange negatively impacted cash and cash equivalent by \$5 million as the relative value of the Canadian dollar increased relative to the US dollar by 15 percent, however we also saw offsetting positive impact on foreign exchange related to warranty deferred revenue on US dollar dominated trade tables.

In closing, as David noted the current year has been challenging for many companies including our partners and customers financially and economically. However, we are seeing signals that the markets are improving particularly with US stimulus money and now with legislation making its way through Washington.

Now over to Mike to discuss these in more detail.

**<MIKE GALLAGHER speaking>**  
**<Westport's President and**  
**Chief Operating Officer>**

Thank you, Elaine, and good afternoon everyone. I want to update you on the latest developments at the ports of LA and Long Beach and I believe there is more interest also growing now outside the ports than ever before. I'm happy to report that our traction is starting to build for LNG trucks using both our CWI, ISL G engines, and our Westport heavy-duty systems in an area that's typically reserved for loyal diesel customers such as Utah, Arizona and Texas.

As you have heard from Elaine, and read in the news release, we shipped 14 new Westport heavy-duty systems in the quarter which brings our total number of heavy-duty trucks on the road since we launched the product a little over 18 months ago, to 210 units. These trucks continue to perform very well, and receive high customer satisfaction reports, and they're generating a wealth of validating data and experience, which now totals more than six million miles which is providing the platform for further heavy-duty business expansion both at the ports but throughout California, nationally and globally.

Looking beyond this past quarter's numbers, we ran heavy-duty demonstration trucks up in Utah recently hauling of all things another fuel, coal. Delivering the heavy tonnage with great performance and success has helped us tremendously in building new markets with new customers. The more we can demonstrate the performance and fuel cost savings in comparison to diesel, the more positive feedback and referrals we receive.

We are also working hard to reduce costs through second suppliers and through automotive scale production capabilities such as the assembly line production of heavy-duty trucks at Kenworth's Kenmex

facility in Mexicali which is now producing trucks as we speak.

In the meantime, a few notable incentive programs that Dave mentioned are providing new business opportunities and have captured the attention of the entire trucking industry.

The DOE Clean Cities Funding Program which was announced in August awarded \$300 million in funding for 25 separate cost-share projects throughout the United States that would deploy more than 9,000 alternative fuel and energy-efficient vehicles and build many new re-fuelling stations as well.

Based on the DOE's announcement, funding for approximately 500 LNG trucks and 2,300 CNG vehicles including refuse trucks and shuttle buses have been awarded. And Westport anticipates that a significant portion of these vehicles will be sourced from manufacturers incorporating our heavy-duty systems or our 8.9 litre CWI engine. It's not 100 percent clear when all these orders will firm up into orders for trucks and systems, but I can say that a number of the awardees in the different regions are looking to act in moving a portion of their fleets off oil and on to clean burning natural gas.

On the national and legislative front, we are of course watching closely the developments around the US NAT GAS Act in Washington. It is receiving broad support in both the House and the Senate. The bill now has 120 sponsors in the House and in the Senate the bill has bipartisan support as well as the stewardship of senators Larson and Reid and the ongoing support of Boone Pickens with advocacy campaigns. We believe it has a good chance of success. There is a significant potential for this bill to positively affect our business both in Westport and in Cummins Westport as it proposes to double the existing federal investment tax credit for LNG trucks to a maximum of \$64,000 and extend these credits for several more years.

Lastly, the AQMD procurement for hundreds of LNG trucks at the ports has crossed another major hurdle as recently as Friday. Originally, the procurement was based on the September approval of 448 LNG trucks but as it stands now there are upwards of 500 LNG trucks approved for funding under this program. And in an effort to accommodate the great interest and the time for production orders, AQMD and CARB have extended the delivery deadline from December 31 out to March 31

for truck deliveries. All of these port LNG trucks are based on Westport engines, the majority of them CWI ISL G engines with a significant amount of Westport heavy-duty trucks also.

We are working hard to prepare the engine systems in advance of year end and to meet the March 31 truck delivery schedules and it's a very busy time for manufacturers with a lot of year end engine pre-buy activity as well. In the meantime, we continue to develop our products and move forward our programs to meet the new 2010 standards early next year.

I am encouraged by our team's efforts to lower the cost of the heavy-duty systems and the customer's response to our vehicles.

Thank you for your interest in Westport and I will now pass the call back to the Operator who will open the call to your questions.

#### <Q&A SESSION>

#### Operator

Thank you. If you have a question, please press star, one on your telephone keypad. If you are using a speakerphone, please lift the handset and then press star, one. There will be a brief pause while participants register for questions. Thank you for your patience.

The first question is from Lawrence Alexander from Jefferies & Company. Please go ahead.

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#### Lawrence Alexander, Jefferies & Company

Good afternoon. I guess just a couple of questions to start off. First, you talked about the possibility for a significant ramp in LNG orders and how you needed to prepare for that. Do you feel, is your supply chain flexible enough to support that or will there be some capital requirements potentially to support weaker links along the supply chain?

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#### David Demers, Chief Executive Officer

That's a really good question, Lawrence. One of the themes that we've been hitting on all year. I think what I was trying to hint at is that we have plugged most of

those holes successfully, we've still got a few final links to cap but no we don't think there's going to be material capital investments required to make a very significant scale-up possible. But as you know, this is not, you can't just turn a tap and make these things happen, we are herding people to look at the big opportunity that's in front of them at a time when they're all under very tight capital constraints and very tough economic conditions. So it's been a challenge but we made great progress.

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**Michael Gallagher, President and Chief Operating Officer**

As Dave says, we're communicating closely with all the suppliers to keep them apprised of the prospects and the timing so that they can be as ready as possible.

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**David Demers, Chief Executive Officer**

Yeah, I think it's no secret that we've been focused on fuel injectors as the major weak link both from a cost and a scalability challenge. Fuel tanks, we've been working on fuel pumps are kind of probably third in the list of issues. And we've been working with all of our suppliers and a number of new suppliers to make sure that we can meet any conceivable demands and also have a plan to scale it up and be able to give them enough notice to be able to meet any supply requirements that we might expect. So lots of progress and we'll be able to share details with you as they emerge.

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**Lawrence Alexander, Jefferies & Company**

And then secondly you discussed briefly the sort of new funding at the ports which has been extended through March, how does that interact with your filing for the EPA approval for the 2010 regs, do you expect the orders to be tilted disproportionately in favour of CWI in the short term?

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**Michael Gallagher, President and Chief Operating Officer**

Yeah, Lawrence, as I said we would expect the majority of this round of orders to go to CWI just around the

incentive programs, very attractive economics, meet the port needs. The 2010 certification program is really independent of that port procurement. This port procurement will order engines that are available, certified now, they will be the '09 certifications where ordered. Any future procurements would look to the 2010 product once its certified.

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**Lawrence Alexander, Jefferies & Company**

Okay, and then just last one and I'll hop back in queue. How much of the India contracts has been shipped to date?

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**Elaine Wong, Chief Financial Officer**

It's probably going through about 2/3 of it to date, Lawrence.

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**Lawrence Alexander, Jefferies & Company**

Thank you.

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**Operator**

Thank you. The next question is from Graham Mattison from Lazard Capital. Please go ahead.

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**Graham Mattison, Lazard Capital**

Hi, good evening, guys.

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**David Demers, Chief Executive Officer**

Hi, Graham.

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**Graham Mattison, Lazard Capital**

Just a quick clarification. So of the CWI units that you've shipped, really there's nothing in there for the ports or the DOE Clean Cities awards. Or just clarify the second round of port trucks.

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**Elaine Wong, Chief Financial Officer**

No. That's right.

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**Michael Gallagher, President and Chief Operating Officer**

There's nothing in the current procurement. There have been a few shipped around that earlier Port of Long Beach lottery that we talked about a quarter or two ago.

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**Graham Mattison, Lazard Capital**

Okay. And then in terms of looking at the breakdown of where the sales were coming from on the CWI side, can you give us a little bit more clarity on that in terms of what parts of the world and what type of customers they are coming from?

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**Elaine Wong, Chief Financial Officer**

In our financial statements and the MD&A we've got a product revenue by geographic regions chart that gives a bit of a breakdown.

What you'll see, Graham, is that this year as compared to last year there was a lot more international sales to Asia and the rest of the world so you can read Asia and the rest of the world is India and China, of course, right, those two. What's happened with China is we export the engines to China, they go into Chinese buses and some of them make their way down to South America, and India it's mostly the kits sales that we are also seeing some other activities as well in other parts of the world.

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**Graham Mattison, Lazard Capital**

So those tend to be the Bs as opposed to the ISL Gs?

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**Elaine Wong, Chief Financial Officer**

Actually the ISL Gs are actually going to China believe it or not. They are taking larger buses so they're still not quite as prevalent as the Bs but we are seeing ISL Gs now starting to ship.

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**Graham Mattison, Lazard Capital**

Got ya. And then one last clarification. On the coal hauling demo that you mentioned, that was with the GX 15 litre?

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**Michael Gallagher, President and Chief Operating Officer**

Correct.

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**Graham Mattison, Lazard Capital**

Got ya. All right, great. I'll jump back in queue. Thank you.

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**Operator**

The next question is from David Woodburn from ThinkEquity. Please go ahead.

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**David Woodburn, ThinkEquity**

Thanks, everybody, and the CWI volumes look great. Can you, I guess following up on Graham's questioning, is the large number there is that showing in one particular order, or is it more indicative of trends? I was going to say in China but maybe China and Latin America as well.

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**Elaine Wong, Chief Financial Officer**

I've always said quarters are lumpy, right, so any quarter that can be going anywhere in the world. What you do have in terms of trends I think CWI has done a good job. They've been in China for a while and they have been growing their customer base there. South America is also a growing region for them. You know, North America still is their primary market so just depending on when the transit fleets are taking orders, etc. We are doing more in trucks, especially trucks as well. Mike might want to speak to that.

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**Michael Gallagher, President and Chief Operating Officer**

Yeah. I think it is a pretty broad based strength that you are seeing across CWI both regionally in market segments, but as Elaine said, in North America we are seeing a substantial incremental growth in LNG trucks in the mid-range truck area both at the ports and elsewhere which is kind of a new ingredient in the CWI strength.

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**David Woodburn, ThinkEquity**

Okay, and then in terms of I know you've had a number of pilots with the ISX engines around the US. Are some of those coming to a close now and if so are the customers actually moving ahead and you've progressed in talks where they're saying well the pilot went fine but we need to sit for a while because we're not buying any new trucks?

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**Michael Gallagher, President and Chief Operating Officer**

Yeah, it's interesting. We are seeing kind of a phenomenal interest in the last three or four months in guys wanting to try out the trucks and short demonstrations. This Utah experience that I mentioned actually ended up serving half a dozen different customers for anywhere from a couple of days to a week or ten days. Some of them we've got some longer term demonstrations like the ones we talked about at Walmart in California which has been going on for a few months and nearing completion.

Generally we are getting great marks on performance, of fuel economy, of power, torque, things like that, range, and so technically the product's getting validated in ways that make us very pleased. We are still, these guys are still trying to come out of the recession, these fleets, many of them have credit issues that they are struggling with, many of them have fleets that don't require new trucks until their business rebounds so many of them are kind of watching the economy and the strengthening of the economy and waiting to see what the right time is for them but I would say that the intensity of discussions both around specific demonstrations and around other national fleets looking at the product has never been greater.

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**David Woodburn, ThinkEquity**

Okay, perfect. That was going to be my next question. Thanks very much.

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**Operator**

Thank you. The next question is from Rob Brown from Craig Hallum. Please go ahead.

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**Rob Brown, Craig Hallum**

Good afternoon. You mentioned a little bit about your European engine partner having something by the end of the year. Can you just give a little more color on where that's at and how that starts to roll out maybe in calendar 2010?

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**David Demers, Chief Executive Officer**

Probably not, Rob.

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**Rob Brown, Craig Hallum**

Well, I thought I'd ask anyway.

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**David Demers, Chief Executive Officer**

Good try. Seriously, I will elaborate. Sorry. I couldn't resist.

No, it's a project that we talked a bit about. It should be no surprise we are working with as many different engine platforms as we can and in fact there are other engine platforms that have been in and out of our labs and we've been in and out of other people's labs. There is a lot of interest in natural gas around the world I'm not kidding and people are intrigued by the technology and the promise so everyone is playing catch-up.

In this particular project this is a project that's been going for some time and we announced it last year because it was a formal proof of concept program where we were investing pretty substantial resources in a

pretty detailed project that is going to lead to commercial engines. So we are reaching the end of that. I think I can tell you that we are very pleased with the results as is our customer and we think there's a great prospect to move ahead but the details are still pending and we've still got a couple of more data points to take before the program is done. But I think we're hopeful for launch of commercial product with that customer if we can work out the details.

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**Rob Brown, Craig Hallum**

Okay, great. So really once proof of concept's done then you would effectively the next step theory would then be a commercial product launch announcement with a timeframe around it. Is that the idea?

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**David Demers, Chief Executive Officer**

Yeah.

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**Rob Brown, Craig Hallum**

Okay, great. And then I, the second thing I just wanted to confirm the 14 units, LNG units were those all port related businesses? Or is there any non-port business starting there?

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**Michael Gallagher, President and Chief Operating Officer**

Those were port related coming out of the Port of Long Beach lottery that I referred to a moment ago.

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**Rob Brown, Craig Hallum**

Okay, thank you very much.

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**Operator**

Thank you. The next question is from Eric Stein from Northland Securities. Please go ahead.

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**Eric Stein, Northland Securities**

Good afternoon everyone. Thanks for taking my questions.

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**Elaine Wong, Chief Financial Officer**

Hi, Eric.

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**Eric Stein, Northland Securities**

I was wondering if we could just touch on the engine pricing if I'm doing my math right. It looks like on the heavy-duty side the price per unit came down pretty significantly.

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**Elaine Wong, Chief Financial Officer**

That's right. Remember we are shifting our model, right. So a couple years ago when we first launched the product we were on a purely upfit model and we were selling it for about \$80,000 US per year. We dropped that price as we moved to the OEM model and we've been working with Kenworth so our price at Kenworth is a lot lower than the \$80,000 per year and we've always said publicly that it's sort of that \$50 or \$60,000 US range.

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**Eric Stein, Northland Securities**

Okay. It seems like this may be a little sooner than maybe you had discussed or anticipated.

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**David Demers, Chief Executive Officer**

I'll take that one because Elaine's looking worried. So I'll take the responsibility of that. Our strategy on this, Eric, is to get market penetration and we think there's a right price point for this product and as fast as we can get the price down but also preserving reasonable margins for us of course, we think that's a good thing. So I think you should expect to see us push prices down as fast as we can until we have the price that can get us market dominance.

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**Michael Gallagher, President and Chief Operating Officer**

And I'd say we use the port beach head process to kind of drive that price down to market levels where we thought we could begin to penetrate and we're just essentially taking that strategy and taking it elsewhere as we go so we've kind of been at a point here for several months around that pricing strategy.

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**David Demers, Chief Executive Officer**

It's a little hard to see it now and I won't expect you to dig it out of the numbers because there has been such a confusion on inventory and foreign exchange and price and all this stuff but I can assure you that we are dropping prices because we are dropping our costs and we're improving reliability, all of which allows us to maintain margins and hit that market penetration point.

At the ports because there was such a heavy port subsidy, pricing wasn't all that relevant, frankly, and we didn't have a lot of control of pricing because our production partners were setting the price of the trucks in the context of what the market would bear anyway. But as we get outside the ports and into markets that are much more economic, we think this pricing discussion is going to be much more critical and particularly as we see more and more truck chassis launching products, and as we see different applications we are going to want to get prices down to a point where there's an economic payback and that's what we're trying to do.

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**Elaine Wong, Chief Financial Officer**

And, Eric, just to let you know I always look worried because I'm a CFO so that's the job description.

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**Eric Stein, Northland Securities**

Okay. Thanks.

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**David Demers, Chief Executive Officer**

Sorry, I don't know if that was helpful or confusing.

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**Eric Stein, Northland Securities**

No that was very helpful. I appreciate it. Maybe we could just switch gears to Weichai maybe you could just let us know where things stand as far as government approval and do they still view that as I think they've said a 20,000 per year unit opportunity?

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**David Demers, Chief Executive Officer**

Yeah, I think that still stands. Government approval is pending, I understand. Weichai is very busy. I'm sure if you do a Google search on them you'll see they'd just completed an acquisition in Europe and they are very busy in China. The Chinese market has rebounded substantially this year. Weichai sent a team to North America they have been visiting the port. We have regular conversations and so I think the program itself is still healthy but they haven't got the government approval to go ahead and there's some question about what that process actually is. So we don't have any better data than you do at this point. I think we're fine with the relationship, they're fine with the relationship, we've both got work to do in the context of this market and we're just going to have to let the lawyers get this behind us before we can proceed legally.

Sorry, I realize I've talked a lot and said nothing but there you go.

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**Eric Stein, Northland Securities**

So to be continued. Last question and then I'll just jump off but there's been some feedback from fleets whether through testing or limited deployment that natural gas engines are either close or are cheaper cost per mile. Can you just talk about where you think things stand in that process?

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**Michael Gallagher, President and Chief Operating Officer**

Well we of course a central part of our value proposition has always been since the lower operating costs around fuel cost advantage. That remains as true today and it ever has and any upward movement on oil prices further improves that. In fact, over the last three or four

months there has been a widening of that fuel cost benefit. The different fleets are all looking at how they roll all this into life cycle costs, payback periods with their own kind of accounting equations and calculus around amortization and whatnot and you hear different things from different fleets but we are definitely seeing movement toward improving economic propositions. Dave, if you want to add anything.

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**David Demers, Chief Executive Officer**

Yeah, I think there's no doubt that people are surprised at the fuel economy that the trucks are delivering. We made a lot of believers about natural gas in the last year. I think because expectations had been so low. But that said, you know with a fuel price differential of \$1 a gallon and an average truck burning 20,000 gallons a year, that's a substantial chunk of money for a high fuel use fleet so no, we are getting a lot of people doing the arithmetic because it's such a big number compared to the prospect of any other fuel cost or operating cost savings that are available to fleets. Any of the easy things that could have been done have been done long ago and so coming up with a major breakthrough in fuel price has gotten people excited. Now that said, there's a higher capital cost and there's much complexity around government grants and so people are looking at it in a lot more detail but I think overall the fundamental premise is sound, that we are going to see fuel cost savings over the life of a truck and that's going to be enough to offset the increment, particularly if there are government incentives of some kind.

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**Michael Gallagher, President and Chief Operating Officer**

The growing natural gas supply excess is just driving that equation even further in our favour.

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**David Demers, Chief Executive Officer**

Yeah, I think the challenge has always been what is that fuel price delta. I think we still see a lot of concern about this but you know where is the relative price of diesel and gas going to go but certainly over the last few months, over the summer, there has been so much press talk about gas shales and oversupply of gas that people are getting a lot more comfortable that this

might be real and sustainable and there's also more anxiety about oil prices so I think people are getting pretty serious about doing the modeling and that's why Mike said people want to try the trucks and they want to measure them in the their own duty cycle because everybody's different.

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**Eric Stein, Northland Securities**

Okay, that's very helpful. Thanks again.

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**Operator**

Thank you. The next question is from Dilip Warriar from Thomas Weisel Partners Group. Please go ahead.

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**Dilip Warriar, Thomas Weisel Partners Group**

Congratulations on the quarter. Just a general question. Clearly there's a lot of momentum growing here. And I was wondering on the DOE Clean Cities do you get a sense of the beneficiaries are kind of waiting on the passage of a NAT GAS Act and that that could potentially result in an avalanche of orders next year. Is that the thinking?

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**David Demers, Chief Executive Officer**

The DOE guys have already got their money. The DOE grants were very generous and so I think those programs are going to get contracts, contracting is not completed yet but I think we'll see a lot of those guys contract to proceed under any circumstances.

Yes I think there is a lot of interest in the NAT GAS Act and emission credits and other incentives that are out there. I think generally the overriding condition that we are seeing is just general economic weakness and lack of credit. So I think those things need to get solved too but you're absolutely right, what we're hoping to do is build a large backlog of interest and enthusiasm and when we see the starting gun go off in the economy or some trigger like the NAT GAS Act passing or some other catalyst like the others I mentioned I think we will see some real momentum develop on orders but until then we are just continuing to tell the story and meet as many people as we can.

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**Michael Gallagher, President and Chief Operating Officer**

Yeah, I think you'll see the big impact of the Natural Gas Act on those fleets that don't have access to current incentives from DOE of the ports. I mean, all the rest of those fleets that will respond to passage of the NAT GAS Act.

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**Dilip Warriar, Thomas Weisel Partners Group**

Got ya. That makes sense. Then just a question for Elaine if I may. The CWI, the average selling price seems to have reduced a little bit this quarter and I was just wondering if that was product mix? And Elaine, I also missed the comment you made about the kit shipments for Delhi.

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**Elaine Wong, Chief Financial Officer**

Good question Dilip and on the average price, both your questions are related. The average price dropped this quarter compared to last quarter because there were actually fewer shipments to Delhi, there were actually no shipments to Delhi this quarter. Delhi took a large amount of inventory in previous quarters and they are actually a little bit behind in deliveries to Delhi Transit. And so we do expect the entire shipments to still ship and as David said it might take a little bit longer but we are still expecting the full order to ship and it's just a matter of they're taking a pause while they catch up on their deliveries to their customers. And so that's why you see the average price because remember we include the revenue for the kits but we don't show the units in the units line.

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**Dilip Warriar, Thomas Weisel Partners Group**

Thank you. And then one last question. The gross margin on the non-CWI business obviously had a big improvement here, and I was wondering you know if you take away the revenue from the cryogenic tanks and then I think there was a one-time adjustment. I was wondering what the margin improvement on the HD on the heavy-duty units were?

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**Elaine Wong, Chief Financial Officer**

Yeah, the margins actually in the quarter on the HD units were not very good because of the tax and foreign exchange so the inventory was bought when the Canadian dollar was weak compared to the, let me think about that, yeah, when the Canadian dollar was weak compared to the US dollar. And we sold it when the Canadian dollar was strong. And so we actually saw relatively low margins in the quarter.

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**Dilip Warriar, Thomas Weisel Partners Group**

Got it. Thank you.

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**Operator**

Thank you. The next question is from David Gavison of CIBC World Markets. Please go ahead.

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**David Gavison, CIBC World Markets**

Great. Good evening guys. I just had a question if we can go back to the DOE awards. You had mentioned that you thought that a significant portion of natural gas potential would come toward Westport. Do you have any idea of what that percentage was, maybe like 50 percent, 75 percent, 90 percent or less?

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**Michael Gallagher, President and Chief Operating Officer**

We don't have a precise percentage yet but on the order of half or so might not be a bad way to summarize how it may evolve. Waiting for all these guys as Dave said the contract with the DOE and then they've got a contract with the OEMs and pick their technology as they go. But that's kind of how we're tracking it.

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**David Gavison, CIBC World Markets**

Okay. Great. Thanks. Now when you're looking at, when do you think penetration for the heavy-duty might start to pick up, do you have a feel for that? Just in general.

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**David Demers, Chief Executive Officer**

I think the ports really have opened eyes. It's surprising how many people have been to LA to see that. For one thing I think you know most people in the industry thought this was a science project and didn't believe it was going to work which is why we saw so much scepticism when the port announced that they were going to put thousands of LNG trucks on the road. But now that it's out there and people are seeing that there's just a lot of curiosity and interest so people have been to see it and they're going home and telling people about it so we're seeing a lot of interest.

I think it's fair to say that fuel price and fuel price volatility is on the minds of absolutely every fleet in the world, it's certainly in North America and so the prospect of cheaper fuel does have everybody talking so we are into this awareness phase where people are suddenly saying there's something new that we need to see, we need to understand it, we need to get to know it, but it is completely new. How long will it take people to evaluate? Some people move quickly and some people are going to take a long time before it's proven, that's just the way it's going to be. But certainly if you talk to the fleets at the port and I encourage you to do that. They seem quite happy to chat with visitors, you know they'll tell you that they did it for competitive advantage and they're making money and they've got happy drivers. So the early adopters have been successful and we want to continue to spread that success to other people that are going to try it early. There is planning to be done, we have to plan the infrastructure, deployment, it's not our job but we have to make sure that that's done. We can't really deliver trucks until there's fuel.

So there is a lot of work that needs to be done but this isn't something that needs years, it's probably on the order of say six months from the time someone says I want to go before they'll have trucks running. So when will we see that tipping point? Honestly your guess is as good as ours. Certainly we are seeing very high activity levels. We are getting very good feedback from our existing customers and we are seeing lots of new applications. If you just look at CWI for the quarter they've launched a number of new truck chassis including things like cement mixers that we've never done before. A lot of refuse truck applications.

So from across the board we are seeing a number of new markets looking seriously at natural gas and I think they're all going to be moving this way so we will see it. I can't tell you which week or which quarter we are going to see that tipping point.

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**David Gavison, CIBC World Markets**

Okay. One more question if I could. You had mentioned from an operator stand-point some of the benefits and feedback that you are receiving from the CWI and heavy-duty engines, is there any feedback that you've received of maybe some of the challenges that these operators have in switching?

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**Michael Gallagher, President and Chief Operating Officer**

There's always challenges as you roll out new technologies but this is going smoothly. I suppose we hear if we were to pick one topic we hear about the questions about fuel, the roll out of fuelling infrastructure, issues around monitoring fuel with different kinds of gauges so there's an education process that goes with the deployment, but as we say we feel it's going very smoothly.

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**David Gavison, CIBC World Markets**

Okay. Great. Thanks. That's all I had.

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**Operator**

Thank you. The next question is from John Roy from Janney Montgomery Scott. Please go ahead.

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**John Roy, Janney Montgomery**

Thanks for taking my call. Can you hear me?

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**David Demers, Chief Executive Officer**

Yes.

**John Roy, Janney Montgomery**

One of the things that they talked about on the Clean call was the natural gas guys, the Chesapeakes of the world were starting to try to look longer term for new markets. Have you been in touch with those guys and are they looking forward to that with you and are they actually a potential customer?

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**David Demers, Chief Executive Officer**

Yes, yes, yes. How's that?

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**John Roy, Janney Montgomery**

Can you give me any more color?

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**David Demers, Chief Executive Officer**

I think it's pretty obvious. Boone has done a great job of advertising the idea of displacing imported oil with natural gas at a time when everybody who produces gas has a surplus, a very substantial surplus of gas and they're looking for ways to use that up and you know if you are in those shoes, and by the way a lot of these things are public, I'm not giving away any big secrets, go to their investor relations pages and you will see the presentations.

You know if you've got a lot of gas a power plant would be a nice application but power plants are taking decades to get approved these days and there's a lot of opposition from other fuels and other energy sources so a natural gas big combined cycle turbine plant is not something that's going to be a near term opportunity to sop up gas. But you look around at the number of trucks on the road and how much fuel they could consume you could put a big dent in that surplus gas if you started running trucks on natural gas so it's got people quite excited.

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**Michael Gallagher, President and Chief Operating Officer**

Very excited about this story. The promise of natural gas for transportation. This has been a market that they've never been able to enter before so they are

looking at Westport essentially as an enabler of new markets for these companies which is a very exciting development.

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**David Demers, Chief Executive Officer**

And the new factor for them because everybody thinks of passenger cars, and that they're going to have to go build thousands of stations and see a slow ramp up over a decade, but the idea that Boone has popularized of putting a few hundred thousand trucks on the road is something people can get their heads around. It's not that big a number but it's a lot of fuel and it's a very lucrative customer base to establish.

So we can confirm what our friends at Clean have been saying, the gas producers themselves are looking at this very seriously as a way to find a new high-value market for their commodities. And that's what they do.

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**John Roy, Janney Montgomery**

Great. One last color kind of question if you could remind me. With the Walmart effort you're going through right now, the demo, is that CWI, HD, or both?

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**Michael Gallagher, President and Chief Operating Officer**

That's heavy duty. The 15 litre GX engine and the four Peterbilt trucks.

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**John Roy, Janney Montgomery**

Thank you so much.

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**Operator**

Thank you. The next question is from Mr. Rupert Merer from National Bank Financial. Please go ahead.

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**Rupert Merer, National Bank Financial**

Good afternoon or should I say good evening everyone. A few follow up questions. You talked about the

progress on the heavy duty you're down to \$50 - \$60,000 per engine, is that Canadian dollars or US?

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**David Demers, Chief Executive Officer**

US. It's about the same these days, Rupert.

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**Rupert Merer, National Bank Financial**

And if you look forward to the 2010 GX, do you anticipate any impact on that cost from the 2010 certification?

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**Michael Gallagher, President and Chief Operating Officer**

Yeah, we haven't completed our pricing for the 2010 product but we do use the Cummins base diesel engine and the Cummins SCR after-treatment system which would just kind of flow through as costs to the OEM, it wouldn't directly impact the cost of our fuel systems though which we'd track separately.

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**Rupert Merer, National Bank Financial**

Okay great. And a couple follow ups on some of the market developments. So it sounds like we are going to see another 500 trucks to the ports fairly soon. Do you expect to see any of those orders in calendar 2009 or will that be predominantly in Q1 next year?

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**Michael Gallagher, President and Chief Operating Officer**

Yeah most of the deliveries will be Q1 but I would expect to see some of the purchase orders starting to roll in December.

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**Rupert Merer, National Bank Financial**

Okay great. And just one more then. Going back to the Clean Cities, so you think you have a good shot of maybe 50 percent of the orders, was that for the 2,300 CNG vehicles as well? Are they going to be of a size that you think will be addressable by your product line?

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**Michael Gallagher, President and Chief Operating Officer**

A number of the CNGs will be addressable. The percentage would probably be higher for us on the LNG segment than on CNG but there's a substantial CNG opportunity as well for Cummins Westport.

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**Rupert Merer, National Bank Financial**

Okay great. And then one more. Dallas Transit's announcement was very positive for the sector. Do you, are you talking to them now or do you have any color on when they might be placing purchase orders?

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**Michael Gallagher, President and Chief Operating Officer**

I don't think timing's been specified. They've decided to go natural gas so they will be going through their specifications process. Cummins Westport is in close communications with them but I haven't heard any specific timing.

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**David Demers, Chief Executive Officer**

Yeah I think the process has been quite confused because a lot of this is being conducted in the press and so the reports, variously report that they're going to tender immediately in 2010 and they want deliveries to start in 2010 which is a pretty aggressive delivery cycle for a bus tender, but no they haven't awarded the business to a manufacturer yet so of course we haven't seen an order from a manufacturer yet and we really don't have any clear direction on when that will happen but it's a great win. It's another major visible city going to natural gas in a big way and of course we would expect to get a large percentage of those orders. How's that?

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**Rupert Merer, National Bank Financial**

Sounds good. Well it's a great outlook. Thanks very much.

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**Operator**

Thank you. The last question is from Lawrence Alexander from Jefferies & Company. Please go ahead.

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**Lawrence Alexander, Jefferies & Company**

Just a couple of last ones. As you push down your ASPs on the HPDI side, how has that changed your unit level breakeven?

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**Elaine Wong, Chief Financial Officer**

Yeah, I guess it's always the dollar gross margin we want to talk about, right, so as I push down my ASP I sure hope I can sell more, right so that's one. Number two is as you can see from our expense run rates we are holding our expenses steady and we've said publicly as well that we'll manage our expenses to the business and we're not going to go crazy and spend a lot of money if the units and volumes are not there to support it. Having said that, we're not going to prematurely cut anything and cut off potential for growth so the short answer, Lawrence, is that we'll sell more of the lower ASP and we'll manage our expenses.

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**Michael Gallagher, President and Chief Operating Officer**

And I think it was Dave who commented we are driving down the product costs at the same time which is helping.

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**Lawrence Alexander, Jefferies & Company**

I guess that's what I was trying to get a sense of is are you driving down the costs enough that the actual ASP required isn't moving that much or is it going to be a much slower cost reduction than the decline in the ASP?

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**Elaine Wong, Chief Financial Officer**

Well, go ahead Mike.

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**Michael Gallagher, President and Chief Operating Officer**

Yeah, we're trying to drive down the costs aggressively and in a way that would kind of protect Elaine's breakeven calculations to every degree possible.

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**Elaine Wong, Chief Financial Officer**

And one of the things David talked about in his speech we are working with suppliers and we've talked about this publicly a number of times too that we are looking at larger OEM suppliers and so on and so as we get those economies of scale you will see our cost of goods sold drop versus some of the smaller suppliers we are using today.

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**Lawrence Alexander, Jefferies & Company**

And then lastly just a question about the MD&A, what factors require or motivate you to move something up into the risk category. I mean, there's a new risk item about risk of acquisitions, can you just clarify, like, what prompted that addition?

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**Elaine Wong, Chief Financial Officer**

No, we look at our risk factors every quarter, right, and I wouldn't say anything specific prompted it but one of the things is, I mean I think in the August press release we announced that, you know, I was going to move away from the CFO position and look at M&As and so it seemed like a normal thing to do if we look at M&As more proactively maybe we should have a risk factor there that's a risk. Having said that, that does—do not read that to signal that there's something imminent going on or anything like that.

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**Michael Gallagher, President and Chief Operating Officer**

We call it the Elaine risk factor.

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**Lawrence Alexander, Jefferies & Company**

Fair enough. Good to have more things to worry about.

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**Elaine Wong, Chief Financial Officer**

Again, I'm a CFO so I've always worried, right?

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**Lawrence Alexander, Jefferies & Company**

Right. Okay. Thank you.

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**Elaine Wong, Chief Financial Officer**

Thanks, Lawrence.

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**Operator**

Thank you. The call has now ended. Please disconnect your lines at this time and we thank you for your participation.

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