Clean Energy Fuels Corp.
Form 10-Q
October 23, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

Commission File Number: 001-33480

CLEAN ENERGY FUELS CORP.

(Exact name of registrant as specified in its charter)

Delaware	**33-0968580**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

4675 MacArthur Court, Suite 800, Newport Beach, CA 92660

(Address of principal executive offices, including zip code)

(949) 437-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes o No x

As of October 16, 2014, there were 90,055,809 shares of the registrant s common stock, par value $0.0001 per share, issued and outstanding.

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Balance Sheets

December 31, 2013 and September 30, 2014

(Unaudited)

(In thousands, except share data)

	December 31, 2013	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 240,033	$ 114,689
Restricted cash	8,403	17,045
Short-term investments	138,240	133,374
Accounts receivable, net of allowance for doubtful accounts of $832 and $1,019 as of December 31, 2013 and September 30, 2014, respectively	53,473	77,075
Other receivables	26,285	21,506
Inventory, net	33,822	35,509
Prepaid expenses and other current assets	20,840	25,186
Total current assets	521,096	424,384
Land, property and equipment, net	487,854	528,341
Notes receivable and other long-term assets	73,697	73,140
Goodwill	88,548	86,317
Intangible assets, net	79,770	71,451
Total assets	$ 1,250,965	$ 1,183,633
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 23,401	$ 15,865
Accounts payable	33,541	39,093
Accrued liabilities	46,745	48,283
Deferred revenue	16,419	23,224
Total current liabilities	120,106	126,465

Long-term debt and capital lease obligations, less current portion		532,017		538,781
Long-term debt, related party		65,000		65,000
Other long-term liabilities		15,304		9,720
Total liabilities		732,427		739,966
Commitments and contingencies				
Stockholders equity:				
Preferred stock, $0.0001 par value. Authorized 1,000,000 shares; issued and outstanding no shares				
Common stock, $0.0001 par value. Authorized 224,000,000 shares; issued and outstanding 89,364,397 shares and 90,055,809 shares at December 31, 2013 and September 30, 2014, respectively		9		9
Additional paid-in capital		883,045		894,902
Accumulated deficit		(367,782)		(458,774)
Accumulated other comprehensive loss		(700)		(590)
Total Clean Energy Fuels Corp. stockholders equity		514,572		435,547
Noncontrolling interest in subsidiary		3,966		8,120
Total stockholders equity		518,538		443,667
Total liabilities and stockholders equity	$	1,250,965	$	1,183,633

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

For the Three Months and Nine Months Ended September 30, 2013 and 2014

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Revenue:				
Product revenues	$ 75,389	$ 90,448	$ 237,247	$ 262,710
Service revenues	10,932	12,972	30,233	34,118
Total revenues	86,321	103,420	267,480	296,828
Operating expenses:				
Cost of sales (exclusive of depreciation and amortization shown separately below):				
Product cost of sales	51,941	79,021	157,680	216,063
Service cost of sales	2,866	4,953	9,809	12,797
Derivative gains:				
Series I warrant valuation	(1,366)	(3,255)	(861)	(5,424)
Selling, general and administrative	33,511	28,240	101,574	96,130
Depreciation and amortization	10,924	12,325	31,859	35,448
Total operating expenses	97,876	121,284	300,061	355,014
Operating loss	(11,555)	(17,864)	(32,581)	(58,186)
Interest expense, net	(7,418)	(10,676)	(18,771)	(30,316)
Other income (expense), net	736	(880)	(757)	(1,045)
Loss from equity method investment			(76)	
Gain from sale of equity method investment			4,705	
Gain from sale of subsidiary			15,498	
Loss before income taxes	(18,237)	(29,420)	(31,982)	(89,547)
Income tax expense	(558)	(811)	(2,656)	(1,920)
Net loss	(18,795)	(30,231)	(34,638)	(91,467)
Loss (income) of noncontrolling interest	(41)	138	(12)	475
Net loss attributable to Clean Energy Fuels Corp.	$ (18,836)	$ (30,093)	$ (34,650)	$ (90,992)
Loss per share attributable to Clean Energy Fuels Corp.:				
Basic	$ (0.20)	$ (0.32)	$ (0.37)	$ (0.96)
Diluted	$ (0.20)	$ (0.32)	$ (0.37)	$ (0.96)
Weighted-average common shares outstanding:				

Basic	94,338,525	94,058,496	93,823,223	94,529,206
Diluted	94,338,525	94,058,496	93,823,223	94,529,206

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Loss)

For the Three Months and Nine Months Ended September 30, 2013 and 2014

(Unaudited)

(In thousands)

	Clean Energy Fuels Corp. Three Months Ended September 30,		Noncontrolling Interest Three Months Ended September 30,		Total Three Months Ended September 30,	
	2013	2014	2013	2014	2013	2014
Net income (loss)	$ (18,836)	$ (30,093)	$ 41	$ (138)	$ (18,795)	$ (30,231)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	428	5,113			428	5,113
Foreign currency adjustments on intra-entity long-term investments	1,853	(4,822)			1,853	(4,822)
Unrealized gains (losses) on available-for-sale securities	(123)	307			(123)	307
Total other comprehensive income, net of tax	2,158	598			2,158	598
Comprehensive income (loss)	$ (16,678)	$ (29,495)	$ 41	$ (138)	$ (16,637)	$ (29,633)

	Clean Energy Fuels Corp. Nine Months Ended September 30,		Noncontrolling Interest Nine Months Ended September 30,		Total Nine Months Ended September 30,	
	2013	2014	2013	2014	2013	2014
Net income (loss)	$ (34,650)	$ (90,992)	$ 12	$ (475)	$ (34,638)	$ (91,467)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(935)	4,867			(935)	4,867
Foreign currency adjustments on intra-entity long-term investments	(3,041)	(4,665)			(3,041)	(4,665)
	(125)	(92)			(125)	(92)

Unrealized losses on available-for-sale securities						
Unrecognized gains on derivatives	108				108	
Total other comprehensive income (loss), net of tax	(3,993)	110			(3,993)	110
Comprehensive income (loss)	$ (38,643)	$ (90,882)	$ 12	$ (475)	$ (38,631)	$ (91,357)

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp.

Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2013 and 2014

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
Cash flows from operating activities:		
Net loss	$ (34,638)	$ (91,467)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	31,859	35,448
Provision for doubtful accounts	654	231
Derivative gain	(861)	(5,424)
Stock-based compensation expense	17,347	9,207
Amortization of debt issuance cost	910	2,302
Accretion of notes payable	895	386
Gain on sale of equity method investment	(4,705)	
Dividend received on equity method investment	1,091	
Gain on sale of subsidiary	(15,498)	
Gain on contingent consideration for acquisition	(1,124)	(208)
Changes in operating assets and liabilities, net of assets and liabilities acquired and disposed:		
Accounts and other receivables	(1,565)	(17,603)
Inventory	(6,535)	(1,687)
Prepaid expenses and other assets	(180)	(5,237)
Accounts payable	(7,910)	9,190
Accrued expenses and other	17,835	8,458
Net cash used in operating activities	(2,425)	(56,404)
Cash flows from investing activities:		
Purchases of short-term investments	(68,051)	(92,506)
Maturities of short-term investments	74,918	96,520
Purchases of property and equipment	(60,040)	(75,114)
Loans made to customers	(2,167)	(4,965)
Payments on and proceeds from sales of loans receivable	3,141	4,873
Restricted cash	10,457	(8,642)
Acquisition, net of cash acquired	(9,000)	
Cash transferred with sale of subsidiary	(1,178)	
Proceeds from sale of equity method investment	6,119	

Net cash used in investing activities		(45,801)		(79,834)
Cash flows from financing activities:				
Proceeds from issuance of common stock and exercise of stock options		650		1,403
Proceeds from debt instruments		310,213		12,625
Proceeds from revolving line of credit		20,169		34,596
Proceeds from sale of interest in a subsidiary				6,992
Repayment of borrowing under revolving line of credit		(23,703)		(29,771)
Repayment of capital lease obligations and debt instruments		(7,811)		(14,274)
Payments for debt issuance costs		(7,500)		(914)
Net cash provided by financing activities		292,018		10,657
Effect of exchange rates on cash and cash equivalents		(178)		237
Net increase (decrease) in cash		243,614		(125,344)
Cash, beginning of period		108,522		240,033
Cash, end of period	$	352,136	$	114,689
Supplemental disclosure of cash flow information:				
Income taxes paid	$	2,128	$	908
Interest paid, net of approximately $1,835 and $2,943 capitalized, respectively		12,651		30,795

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

Note 1 General

Nature of Business: Clean Energy Fuels Corp. (together with its majority and wholly owned subsidiaries, unless the context indicates or otherwise requires, the Company) is engaged in the business of selling natural gas fueling solutions to its customers, primarily in the United States and Canada.

The Company has a broad customer base in a variety of markets, including trucking, airports, taxis, refuse, ready mix and public transit. The Company owns, operates, maintains and/or supplies over 525 natural gas fueling stations within the United States and Canada. The Company generates revenue through selling compressed natural gas (CNG) and liquefied natural gas (LNG), providing operation and maintenance services (O&M) to customers, building and selling natural gas fueling stations to customers, manufacturing and servicing natural gas fueling compressors and other equipment for CNG and LNG fueling stations, offering assessment, design and modification solutions designed to provide operators with code-compliant service and maintenance facilities for natural gas vehicle fleets, processing and selling renewable natural gas (RNG), financing customers vehicle purchases and selling tradable credits the Company generates by selling natural gas and RNG as a vehicle fuel, including credits under the California low carbon fuel standard (LCFS Credits) and Renewable Identification Numbers (RIN Credits) under the federal Renewable Fuel Standard Phase 2. In addition, through June 28, 2013, the Company provided natural gas vehicle conversions and design and engineering services for natural gas engine systems.

Basis of Presentation: The accompanying interim unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries, and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company s financial position, results of operations and cash flows as of and for the three and nine months ended September 30, 2013 and 2014. All intercompany accounts and transactions have been eliminated in consolidation. The three or nine month periods ended September 30, 2013 and 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other interim period or for any future year.

Certain information and disclosures normally included in the notes to the financial statements have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC), but the resultant disclosures contained herein are in accordance with accounting principles generally accepted in the United States of America (US GAAP) as they apply to interim reporting. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2013 that are included in the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2014.

Use of Estimates: The preparation of condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and revenues and expenses recorded during the reporting period. Actual results could differ from those estimates.

Note 2 Acquisitions and Divestitures

DCE

On September 4, 2014, Cambrian Energy McCommas Bluff LLC (Cambrian) exercised its option (the Cambrian Option) to purchase 19% of Dallas Clean Energy LLC (DCE) for $6,992 in accordance with the Operating Agreement dated August 15, 2008 between Cambrian and the Company (Operating Agreement). DCE owns all of the equity interests in Dallas Clean Energy McCommas Bluff, LLC (DCEMB), and DCEMB owns an RNG extraction and processing project at the McCommas Bluff Landfill in Dallas, Texas. As a result of Cambrian s exercise of the Cambrian Option, the Company s ownership interest in DCE was reduced from 70% to 51% while Cambrian s ownership interest increased from 30% to 49%. The Company recorded the transaction as an increase to non-controlling interest in subsidiary of $4,629, the book value of the interest transferred to Cambrian, with the remaining $2,363 recorded as additional paid in capital. The cash received in connection with the exercised Cambrian Option was recorded as restricted cash in accordance with the Mavrix NPA (see note 12).

Contemporaneous with its exercise of the Cambrian Option, Cambrian delivered to the Company a Buy/Sell notice. Pursuant to the Buy/Sell notice and the terms of the Operating Agreement, the Company must elect by March 4, 2015 to either sell its remaining 51% interest in DCE to Cambrian or to purchase Cambrian s 49% interest in DCE; in each case for a purchase price based on a valuation of DCE set forth in the Buy/Sell notice.

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BAF

On June 28, 2013, the Company, entered into and closed a stock purchase agreement (the BAF Sale Agreement) with Westport Innovations Inc. (Westport) and Westport Innovations (U.S.) Holdings Inc., a wholly owned subsidiary of Westport (together with Westport, the Westport Parties). Under the terms of the BAF Sale Agreement, on June 28, 2013, the Westport Parties purchased all of the outstanding capital stock of BAF, including BAF s 100% ownership interest of ServoTech Engineering, Inc., for 816,460 shares of Westport s common stock. Pursuant to the BAF Sale Agreement, the Company was issued 718,485 shares of Westport s common stock on June 28, 2013 and 97,975 shares of Westport s common stock (the Holdback Shares) were retained by Westport for one year as security for the Company s indemnification obligations under the BAF Sale Agreement. At the end of June 2014, the Company was issued 94,914 of the Holdback Shares, with the remaining 3,061 Holdback Shares remaining unissued as a result of, and in full satisfaction of, an indemnity claim under the BAF Sale Agreement. In July 2013, the Company sold the 718,485 shares it initially received for net proceeds of $23,722. In July 2014, the Company sold all of the Holdback Shares it received for net proceeds of $1,727. Further, during August 2013, the Westport Parties repaid $2,478 of certain intercompany indebtedness of BAF to the Company following the conclusion of applicable post-closing adjustment procedures contemplated in the BAF Sale Agreement.

The fair value of the 816,460 shares of Westport s common stock on June 28, 2013 was $27,221, and the Company recognized an initial gain of $15,498 on June 28, 2013 related to the transaction. In December 2013, the Company wrote down the value of the Holdback Shares by $1,383, which resulted in an adjusted gain of $14,115 on the transaction. For the nine month period ended September 30, 2014, the Company wrote down the value of the Holdback Shares by $122, which resulted in an adjusted gain of $13,993 on the transaction. The value of the shares received has been excluded from the Company s condensed consolidated statements of cash flows as it is a non-cash investing activity. The gain was recorded in the line item gain from sale of subsidiary in the Company s condensed consolidated statements of operations.

In addition, pursuant to the BAF Sale Agreement, the Company, Westport Power Inc. and Westport Fuel Systems Inc. (Westport Power, Inc. and Westport Fuel Systems, Inc. are collectively referred to as the Westport Affiliates) entered into a marketing agreement, dated June 28, 2013, whereby the Westport Affiliates agreed to pay the Company $5,000 in cash, which was received on February 27, 2014. Under the marketing agreement, the Company and the Westport Affiliates agreed to collaborate during a two year period to encourage sales of all BAF products and certain vehicle products offered by the Westport Affiliates, and the Company agreed to provide 750,000 complimentary gasoline gallon equivalents of CNG to be used by the Westport Affiliates as marketing incentives. Additionally, the marketing agreement provides for the Company s appointment of a product line manager for BAF, and at least one member of a newly established operating committee formed to create sales and marketing strategies for BAF and assist in BAF s performance of these strategies.

MGES

On May 6, 2013, the Company entered into and closed a stock purchase agreement with Mansfield Energy Corp. (Mansfield) and its wholly owned subsidiary Mansfield Gas Equipment Systems Corporation (MGES). MGES is primarily engaged in the business of providing CNG station design and construction and CNG equipment repair and maintenance services. Under the terms of the stock purchase agreement, the Company purchased from Mansfield all of the outstanding capital stock of MGES for $20,000, payable 50% in cash and 50% in shares of the Company s common stock. Upon closing, the Company delivered $9,000 in cash and 761,545 shares of the Company s common stock, and retained $1,000 as security for Mansfield s indemnification obligations under the stock purchase agreement. On the first anniversary of the closing date, the Company delivered the retained amount of $1,000 to Mansfield. In addition, in August 2013, the Company paid Mansfield an additional $563 following the conclusion of applicable post-closing adjustment procedures contemplated by the stock purchase agreement. The fair value of the Company s common stock delivered to Mansfield is excluded from the Company s condensed consolidated statements of cash flows as it is a non-cash investing activity.

The Company accounted for this acquisition in accordance with Financial Accounting Standards Board s (FASB) authoritative guidance for business combinations, which requires the Company to recognize the assets acquired and the liabilities assumed, measured at their fair values, as of the date of acquisition. The following table summarizes the allocation of the aggregate purchase price to the fair value of the assets acquired and liabilities assumed:

Current assets	$	4,475
Property, plant and equipment		1,369
Identifiable intangible assets		600
Goodwill		16,555
Total assets acquired		22,999
Current liabilities assumed		(1,984)
Total purchase price	$	21,015

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Management allocated approximately $600 of the purchase price to the identifiable intangible assets related to customer relationships and project back orders that were acquired with the acquisition. The fair value of the identifiable intangible assets will be amortized on a straight-line basis over the estimated useful lives of such assets ranging from one to six years. The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill, which primarily represents additional market share available to the Company as a result of the acquisition, and is fully deductible for income tax purposes.

The results of operations of MGES have been included in the Company s condensed consolidated financial statements since May 6, 2013. The historical results of MGES s operations were not material to the Company s financial position or historical results of operations.

Note 3 Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less on the date of acquisition to be cash equivalents.

Note 4 Restricted Cash

The Company classifies restricted cash as short-term and a current asset if the cash is expected to be used in operations within a year or to acquire a current asset. Otherwise, the restricted cash is classified as long-term. Restricted cash consisted of the following as of December 31, 2013 and September 30, 2014:

	December 31, 2013	September 30, 2014
Short-term restricted cash		
Standby letters of credit	$ 1,822	$ 1,822
DCEMB bonds	6,581	8,164
Canton bonds		3,447
Mavrix note		3,612
Total short-term restricted cash	$ 8,403	$ 17,045

Note 5 Investments

Available-for-sale investments are carried at fair value, inclusive of unrealized gains and losses. Net unrealized gains and losses are included in other comprehensive income (loss) net of applicable income taxes. Gains or losses on sales of available-for-sale investments are recognized on the specific identification basis. All of the Company s short-term investments are classified as available-for-sale securities.

The Company reviews available-for-sale investments for other-than-temporary declines in fair value below their cost basis each quarter, and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. This evaluation is based on a

number of factors, including the length of time and the extent to which the fair value has been below its cost basis and adverse conditions related specifically to the security, including any changes to the credit rating of the security. As of September 30, 2014, the Company believes its carrying values for its available-for-sale investments are properly recorded.

Short-term investments as of December 31, 2013 are summarized as follows:

	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds & notes	$ 60,047	$ (252)	$ 59,795
Corporate bonds	43,166	(342)	42,824
Certificate of deposits	35,630	(9)	35,621
	$ 138,843	$ (603)	$ 138,240

Short-term investments as of September 30, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds & notes	$ 51,624	$ (283)	$ 51,341
Corporate bonds	47,150	(412)	46,738
Certificate of deposits	35,295		35,295
	$ 134,069	$ (695)	$ 133,374

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Note 6 Other Receivables

Other receivables at December 31, 2013 and September 30, 2014 consisted of the following:

	December 31, 2013	September 30, 2014
Loans to customers to finance vehicle purchases	$ 5,919	$ 5,473
Accrued customer billings	6,327	11,749
Fuel tax and carbon credits	6,740	167
Other	7,299	4,117
	$ 26,285	$ 21,506

Note 7 Inventories

Inventories are stated at the lower of cost or market value on a first-in, first-out basis. Management s estimate of market value includes a provision for slow-moving or obsolete inventory based upon inventory on hand and forecasted demand.

Inventories consisted of the following as of December 31, 2013 and September 30, 2014:

	December 31, 2013	September 30, 2014
Raw materials and spare parts	$ 30,521	$ 32,098
Work in process	3,011	2,367
Finished goods	290	1,044
	$ 33,822	$ 35,509

Note 8 Land, Property and Equipment

Land, property and equipment at December 31, 2013 and September 30, 2014 are summarized as follows:

	December 31, 2013	September 30, 2014
Land	$ 1,707	$ 2,289
LNG liquefaction plants	93,685	93,846
RNG plants	47,932	99,602
Station equipment	194,240	236,887
LNG trailers	22,667	22,684

Other equipment	62,127	66,226
Construction in progress	204,548	172,977
	626,906	694,511
Less: accumulated depreciation	(139,052)	(166,170)
	$ 487,854	$ 528,341

Included in land, property and equipment are capitalized software costs of $18,214 and $19,735 as of December 31, 2013 and September 30, 2014, respectively. The accumulated amortization on the capitalized software costs is $7,747 and $10,049 as of December 31, 2013 and September 30, 2014, respectively. The Company recorded $874 and $691 of amortization expense related to the capitalized software costs during the three months ended September 30, 2013 and September 30, 2014, respectively. For the nine month periods ended September 30, 2013 and 2014, the Company recorded $2,362 and $2,302 of amortization expense related to the capitalized software costs respectively.

As of December 31, 2013 and September 30, 2014, $13,930 and $10,292 are included in accounts payable balances, respectively, that are related to purchases of property and equipment. These amounts are excluded from the condensed consolidated statements of cash flows as they are non-cash investing activities.

Note 9 Investments in Other Entities

The Company had invested in Clean Energy del Peru (the Peru JV), a former joint venture of the Company in Lima, Peru that operates CNG stations. The Company accounted for its investment in the Peru JV under the equity method of accounting as the Company had the ability to exercise significant influence over Peru JV s operations while the Company maintained its ownership interest in the joint venture. In March 2013, the Company completed the sale of its entire ownership interest in Peru JV for $6,119 after receiving a dividend distribution of $1,091, and recognized a gain of $4,705.

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Note 10 Accrued Liabilities

Accrued liabilities at December 31, 2013 and September 30, 2014 consisted of the following:

	December 31, 2013	September 30, 2014
Salaries and wages	$ 6,768	$ 11,550
Accrued gas and equipment purchases	8,035	15,180
Accrued property and other taxes	5,448	4,940
Accrued employee benefits	2,898	4,383
Accrued warranty liability	2,545	2,236
Accrued interest	4,216	1,169
Other	16,835	8,825
	$ 46,745	$ 48,283

Note 11 Warranty Liability

The Company records warranty liabilities at the time of sale for the estimated costs that may be incurred under its standard warranty. Changes in the warranty liability are presented in the following table:

	September 30, 2013	September 30, 2014
Warranty liability at beginning of year	$ 2,665	$ 2,545
Acquired liabilities	71	
Costs accrued for new warranty contracts and changes in estimates for pre-existing warranties	2,757	1,779
Service obligations honored	(2,519)	(2,088)
Sale of subsidiary	(582)	
Warranty liability at end of period	$ 2,392	$ 2,236

Note 12 Long-term Debt

DCEMB Bonds

In March 2011, the Company s majority owned subsidiary, DCEMB, completed a $40,200 tax-exempt bond issuance (the Revenue Bonds). The Revenue Bonds will be repaid from the revenue generated by DCEMB from the sale of RNG. The Revenue Bonds are secured by the revenue and assets of DCEMB and are non-recourse to DCEMB s direct and indirect parent companies, including the Company. The bond repayments are amortized through December 2024 and the average coupon interest rate on the bonds is 6.6%. The bond proceeds were primarily used to finance further improvements and expansion of the landfill gas processing facility owned by DCEMB at the McCommas Bluff landfill outside of Dallas, Texas and to retire certain other indebtedness.

The Revenue Bonds were issued by the Mission Economic Development Corporation (the Revenue Bonds Issuer) and the proceeds of such issuance were loaned by the Revenue Bonds Issuer to DCEMB pursuant to a loan agreement dated January 1, 2011 (the DCEMB Loan Agreement). The DCEMB Loan Agreement contains customary events of default, with customary cure periods, including without limitation failure to make required payments when due under the DCEMB Loan Agreement, failure to comply with certain covenants under the DCEMB Loan Agreement, certain events of bankruptcy and insolvency of DCEMB, and the existence of an event of default under the indenture governing the Revenue Bonds that was entered between the Revenue Bonds Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee. The occurrence of an event of default under the DCEMB Loan Agreement will allow the Revenue Bonds Issuer or the trustee to accelerate all amounts due under the DCEMB Loan Agreement. As of September 30, 2014, DCEMB was in compliance with all its debt covenants under the DCEMB Loan Agreement.

Purchase Notes

In connection with the closing of the Company s acquisition of the business of IMW Industries, Ltd. (IMW) in September 2010 from a seller (the IMW Seller), the Company agreed to make future payments consisting of four annual payments in the amount of $12,500, all of which have been paid as of February 2014 (each an IMW Note and collectively, the IMW Notes). Each payment under the IMW Notes consisted of Canadian dollars (CAD) $5,000 in cash and $7,500 in cash and/or shares of the Company s common stock (the exact combination of cash and/or stock was determined by the Company in its discretion). In January 2011, the Company paid CAD$5,000 in cash and $7,500 in shares of its common stock. The Company paid CAD$5,000 in cash in January 2012 and $3,750 in shares of its common stock in each of August 2012 and October 2012. The Company paid CAD$5,000 in cash and $7,500 in shares of its common stock in February 2013. In February 2014, the Company paid the final payment of CAD$5,000 in cash, $3,750 in cash and $3,750 in shares of its common stock. The IMW Notes that were settled with shares of the Company s common stock are not included in the condensed consolidated statements of cash flows as they are non-cash financing activities.

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In connection with the closing of the Company s acquisition of Wyoming Northstar Incorporated and its subsidiaries (collectively Northstar) in December 2010, the Company agreed to make future payments consisting of five annual payments in the amount of $700 each with the first payment due December 15, 2011. Each of the first three payments of $700 was paid in December 2011, 2012 and 2013, respectively.

In connection with the closing of the Company s acquisition of the natural gas fuel infrastructure construction business of Weaver Electric, Inc. in October 2011, the Company paid $1,000 in cash and agreed to make four additional annual payments in the amount of $250 each with the first payment due October 3, 2012 (the Weaver Notes), subject to retention and/or offset by the Company for Weaver Electric s indemnity obligations. As of September 30, 2014 only the final Weaver Note payment, which is due October 3, 2015, remained outstanding.

The difference between the carrying amount and the face amount of these obligations is being accreted to interest expense over the remaining term of the obligations.

HSBC Lines of Credit

In connection with the closing of the Company s acquisition of IMW, the Company entered into an Assumption Agreement (the Assumption Agreement) with HSBC Bank Canada (HSBC) pursuant to which the Company assumed the obligations and liabilities of IMW under the following arrangements with HSBC (collectively, the IMW Lines of Credit):

(i) An operating line of credit with a limit of CAD$13,000 to assist in financing the day-to-day working capital needs of IMW. The interest on amounts outstanding is payable at IMW s option at (a) HSBC s Prime Rate plus 1.00% per annum, (b) HSBC s U.S. Base Rate plus 1.00% per annum, or (c) LIBOR plus 2.25% per annum, subject to availability.

(ii) A demand revolving line of credit with a limit of CAD$2,000 bearing interest at the same rate as that of the operating line of credit discussed above, to assist in financing IMW s import requirements.

(iii) A demand revolving bank guarantee and standby letter of credit line with a limit of CAD$1,115.

(iv) A bank guarantee line with a limit of CAD$3,000, which allows IMW to provide guarantees and/or standby letters of credit to overseas suppliers or bid/performance deposits on contracts.

(v) A forward exchange contract line with a limit of CAD$13,750 that allows IMW to enter into foreign exchange forward contracts up to the notional limit of CAD$13,750.

(vi) An operating line of credit with a limit of 5,000 Renminbi (RMB) (CAD$907) bearing interest at the 6 month People s Bank of China rate plus 2.5% and a sub-limit bank guarantee line of 5,000 RMB. The aggregate of the balances in the lines cannot exceed 5,000 RMB.

(vii) A 16,750 Bangladeshi Taka (CAD$237) operating line of credit bearing interest at 14%.

(viii) A 170,000 Colombian Peso (CAD$93) operating line of credit bearing interest at the Colombia benchmark rate plus 7 to 12%.

The IMW Lines of Credit are secured by a general security agreement providing a first priority security interest in all present and after acquired personal property of IMW. The IMW Lines of Credit contain no fixed repayment terms or mandatory principal payments and are due on demand. Based on the relevant accounting guidance, the Company has classified the debt pursuant to the IMW Lines of Credit as short-term because it is due on demand.

The Assumption Agreement with HSBC sets forth certain financial covenants with which IMW must comply, including: 1) its ratio of debt to tangible net worth must be no greater than 3.0 to 1.0, 2) it must maintain a tangible net worth of at least CAD$9,100 and 3) its ratio of current assets to current liabilities may not be less than 1.25 to 1.0. IMW was in compliance with the financial covenants as of September 30, 2014.

On October 2, 2014, the Company paid the outstanding balance of CAD$11,578 on the operating line of credit with a limit of CAD$13,000 and (i), (ii), (iv) and (v) above were cancelled.

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Chesapeake Notes (7.5% Notes)

On July 11, 2011, the Company entered into a Loan Agreement (the CHK Agreement) with Chesapeake NG Ventures Corporation (Chesapeake), an indirect wholly owned subsidiary of Chesapeake Energy Corporation, whereby Chesapeake agreed to purchase from the Company up to $150,000 of debt securities (the CHK Financing) pursuant to the issuance of three convertible promissory notes, each having a principal amount of $50,000 (each a CHK Note and collectively the CHK Notes). The first CHK Note was issued on July 11, 2011 and the second CHK Note was issued on July 10, 2012. The Company and Chesapeake also entered a registration rights agreement (the CHK Registration Rights Agreement and collectively with the CHK Notes and the CHK Agreement, the CHK Loan Documents) pursuant to which the Company agreed, subject to the terms and conditions of the CHK Registration Rights Agreement, to (i) file with the Securities and Exchange Commission one or more registration statements relating to the resale of shares of the Company s common stock (Shares) issuable upon conversion of the CHK Notes and (ii) at the request of Chesapeake, participate in one or more underwritten offerings of Shares issuable upon conversion of the CHK Notes. Pursuant to the terms of the CHK Registration Rights Agreement, if the Company does not meet certain of its obligations thereunder with respect to the registration of the Shares issuable upon conversion of the CHK Notes, it will be required to pay monthly liquidated damages of 0.75% of the principal amount of the CHK Note represented by the Shares included (or to be included, as the case may be) in the applicable registration statement until the registration obligation is met, not to exceed 4% of the aggregate principal amount of the CHK Notes per annum.

On June 14, 2013 (the Transfer Date), Chesapeake, Boone Pickens and Green Energy Investment Holdings, LLC, an affiliate of Leonard Green & Partners, L.P. (collectively, the Buyers), entered into a note purchase agreement (Note Purchase Agreement) pursuant to which Chesapeake sold the outstanding CHK Notes (the Sale) to the Buyers. Chesapeake assigned to the Buyers all of its right, title and interest under the CHK Loan Documents (the Assignment), and each Buyer severally assumed all of the obligations of Chesapeake under the CHK Loan Documents arising after the Sale and the Assignment including, without limitation, the obligation to advance an additional $50,000 to the Company in June 2013 (the Assumption). The Company also entered into the Note Purchase Agreement for the purpose of consenting to the Sale, the Assignment and the Assumption.

Contemporaneously with the execution of the Note Purchase Agreement, the Company entered into a loan agreement with each Buyer (collectively, the Amended Agreements). The Amended Agreements have the same terms as the CHK Agreement, other than changes to reflect the change in ownership of the CHK Notes. In addition, the Company and the Buyers entered a registration rights agreement (the Amended Registration Rights Agreement) with the same terms as the CHK Registration Rights Agreement, including the liquidated damages provisions therein, other than changes to reflect the change in ownership of the CHK Notes. Immediately following execution of the Amended Agreements, the Buyers delivered $50,000 to the Company in satisfaction of the funding requirement they had assumed from Chesapeake (the June Advance). In addition, the Company cancelled the existing CHK Notes and re-issued replacement notes, and the Company also issued notes to the Buyers in exchange for the June Advance (the re-issued replacement notes and the notes issued in exchange for the June Advance are referred to herein as the 7.5% Notes).

The 7.5% Notes have the same terms as the original CHK Notes, other than the changes to reflect their different holders. They bear interest at the rate of 7.5% per annum (payable quarterly, in arrears, on March 31, June 30, September 30 and December 31 of each year) and are convertible at the option of the holder into Shares at a conversion price of $15.80 per Share (the 7.5% Notes Conversion Price). Upon written notice to the Company, the holders of the 7.5% Notes have the right to exchange all, or a portion of, the principal and accrued and unpaid interest under each such note for Shares at the 7.5% Notes Conversion Price. Additionally, subject to certain restrictions, the Company can force conversion of each 7.5% Note into Shares if, following the second anniversary of the issuance of a 7.5% Note, the Shares trade at a 40% premium to the 7.5% Notes Conversion Price for at least 20 trading days in any consecutive 30 trading day period. The entire principal balance of each 7.5% Note is due and payable seven years following its issuance and the Company may repay each 7.5% Note in Shares or cash. The Amended Agreements restrict the use of the proceeds of the 7.5% Notes to financing the development, construction and operation of liquefied natural gas stations and payment of certain related expenses. The Amended Agreements also provide for customary events of default which, if any of them occurs, would permit or require the principal of, and accrued interest on, the 7.5% Notes to become, or to be declared, due and payable.

On August 27, 2013, Green Energy Investment Holdings, LLC transferred $5,000 in principal amount of the 7.5% Notes to certain third parties.

As a result of the foregoing transactions, (i) Mr. Pickens holds 7.5% Notes in the aggregate principal amount of $65,000, which 7.5% Notes are convertible into approximately 4,113,924 Shares, and (ii) Green Energy Investment Holdings, LLC holds 7.5% Notes in the aggregate principal amount of $80,000, which 7.5% Notes are convertible into approximately 5,063,291 Shares.

At September 30, 2014, none of the proceeds from the 7.5% Notes were included in restricted cash as the Company had used the funds primarily to build LNG fueling stations. As of September 30, 2014, the Company had met its obligations under the Amended Agreements and the Amended Registration Rights Agreement.

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SLG Notes

On August 24, 2011, the Company entered into Convertible Note Purchase Agreements (each, an SLG Agreement and collectively the SLG Agreements) with each of Springleaf Investments Pte. Ltd., a wholly-owned subsidiary of Temasek Holdings Pte. Ltd., Lionfish Investments Pte. Ltd., an investment vehicle managed by Seatown Holdings International Pte. Ltd., and Greenwich Asset Holding Ltd., a wholly-owned subsidiary of RRJ Capital Master Fund I, L.P. (each, a Purchaser and collectively, the Purchasers), whereby the Purchasers agreed to purchase from the Company $150,000 of 7.5% convertible notes due in August 2016 (each a SLG Note and collectively the SLG Notes). The transaction closed and the SLG Notes were issued on August 30, 2011. On March 1, 2012, Springleaf Investments Pte. LTD transferred $24,000 principal amount of the SLG Notes to Baytree Investments (Mauritius) Pte Ltd.

The SLG Notes bear interest at the rate of 7.5% per annum (payable quarterly, in arrears, on March 31, June 30, September 30 and December 31 of each year) and are convertible at each Purchaser s option into Shares at a conversion price of $15.00 per share (the SLG Conversion Price). Upon written notice to the Company, the holders of the SLG Notes have the right to exchange all or any portion of the principal and accrued and unpaid interest under each such note for Shares at the SLG Conversion Price. Additionally, subject to certain restrictions, the Company can force conversion of each SLG Note into Shares if, following the second anniversary of the issuance of the SLG Notes, the Company s Shares trade at a 40% premium to the SLG Conversion Price for at least 20 trading days in any consecutive 30 trading day period. The entire principal balance of each SLG Note is due and payable five years following its issuance and the Company may repay the principal balance of each SLG Note in Shares or cash. The SLG Agreements also provide for customary events of default which, if any of them occurs, would permit or require the principal of, and accrued interest on, the SLG Notes to become, or to be declared, due and payable. In April 2012, $1,003 of principal and accrued interest under an SLG Note was converted by the holder thereof into 66,888 Shares. In January and February 2013, $4,030 of principal and accrued interest under an SLG Note was converted by the holder thereof into 268,664 Shares. Such conversions were not included in the condensed consolidated statements of cash flows as they are a non-cash financing activity.

In connection with the SLG Agreements, the Company also entered into a Registration Rights Agreement, dated August 30, 2011, with each of the Purchasers (the SLG Registration Rights Agreements) pursuant to which the Company agreed, subject to the terms and conditions of the SLG Registration Rights Agreements, to (i) file with the Securities and Exchange Commission one or more registration statements relating to the resale of the Shares issuable upon conversion of the SLG Notes, and (ii) at the request of the Purchasers, participate in one or more underwritten offerings of the Shares issuable upon conversion of the SLG Notes. If the Company does not meet certain of its obligations under the SLG Registration Rights Agreements with respect to the registration of the Shares issuable upon conversion of the SLG Notes, it will be required to pay monthly liquidated damages of 0.75% of the principal amount of the SLG Note represented by the Shares included (or to be included, as the case may be) in the applicable registration statement until the registration obligation is met, not to exceed 4% of the aggregate principal amount of the SLG Notes per annum. As of September 30, 2014, the Company had met its obligations under the SLG Agreements and the SLG Registration Rights Agreement.

GE Loans

On November 7, 2012, the Company, through two wholly owned subsidiaries (the Borrowers), entered into a financing arrangement with General Electric Capital Corporation (GE, and the agreement governing such arrangement, the GE Credit Agreement). Pursuant to the GE Credit Agreement, GE agreed to loan to the Borrowers up to an aggregate of $200,000 to finance the development, construction and operation of two LNG production facilities (individually a Project and together the Projects), each with an expected production capacity of approximately 250,000 LNG gallons per day. The Company expects to sell the LNG produced by the Projects through the Company s America s Natural Gas Highway (ANGH) initiative, a nationwide network of natural gas truck fueling stations.

The Borrowers ability to obtain loans under the GE Credit Agreement for the Projects (collectively, Loans and, with respect to each Project Tranche A Loans and Tranche B Loans) is subject to the satisfaction of certain conditions, including each of the (i) acquisition of title to, or leasehold interests in, the sites upon which the Projects will be constructed, (ii) receipt of all governmental approvals necessary in connection with the design, development, ownership, construction, installation, operation and maintenance of the Projects, (iii) commitment of all utility services necessary for the construction and operation of the Projects, and (iv) execution of an engineering, procurement and construction contract for each Project by the Company and GE Oil & Gas, Inc.

The GE Credit Agreement further provides that (i) if initial Loans are not made prior to December 31, 2014, the GE Credit Agreement will automatically terminate, (ii) each Project must be completed by the earlier of (a) the date thirty months after the funding of the initial Loans with respect to such Project and (b) December 31, 2016 (with respect to each Project, the Date Certain), (iii) the then-existing Loans with respect to each Project must be converted into term loans with eight year amortization schedules (Term Loans) on or before the Date Certain with respect to such Project (the date of such conversion with respect to each Project, the Conversion Date), provided that if such Loans are not converted into Term Loans by the applicable Date Certain, such Loans must be repaid by the applicable Date Certain, (iv) each Term Loan will be due and payable on the eighth anniversary of the

Conversion Date with respect to such Term Loan, and (v) at any time prior to the applicable Conversion Date, the Loans may be prepaid in whole, and at any time after the applicable Conversion Date, the Loans may be prepaid in whole or in part. The Company expects the Loans to bear interest at an annual rate equal to the then-current LIBOR rate plus 7%, provided that for purposes of the GE Credit Agreement, the then-current LIBOR rate will always be at least 1%. The GE Credit Agreement includes various customary covenants, including debt service coverage ratios, and a commitment fee on the unutilized loan amounts of 0.5% per annum, and also provides for customary events of default which, if such events occur, would permit or require the Loans to become or to be declared due and payable. As of September 30, 2014, the Company has not drawn any money under the GE Credit Agreement and was in compliance with the financial covenants. The commitment fee, which is charged to interest expense in the condensed consolidated statements of operations, was $261 and $256 for the three months ended September 30, 2013 and 2014. For the nine month periods ended September 30, 2013 and 2014, the Company recorded $758 of interest expense related to the commitment fee for each of the periods.

The Loans are secured by (i) a first priority security interest in all of the Borrowers assets, including the Projects, and (ii) a pledge of the Borrowers outstanding ownership interests. In addition, the Company has executed a guaranty in favor of GE (Guaranty), pursuant to which the Company has guaranteed all of the Borrowers obligations under the GE Credit Agreement, including repayment of all Loans.

The Company and GE also entered an equity contribution agreement (the EC Agreement) pursuant to which the Company agreed to pay at least 25% of the budgeted cost of the Projects and all additional costs that exceed such expected budgeted costs, in each case, in the form of equity contributions to the Borrowers (Equity Contributions). The EC Agreement also requires the Company to provide, concurrent with GE s extension of the initial Loans under the GE Credit Agreement, letter(s) of credit in an amount equal to the Company s then-current unfunded Equity Contributions.

Concurrently with the execution of the GE Credit Agreement, the Company issued to GE a warrant (GE Warrant) to purchase up to 5,000,000 shares of the Company s common stock (see note 13), and entered into a registration rights agreement with GE (the GE Registration Rights Agreement), pursuant to which the Company agreed, subject to certain conditions, to (i) file with the SEC one or more registration statements relating to the resale of shares issuable upon exercise of the GE Warrant, and (ii) at the request of the holder of the GE Warrant, participate in one or more underwritten offerings of the shares issuable upon exercise of the GE Warrant. If the Company does not meet certain of its obligations under the GE Registration Rights Agreement with respect to the registration of shares issuable upon exercise of the GE Warrant, it will be required to pay certain liquidated damages. As of September 30, 2014, the Company had met its obligations under the GE Registration Rights Agreement.

In September 2014, the Company determined it would not draw down on the GE Credit Agreement by December 31, 2014. As a result, the Company requested from GE an extension to permit the Company to draw on the Loans by December 31, 2016. Such extension had not been granted by GE at September 30, 2014.

Mavrix Note

On April 25, 2013, Mavrix, LLC (Mavrix), a newly-formed special purpose vehicle subsidiary of Clean Energy Renewable Fuels, LLC (CERF), a wholly owned subsidiary of the Company, entered into a note purchase agreement (NPA) with Massachusetts Mutual Life Insurance Company (the Mavrix Note Purchaser). Mavrix owns all of the equity interests in Canton Renewables, LLC (Canton) and 51% of the equity interests in DCE, which owns all of the equity interests in DCEMB (together with Canton, the Project Companies). Canton owns a RNG extraction and processing project at the Sauk Trail Hills Landfill in Canton, Michigan and DCEMB owns the RNG extraction and processing project at the McCommas Bluff Landfill in Dallas, Texas.

Pursuant to the NPA, on April 25, 2013 (the Mavrix Issuance Date), the Mavrix Note Purchaser (i) purchased a secured multi-draw promissory note (the Mavrix Note) from Mavrix in the maximum aggregate principal amount of $30,000 (the Maximum Principal Amount), and (ii) funded an initial advance of $5,000. In addition, in September and December 2013, the Mavrix Note Purchaser funded an additional advance of $5,000 each. Subject to Mavrix and the Project Companies satisfying certain conditions described in the NPA, the Mavrix Note Purchaser will make additional advances under the Mavrix Note, up to the Maximum Principal Amount. Mavrix has used, and will continue to use, the proceeds from the advances under the Mavrix Note to (x) pay any transaction costs and fees related to the NPA and the issuance of the Mavrix Note and (y) make distributions to its direct and indirect parent companies. Mavrix s direct and indirect parent companies have used such distributions to date to finance construction of additional RNG extraction and processing projects and for working capital purposes.

The Mavrix Note matures 12 years from the Mavrix Issuance Date and bears cash interest at the rate of 12% per annum and paid in kind interest at the rate of 2.0% per annum. The principal amount of the Mavrix Note will be repaid in 28 quarterly installments commencing on June 30, 2018, provided that the NPA requires mandatory prepayment of such principal amount upon certain casualty or condemnation events, asset sales or extraordinary transactions. In addition, Mavrix may not voluntarily repay the Mavrix Note until January 25, 2017 and, subject to the foregoing restriction, Mavrix must pay a prepayment premium if it prepays the Mavrix Note prior to July 30, 2021.

The Mavrix Note is secured by (i) a first priority security interest in all of Mavrix s assets and (ii) a pledge of Mavrix s outstanding equity interests. In addition, the NPA includes various customary affirmative and negative covenants and also provides for

customary events of default which, if such events occur, would permit or require the Mavrix Note to become, or to be declared, due and payable. The Mavrix Note is non-recourse to the Company. As of September 30, 2014, the Company had met its obligations under the NPA.

In September 2014, in connection with the Cambrian Option exercised by the minority interest holder in DCE (see note 2), a $2,912 principal payment was made in accordance with the NPA. An aggregate of $12,415, which includes interest paid in kind, was outstanding under the Mavrix Note at September 30, 2014.

5.25% Notes

In September 2013, the Company completed a private offering of 5.25% Convertible Senior Notes due 2018 (the 5.25% Notes) and entered into an indenture governing the 5.25% Notes (the Indenture).

The net proceeds from the sale of the 5.25% Notes after the payment of certain debt issuance costs of $7,805 were approximately $242,195. The Company has used, and intends to continue to use, the net proceeds from the sale of the 5.25% Notes to fund capital expenditures and for general corporate purposes.

The 5.25% Notes bear interest at a rate of 5.25% per annum, payable semi-annually in arrears on October 1 and April 1 of each year, beginning on April 1, 2014. The 5.25% Notes will mature on October 1, 2018, unless purchased, redeemed or converted prior to such date in accordance with their terms and the terms of the Indenture.

Holders may convert their 5.25% Notes, at their option, at any time prior to the close of business on the business day immediately preceding the maturity date of the 5.25% Notes. Upon conversion, the Company will deliver a number of shares of its common stock, per $1 principal amount of 5.25% Notes, equal to the conversion rate then in effect (together with a cash payment in lieu of any fractional shares). The initial conversion rate for the 5.25% Notes is 64.1026 shares of the Company s common stock per $1 principal amount of Notes (which is equivalent to an initial conversion price of approximately $15.60 per share of the Company s common stock). The conversion rate is subject to adjustment upon the occurrence of certain specified events as described in the Indenture.

Upon the occurrence of certain corporate events prior to the maturity date of the 5.25% Notes, the Company will, in certain circumstances, in addition to delivering the number of shares of the Company s common stock deliverable upon conversion of the 5.25% Notes based on the conversion rate then in effect (together with a cash payment in lieu of any fractional shares), pay holders that convert their 5.25% Notes a cash make-whole payment in an amount as described in the Indenture. The Company may, at its option, irrevocably elect to settle its obligation to pay any such make-whole payment in shares of its common stock instead of in cash. The amount of any make-whole payment, whether it is settled in cash or in shares of the Company s common stock upon the Company s election, will be determined based on the date on which the corporate event occurs or becomes effective and the stock price paid (or deemed to be paid) per share of the Company s common stock in the corporate event, as described in the Indenture.

The Company may not redeem the 5.25% Notes prior to October 5, 2016. On or after October 5, 2016, the Company may, at its option, redeem for cash all or any portion of the 5.25% Notes if the closing sale price of the Company s common stock for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which notice of redemption is provided, exceeds 160% of the conversion price on each applicable trading day. In the event of the Company s redemption of the 5.25% Notes, the redemption price will equal 100% of the principal amount of the 5.25% Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for in the 5.25% Notes.

If the Company undergoes a fundamental change (as defined in the Indenture) prior to the maturity date of the 5.25% Notes, subject to certain conditions as described in the Indenture, holders may require the Company to purchase, for cash, all or any portion of their 5.25% Notes at a repurchase price equal to 100% of the principal amount of the 5.25% Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date.

The Indenture contains customary events of default with customary cure periods, including, without limitation, failure to make required payments or deliveries of shares of its common stock when due under the Indenture, failure to comply with certain covenants under the Indenture, failure to pay when due or acceleration of certain other indebtedness of the Company or certain of its subsidiaries, and certain events of bankruptcy and insolvency of the Company or certain of its subsidiaries. The occurrence of an event of default under the Indenture will allow either the trustee or the holders of at least 25% in principal amount of the then-outstanding 5.25% Notes to accelerate, or upon an event of default arising from certain events of bankruptcy or insolvency of the Company, will automatically cause the acceleration of all amounts due under the 5.25% Notes. No events of default have occurred as of September 30, 2014.

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The 5.25% Notes are senior unsecured obligations of the Company and rank senior in right of payment to the Company s future indebtedness that is expressly subordinated in right of payment to the 5.25% Notes; equal in right of payment to the Company s unsecured indebtedness that is not so subordinated; effectively junior to any of the Company s secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness (including trade payables) of the Company s subsidiaries.

Canton Bonds

On March 19, 2014, Canton completed the issuance of Solid Waste Facility Limited Obligation Revenue Bonds (Canton Renewables, LLC Sauk Trail Hills Project) Series 2014 in the aggregate principal amount of $12,400 (the Bonds).

The Bonds were issued by the Michigan Strategic Fund (the Issuer) and the proceeds of such issuance were loaned by the Issuer to Canton pursuant to a loan agreement that became effective on March 19, 2014 (the Loan Agreement). The Bonds are expected to be repaid from revenue generated by Canton from the sale of RNG and are secured by the revenue and assets of Canton. The Bond repayments will be amortized through July 1, 2022, the average coupon interest rate on the Bonds is 6.6%, and all but $1,000 of the principal amount of the Bonds is non-recourse to Canton s parent companies, including the Company.

Canton used the Bond proceeds primarily to (i) refinance the cost of constructing and equipping its RNG extraction and production project in Canton, Michigan and (ii) pay a portion of the costs associated with the issuance of the Bonds. The refinancing described in the prior sentence was accomplished through distributions to the Borrower s direct and indirect parent companies who provided the financing for the RNG production facility, and such companies have used such distributions to finance construction of additional RNG extraction and processing projects and for working capital purposes.

The Loan Agreement contains customary events of default, with customary cure periods, including without limitation, failure to make required payments when due under the Loan Agreement, failure to comply with certain covenants under the Loan Agreement, certain events of bankruptcy and insolvency of Canton, and the existence of an event of default under the indenture governing the Bonds that was entered between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee. The occurrence of an event of default under the Loan Agreement will allow the Issuer or the trustee to accelerate all amounts due under the Loan Agreement. As of September 30, 2014, Canton had met its obligations under the Loan Agreement.

Long-term debt and capital lease obligations at December 31, 2013 and September 30, 2014 consisted of the following:

	December 31, 2013	September 30, 2014
IMW Purchase Notes	$ 12,121	$
Northstar future payments	1,274	1,339
DCEMB Notes	585	585
DCEMB Revenue Bonds (non-recourse to the Company)	36,500	35,295
7.5% Notes	150,000	150,000
SLG Notes	145,000	145,000

5.25% Notes		250,000		250,000
Weaver Notes		714		234
IMW Lines of Credit		6,036		10,451
Mavrix Note (non-recourse to the Company)		15,097		12,415
Canton Bonds ($11,150 non-recourse to the Company)				12,150
Capital lease obligations		3,091		2,177
Total debt and capital lease obligations		620,418		619,646
Less amounts due within one year and short-term borrowings		(23,401)		(15,865)
Total long-term debt and capital lease obligations	$	597,017	$	603,781

Note 13 Earnings Per Share

Basic earnings per share is based upon the weighted-average number of shares outstanding and shares issuable for little or no cash consideration during each period. Diluted earnings per share reflects the impact of assumed exercise of dilutive stock options and warrants.

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On September 11, 2014, the Company determined it no longer met certain conditions required to include 4,000,000 shares of common stock related to the GE Warrant in its weighted average share calculations. As a result, as of this date going forward, the Company determined to (i) exclude 4,000,000 shares of common stock issuable upon exercise of the GE Warrant from the weighted average number of shares outstanding in the basic and diluted earnings per share calculations for the three and nine months ended September 30, 2014, and (ii) include the remaining 1,000,000 shares of common stock issuable upon exercise of the GE Warrant in the basic and diluted earnings per share calculations for the three and nine months ended September 30, 2014, as 500,000 shares issuable upon exercise of the GE Warrant were exercisable as of the execution of the GE Credit Agreement and an additional 500,000 shares issuable upon exercise of the GE Warrant are exercisable even if the Company does not draw on the Loans by December 31, 2014. The information required to compute basic and diluted earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Basic and diluted:				
Weighted average number of common shares outstanding	94,338,525	94,058,496	93,823,223	94,529,206

Certain securities were excluded from the diluted earnings per share calculations for the three and nine months ended September 30, 2013 and 2014, respectively, as the inclusion of the securities would be anti-dilutive to the calculation. The amounts outstanding as of September 30, 2013 and 2014 for these instruments are as follows:

	September 30,	
	2013	2014
Options	11,564,680	11,565,752
Warrants	2,130,682	6,130,682
Convertible notes	35,185,979	35,185,979
Restricted Stock Units	1,590,836	2,062,336

Note 14 Stock-Based Compensation

The following table summarizes the compensation expense and related income tax benefit related to the stock-based compensation expense recognized during the periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2014	2013	2014
Stock-based compensation expense	$ 5,684	$ 2,809	$ 17,347	$ 9,207
Stock-based compensation expense, net of tax	$ 5,684	$ 2,809	$ 17,347	$ 9,207

Stock Options

The following table summarizes the Company s stock option activity during the nine months ended September 30, 2014:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value
Outstanding, December 31, 2013	11,526,998	$	11.79			
Options granted	702,000		11.83			
Options exercised	(336,328)		3.07			
Options forfeited	(326,918)		13.44			
Outstanding, September 30, 2014	11,565,752	$	12.00	4.85	$	0
Exercisable, September 30, 2014	9,665,287	$	11.82	4.18	$	0

As of September 30, 2014, there was $8,446 of total unrecognized compensation cost related to non-vested shares underlying outstanding options. That cost is expected to be recognized over a weighted average period of 1.5 years. The total fair value of shares vested during the nine months ended September 30, 2014 was $5,098.

The Company is obligated to issue shares of its common stock upon the exercise of stock options. The intrinsic value of all options exercised during the nine months ended September 30, 2013 and 2014 was $850 and $2,350, respectively.

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The fair value of each stock option is estimated as of the date of grant using the Black-Scholes option pricing model using the following weighted-average assumptions for grants in 2014:

	Nine Months Ended September 30, 2014
Dividend yield	0.00%
Expected volatility	52.3% to 54.0%
Risk-free interest rate	1.1% to 1.8%
Expected life in years	6.0

The weighted-average grant date fair values of options granted during the nine months ended September 30, 2013 and 2014 was $6.86 and $5.99, respectively. The volatility amounts used during these periods were estimated based on the Company s historical volatility and the Company s implied volatility of its traded options for such periods. The expected lives used during the periods were based on historical exercise periods and the Company s anticipated exercise periods for its outstanding options. The risk free rates used during the periods were based on the U.S. Treasury yield curve for the expected life of the options at the time of grant. The Company recorded $10,681 and $5,773 of stock option expense during the nine months ended September 30, 2013 and 2014, respectively. The Company has not recorded any tax benefit related to its stock option expense.

Market-Based Restricted Stock Units

The Company issued 489,500 market-based restricted stock units (Market-Based RSUs) to certain key employees during the nine months ended September 30, 2014. A holder of Market-Based RSUs will receive one share of the Company s common stock for each Market-Based RSU held if (i) between two years and four years from the date of grant of the Market-Based RSU, the closing price of the Company s common stock equals or exceeds, for twenty consecutive trading days, 135% of the closing price of the Company s common stock on the Market-Based RSU grant date (the Stock Price Condition) and (ii) the holder is employed by the Company at the time the Stock Price Condition is satisfied. If the Stock Price Condition is not satisfied prior to four years from the date of grant, the Market-Based RSUs will be automatically forfeited. The Market-Based RSUs are subject to the terms and conditions of the Company s Amended and Restated 2006 Equity Incentive Plan and a Notice of Grant of Restricted Stock Unit and Restricted Stock Unit Agreement.

The following table summarizes the Company s Market-Based RSU activity during the nine months ended September 30, 2014:

	Number of Shares	Weighted Average Fair Value at Grant Date	Weighted Average Remaining Contractual Term (in years)
Outstanding, December 31, 2013	1,545,000	$ 11.42	
RSUs granted	489,500	8.26	
RSUs forfeited	(18,000)	8.26	
Outstanding and non-vested, September 30, 2014	2,016,500	$ 10.68	1.82

As of September 30, 2014, there was $2,697 of total unrecognized compensation cost related to non-vested Market-Based RSUs. That cost is expected to be recognized over a weighted average period of 1.3 years.

The Company recorded $6,616 and $2,231 of expense during the nine months ended September 30, 2013 and 2014, respectively, related to the Market-Based RSUs. The Company has not recorded any tax benefit related to its Market-Based RSU expense.

The fair value of the Market-Based RSUs granted during the nine month period ended September 30, 2014 was estimated on the date of grant using the Monte Carlo method with the following assumptions:

	February 2, 2014
Dividend yield	0.00%
Expected volatility	47.0%
Risk-free interest rate	1.1%
Expected life in years	2.0

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Service-Based Restricted Stock Units

During September 2013, the Company issued service-based restricted stock units (Service-Based RSUs) to a key employee which vest annually over three years from the date of issuance at a rate of 34%, 33% and 33%, respectively, if the holder is then in service to the Company. The fair value of each Service-Based RSU is estimated using the closing stock price of the Company s common stock on the date of grant. The Service-Based RSUs are subject to the terms and conditions of the Company s Amended and Restated 2006 Equity Incentive Plan and a Notice of Grant of Restricted Stock Unit and Restricted Stock Unit Agreement.

The following table summarizes the Company s Serviced-Based RSU activity during the nine months ended September 30, 2014:

	Number of Shares	Weighted Average Fair Value at Grant Date	Weighted Average Remaining Contractual Term (in years)
Nonvested at December 31, 2013	45,836	$ 13.09	
RSUs granted			
Nonvested at September 30, 2014	45,836	$ 13.09	1.96

As of September 30, 2014, there was $396 of total unrecognized compensation cost related to non-vested Service-Based RSUs. That cost is expected to be recognized evenly over a period of 2.0 years.

The Company recorded $204 of expense during the nine months ended September 30, 2014 related to the Service-Based RSUs. The Company has not recorded any tax benefit related to its Service-Based RSU expense.

Employee Stock Purchase Plan

On May 7, 2013, the Company adopted an employee stock purchase plan (the ESPP), pursuant to which eligible employees may purchase shares of the Company s common stock at 85% of the fair market value of the common stock on the last trading day of two consecutive, non-concurrent offering periods each year. The Company has reserved 2,500,000 shares of its common stock for issuance under the ESPP.

The Company recorded $7 and $62 of expense during the nine months ended September 30, 2013 and 2014 related to the ESPP. The Company has not recorded any tax benefits related to its ESPP expense. At September 30, 2014, the Company had sold an aggregate of 35,745 shares pursuant to the ESPP.

Non-qualified Non-public Subsidiary Unit Options

In September 2013, the Company s wholly owned subsidiary, CERF, adopted the Clean Energy Renewable Fuels, LLC 2013 Unit Option Plan (the CERF Plan). 150,000 Class B units representing membership interests in CERF were initially reserved for issuance under the CERF Plan.

The following table summarizes CERF s unit option activity during the nine months ended September 30, 2014:

	Number of Units	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding, December 31, 2013	115,000	$ 40.80		
Options granted				
Outstanding and non-vested, September 30, 2014	115,000	$ 40.80	8.97	$ 0

As of September 30, 2014, there was $2,372 of total unrecognized compensation cost related to non-vested unit options issued pursuant to the CERF Plan. That cost is expected to be recognized over a weighted average period of 1.4 years.

CERF recorded $43 and $937 of unit option expense during the nine months ended September 30, 2013 and 2014. CERF has not recorded any tax benefit related to its unit option expense.

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Note 15 Environmental Matters, Litigation, Claims, Commitments and Contingencies

The Company is subject to federal, state, local, and foreign environmental laws and regulations. The Company does not anticipate any expenditures to comply with such laws and regulations which would have a material impact on the Company s condensed consolidated financial position, results of operations, or liquidity. The Company believes that its operations comply, in all material respects, with applicable federal, state, local and foreign environmental laws and regulations.

The Company may become party to various legal actions that arise in the ordinary course of its business. During the course of its operations, the Company is also subject to audit by tax authorities for varying periods in various federal, state, local and foreign tax jurisdictions. Disputes may arise during the course of such audits as to facts and matters of law. It is impossible to determine the ultimate liabilities that the Company may incur resulting from any such lawsuits, claims and proceedings, audits, commitments, contingencies and related matters or the timing of these liabilities, if any. If these matters were to be ultimately resolved unfavorably, an outcome not currently anticipated, it is possible that such outcome could have a material adverse effect upon the Company s condensed consolidated financial position, results of operations or liquidity. However, the Company believes that the ultimate resolution of such actions will not have a material adverse effect on the Company s condensed consolidated financial position, results of operations, or liquidity.

Note 16 Income Taxes

The Company s income tax expense for the three months and nine months ended September 30, 2014 was $811 and $1,920, respectively. The Company s income tax expense for the three and nine months ended September 30, 2013 was $558 and $2,656, respectively. Tax expense for all periods was comprised of taxes due on the Company s U.S. and foreign operations. The decrease in the Company s income tax expense for the nine months ended September 30, 2014 as compared to the income tax expense for the nine months ended September 30, 2013 was primarily attributed to taxes paid on the sale of the Company s 49% interest in its former Peruvian joint venture in the first nine months of 2013. The effective tax rate for the three months and nine months ended September 30, 2013 and 2014 are different from the federal statutory tax rate primarily as a result of losses for which no tax benefit has been recognized.

The Company did not record a change in its liability for unrecognized tax benefits or penalties in the three months and nine months ended September 30, 2013 or September 30, 2014, and the net interest incurred was immaterial for such periods.

Note 17 Fair Value Measurements

The Company follows the authoritative guidance for fair value measurements with respect to assets and liabilities that are measured at fair value on a recurring basis and nonrecurring basis. Under the standard, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as of the measurement date. The standard also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy consists of the following three levels: Level 1 inputs are quoted prices

(unadjusted) in active markets for identical assets or liabilities; Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly; Level 3 inputs are unobservable inputs for the asset or liability. Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

During the nine months ended September 30, 2014, the Company s financial instruments consisted of available-for-sale securities, debt instruments, and Series I warrants. For securities available-for-sale, the fair value is determined by the most recent trading prices available for each security or for comparable securities, and thus represent Level 2 fair value measurements. The Company used projected financial results for the respective entity, discounted to reflect the time value of money, to value its contingent consideration obligation at December 31, 2013 (final payment was made in September 2014), which is considered to be a Level 3 fair value measurement. The fair values of the Company s debt instruments approximated their carrying values at December 31, 2013 and September 30, 2014. The Company uses the Black-Scholes model to value the Series I warrants. The Company believes the best method to approximate a market participant s view of the volatility of the Series I warrants has been to use the implied volatilities of the Company s short-term (i.e. 3 to 9 month) traded options and extrapolate the data over the remaining term of the Series I warrants, which was approximately 1.58 years as of September 30, 2014. This method has been utilized consistently in the periods presented. Given that the extrapolation beyond the term of the short term exchange traded options is not based on observable market inputs for a significant portion of the remaining term of the warrants, the Series I warrants have been classified as a Level 3 fair value measurement.

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The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2013 and September 30, 2014, respectively:

Description	Balance at December 31, 2013	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities(1):				
Certificate of deposits	$ 35,621	$	$ 35,621	$
Municipal bonds and notes	59,795		59,795	
Corporate bonds	42,824		42,824	
Liabilities:				
Contingent consideration obligation(2)	384			384
Series I warrants(3)	7,164			7,164

Description	Balance at September 30, 2014	Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities(1):				
Certificate of deposits	$ 35,295	$	$ 35,295	$
Municipal bonds and notes	51,341		51,341	
Corporate bonds	46,738		46,738	
Liabilities:				
Series I warrants(3)	1,740			1,740

(1) Included in short-term investments in the condensed consolidated balance sheets. See note 5 for further information.

(2) Included in accrued liabilities in the condensed consolidated balance sheet at December 31, 2013.

(3) Included in other long-term liabilities in the condensed consolidated balance sheets.

The following tables provide a reconciliation of the beginning and ending balances of items measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3).

Liabilities: Contingent Consideration	September 30, 2013	September 30, 2014
Beginning Balance	$ 1,516	$ 384
Total (gain) included in SG&A expense	(1,124)	(208)
Payments		(176)
Ending Balance	$ 392	$

Liabilities: Series I Warrants	September 30, 2013	September 30, 2014
Beginning Balance	$ 8,102	$ 7,164
Total (gain) included in earnings	(861)	(5,424)
Ending Balance	$ 7,241	$ 1,740

Valuation processes for Level 3 fair value measurements and sensitivity to changes in significant unobservable inputs

Fair value measurements of liabilities, which fall within Level 3 of the fair value hierarchy, are determined by the Company s accounting department, who report to the Company s Chief Financial Officer. The fair value measurements are compared to those of the prior reporting periods to ensure that changes are consistent with expectations of management based upon the sensitivity and nature of the inputs.

Series I Warrant Liability

The Company estimated the fair value of its Series I warrant liability using the Black-Scholes model based on the following inputs as of September 30, 2014:

Unobservable Input	**Range or Weighted Average**
Current market price of the Company s common stock	$7.80
Exercise price of the warrant	$12.68
Dividend yield	0.00%
Remaining term of the warrant	1.58
Implied volatility of the Company s common stock	50.22% - 55.11%
Assumed discount rate	Simple average of 0.36%

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Significant changes in any of those inputs in isolation can result in a significant change in the fair value measurement. Generally, a positive change in the market price of the Company s common stock, an increase in the volatility of the Company s common stock, or an increase in the remaining term of the warrant would result in a directionally similar change in the estimated fair value of the Company s Series I warrants and thus an increase in the associated liability. An increase in the assumed discount rate or a decrease in the positive differential between the warrant s exercise price and the market price of the Company s common stock would result in a decrease in the estimated fair value measurement of the Series I warrants and thus a decrease in the associated liability. The Company has not, nor does it plan to, declare dividends on its common stock, and thus, there is no directionally similar change in the estimated fair value of the warrants due to the dividend assumption.

Non-financial assets

No impairments of long-lived assets measured at fair value on a non-recurring basis have been incurred during the nine months ended September 30, 2013 and 2014. The Company s use of these nonfinancial assets does not differ from their highest and best use as determined from the perspective of a market participant.

Note 18 Recently Adopted Accounting Changes and Recently Issued Accounting Standards

In August 2014, the FASB issued new accounting guidance which defines management s responsibility to assess an entity s ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This guidance will be effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has not adopted the guidance and does not anticipate the guidance having an impact on its footnote disclosures.

In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to receive in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity s contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the impact of the amended guidance on its condensed consolidated financial position, results of operations and related disclosures.

Note 19 Volumetric Excise Tax Credit (VETC)

From October 1, 2006 through December 31, 2011, the Company was eligible to receive a federal fuel tax credit (VETC) of $0.50 per gasoline gallon equivalent of CNG and $0.50 per liquid gallon of LNG that it sold as vehicle fuel. Based on the service relationship with its customers, either the Company or its customers claimed the credit. The Company recorded its VETC credits as revenue in its condensed consolidated statements of operations as the credits are fully refundable and do not need to offset income tax liabilities to be received. The American

Taxpayer Relief Act, signed into law on January 2, 2013, reinstated VETC for calendar year 2013 and also made it retroactive to January 1, 2012. VETC revenues recognized during the three and nine month periods ended September 30, 2013 were $5,987 and $38,140, respectively. The VETC revenues recognized during the nine months ended September 30, 2013 includes $20,800 for the VETC revenues attributable to 2012. The program under which the Company received VETC expired on December 31, 2013, and as such, the Company has not recognized any VETC revenue in 2014.

Note 20 Subsequent Events

On October 14, 2014, the Company entered into a Common Unit Purchase Agreement (UPA) with NG Advantage, LLC (NG Advantage) and the investors named therein. NG Advantage is engaged in the business of transporting CNG in high-capacity trailers to large industrial and institutional energy users, such as hospitals, food processors, manufacturers and paper mills, which do not have direct access to natural gas pipelines.

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Under the terms of the UPA, the Company purchased common units of NG Advantage representing a majority interest in NG Advantage for $37,650 (the Purchase Price). $19,000 of the Purchase Price was paid in cash on October 14, 2014 and the remaining $18,650 of the Purchase Price was paid in the form of an unsecured promissory note issued by the Company (the Unit Note).

The principal amount of the Unit Note is payable by the Company in two payments as follows: (i) $3,000 is due no later than January 13, 2015 and (ii) the remaining $15,650 is due no later than April 1, 2015. The Unit Note does not bear interest.

In addition, on October 14, 2014, the Company and NG Advantage entered into a purchase agreement (the Purchase Agreement) pursuant to which the Company purchased all of NG Advantage s right, title and interest in and to a CNG station located in Milton, Vermont (the Station), which includes land and station equipment, for $9,000 (the Station Price). $7,200 of the Station Price was paid in cash on October 14, 2014 and the remaining $1,800 of the Station Price was paid in the form of an unsecured promissory note issued by the Company (the Station Note). The principal amount of the Station Note is payable by the Company on the date NG Advantage completes certain upgrade work to the Station, which the Lease (as defined below) provides must be completed, subject to certain exceptions, on or before April 30, 2015. The Station Note does not bear interest.

On October 14, 2014 and immediately following the consummation of the Company s purchase of the Station, The Company and NG Advantage entered into a lease agreement (Lease) pursuant to which the Company leased the Station to NG Advantage. The Lease has an initial term of seven years and is renewable at NG Advantage s option for two additional seven-year terms. The initial base rent under the Lease is $84 per month and increases to $105 per month in the first month following the date NG Advantage completes certain upgrade work to the Station. NG Advantage has an option to repurchase the Station at the conclusion of the initial term or, if any, the first renewal term under the Lease, in each case for an amount equal to the then-applicable fair market value of the Station.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (this MD&A) should be read together with the unaudited condensed consolidated financial statements and the related notes included in this report. For additional context with which to understand our financial condition and results of operations, refer to the MD&A for the fiscal year ended December 31, 2013 contained in our 2013 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (SEC) on February 27, 2014, as well as the consolidated financial statements and notes contained therein (collectively, the 2013 10-K). Unless the context indicates otherwise, all references to Clean Energy, the Company, we, us, or our in this MD&A and elsewhere in this report refer to Clean Energy Fuels Corp. together with its majority and wholly owned subsidiaries.

Cautionary Statement Regarding Forward Looking Statements

This MD&A and other sections of this report contain forward looking statements, as defined by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and in some cases, you can identify these statements by forward-looking words such as if, shall, may, might, could, will, should, expect, plan, anticipate, believe, estimate, project, intend, goal, objective, predict, potential or continue, or the negative of these terms and other comparable terminology. These forward-looking statements, which are based on various underlying assumptions and expectations and are subject to risks, uncertainties and other unknown

factors, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations, assumptions and projections about future events that we believe to be reasonable. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from our historical or future results, level of activity, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, those discussed under the caption Risk Factors in this report and in our 2013 10-K. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our 2013 10-K pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date we file this report to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

We are the leading provider of natural gas as an alternative fuel for vehicle fleets in the United States and Canada, based on the number of stations operated and the amount of gasoline gallon equivalents of compressed natural gas (CNG) and liquefied natural gas (LNG) delivered. We design, build, operate and maintain fueling stations and supply our customers with CNG fuel for light, medium and heavy-duty vehicles and LNG fuel for medium and heavy-duty vehicles. We also sell non-lubricated natural gas compressors and other equipment used in CNG stations and LNG stations, provide operation and maintenance services (O&M) to customers, offer assessment, design and modification solutions designed to provide operators with code-compliant service and maintenance facilities for their natural gas vehicle fleets, produce and sell renewable natural gas (RNG), which can be used as vehicle fuel or sold for renewable power generation, and sell tradable credits we generate by selling natural gas and RNG as a vehicle fuel, including credits we generate under the California Low Carbon Fuel Standard (LCFS Credits) and Renewable Identification Numbers (RIN Credits or RINs) we generate under the federal Renewable Fuel Standard (RFS) Phase 2. In addition, we help our customers acquire and finance natural gas vehicles and obtain local, state and federal grants and incentives. We previously owned BAF Technologies, Inc. and its wholly owned subsidiary, ServoTech Engineering, Inc. (BAF Technologies, Inc. and ServoTech

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Engineering Inc. are collectively referred to as BAF). BAF converted light and medium duty vehicles to run on natural gas and provided design and engineering services for natural gas engine systems. On June 28, 2013, we sold BAF to Westport Innovations (U.S.) Holdings Inc., a wholly owned subsidiary of Westport Innovations Inc. (collectively, Westport).

Overview

This overview discusses matters on which our management primarily focuses in evaluating our financial condition and operating performance and results.

Sources of revenue. We generate revenues by selling CNG and LNG, providing O&M services to our vehicle fleet customers, designing and constructing fueling stations and selling those stations to our customers, selling RNG, selling non-lubricated natural gas fueling compressors and other equipment for CNG and LNG fueling stations, offering solutions designed to provide operators with code-compliant maintenance facilities to service their natural gas vehicle fleets, providing financing for our customers natural gas vehicle purchases and selling tradable credits, including LCFS Credits and RIN Credits. In addition, through June 28, 2013, we generated revenues, through BAF, by selling converted natural gas vehicles and providing design and engineering services for natural gas engine systems.

Key operating data. In evaluating our operating performance, our management focuses primarily on: (1) the amount of CNG and LNG gasoline gallon equivalents delivered (which we define as (i) the volume of gasoline gallon equivalents we sell to our customers, plus (ii) the volume of gasoline gallon equivalents dispensed to our customers at stations where we provide O&M services, but do not sell the CNG or LNG, plus (iii) our proportionate share of the gasoline gallon equivalents sold as CNG by our joint venture in Peru (through March 2013 when we sold our interest in the joint venture in Peru), plus (iv) our proportionate share of the gasoline gallon equivalents of RNG produced and sold as pipeline quality natural gas by our RNG production facilities), (2) our gross margin (which we define as revenue minus cost of sales), and (3) net income (loss) attributable to us. The following table, which you should read in conjunction with our condensed consolidated financial statements and notes contained elsewhere in this quarterly report on Form 10-Q and our consolidated financial statements and notes contained in our 2013 10-K, presents our key operating data for the years ended December 31, 2011, 2012, and 2013 and for the three and nine months ended September 30, 2013 and 2014:

Gasoline gallon equivalents delivered (in millions)	Year Ended December 31, 2011	Year Ended December 31, 2012	Year Ended December 31, 2013	Three Months Ended September 30, 2013	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2014
CNG	101.8	130.5	143.9	37.2	47.6	106.8	130.5
RNG	6.7	8.9	10.5	2.5	3.0	6.9	9.2
LNG	47.1	55.5	60	16.7	18.0	45.2	53.0
Total	155.6	194.9	214.4	56.4	68.6	158.9	192.7
Operating data							
Gross margin	$ 76,033(1)	$ 80,324	$ 127,713(1)	$ 31,514	$ 19,446	$ 99,991(1)	$ 67,968
Net loss attributable to Clean Energy Fuels Corp.	(47,633)(1)	(101,255)	(66,968)(1)	(18,836)(1)	(30,093)	(34,650)(1)	(90,992)

(1) Includes $6.0 million, $38.1 million, $45.4 million and $17.9 million of revenue for federal fuel tax credits (VETC) for the three months ended September 30, 2013, the nine months ended September 30, 2013, the year ended December 31, 2013, and the year ended December 31, 2011, respectively. See the discussion under Operations Government Incentives below.

Key trends. According to the U.S. Department of Energy, Energy Information Administration (EIA), demand for natural gas fuels in the United States increased by approximately 38% during the period January 1, 2011 through December 31, 2013. We believe this growth in demand was attributable primarily to the rising prices of gasoline and diesel relative to CNG and LNG during this period, as well as increasingly stringent environmental regulations affecting vehicle fleets and increased availability of natural gas.

The number of fueling stations we owned, operated, maintained and/or supplied grew from 224 at January 1, 2011 to 526 at September 30, 2014 (a 134.8% increase). Included in this number are all of the CNG and LNG fueling stations we own, operate, maintain or with which we have a fueling supply contract. The amount of CNG, RNG, and LNG gasoline gallon equivalents we delivered from 2011 to 2013 increased by 37.8%. The increase in gasoline gallon equivalents delivered was the primary contributor to increased revenues during 2011, 2012, 2013 and the first nine months of 2014. In addition, in 2013, revenues included $20.8 million in federal VETC revenues related to 2012 due to the reinstatement of such credits in January 2013. This increase was partially offset by a reduction in revenues in 2013 due to our sale of BAF on June 28, 2013. Our revenue can vary between periods for various reasons, including the timing of equipment sales, station construction and natural gas sale activity.

Our fuel cost of sales also increased during these periods, which was attributable primarily to increased costs related to delivering more CNG, RNG and LNG to our customers in 2011 through 2013 and the first nine months of 2014. The increase was partially offset in 2013 by a reduction in cost of sales due to our sale of BAF on June 28, 2013. Our cost of sales can vary between periods for various reasons, including the timing of equipment sales, station construction and natural gas sale activity.

During 2013 and the first nine months in 2014, prices for oil, gasoline, and diesel fuel were generally substantially higher than the price for natural gas. Oil hit a high of $107.65 per barrel, or $19.39 per one million Btus (MMbtu), in August 2013 and was $91.16 per barrel, or $16.42 per MMbtu, on September 30, 2014. In California, the average retail price for gasoline was $3.89 per gallon in 2013 and was $3.74 per gallon on September 30, 2014. The average retail price for diesel fuel in California was $4.13 per diesel gallon in 2013 and was $4.01 per diesel gallon at September 30, 2014. Higher gasoline and diesel prices improve our margins on fuel sales to the extent we price our fuel at a relatively consistent discount to gasoline or diesel and natural gas prices do not increase by a corresponding amount. During this time period, the price for natural gas increased slightly. The NYMEX price for natural gas ranged from $3.35 per MMbtu in January 2013 to $3.99 per MMbtu in September 2014. The average retail sales price of our CNG fuel sold in the Los Angeles metropolitan area ranged from $2.75 per gallon during January 2013 to $2.86 per gallon for the month of September 2014. The average retail sales price of our LNG fuel sold in the Los Angeles metropolitan area ranged from $2.70 per gallon during January 2013 to $2.61 per gallon for the month of September 2014.

Recent developments. On September 4, 2014, Cambrian Energy McCommas Bluff LLC (Cambrian) exercised its option (the Cambrian Option) to purchase 19% of Dallas Clean Energy LLC (DCE) for $6.9 million (the Cambrian Payment) in accordance with the Operating Agreement dated August 15, 2008 between us and Cambrian (Operating Agreement). DCE owns all of the equity interests in Dallas Clean Energy McCommas Bluff, LLC (DCEMB), and DCEMB owns an RNG extraction and processing project at the McCommas Bluff Landfill in Dallas, Texas. As a result of Cambrian s exercise of the Cambrian Option, our ownership interest in DCE was reduced from 70% to 51% while Cambrian s ownership interest increased from 30% to 49%. As required by the NPA, $2.9 million of the Cambrian Payment was delivered to the Mavrix Note Holder (the NPA and the Mavrix Note Holder are defined and discussed in note 12 to our condensed consolidated financial statements).

Contemporaneous with its exercise of the Cambrian Option, Cambrian delivered a Buy/Sell notice under the Operating Agreement to us. Pursuant to the Buy/Sell notice and the terms of the Operating Agreement, we must elect by March 4, 2015 to either sell our 51% interest in DCE to Cambrian or to purchase Cambrian s 49% interest in DCE; in each case for a purchase price based on a valuation of DCE set forth in the Buy/Sell notice. If we sell our 51% interest in DCE to Cambrian we will be required by the NPA to repay the outstanding principal amount of the Mavrix Note plus a prepayment premium (the Mavrix Note is defined and discussed in note 12 to our condensed consolidated financial statements). An aggregate of $12.4 million, which includes interest paid in kind, was outstanding under the Mavrix Note at September 30, 2014.

In September 2014, we formed a joint venture with Mansfield Energy Corp., called Mansfield Clean Energy Partners LLC (MCEP), which will provide natural gas fueling solutions to bulk fuel haulers in the U.S. MCEP s first customer is Mansfield Oil Company, one of the nation s largest providers of transportation fuel, whose fleet of CNG trucks will fuel at a new Atlanta, Georgia, area public natural gas station built by MCEP and opened in October 2014. MCEP anticipates opening a second station in Tampa, Florida, which is expected to support additional Mansfield

Oil Company CNG trucks as well as heavy-duty trucks of other regional and national bulk fuel haulers, in early 2015. MCEP expects to develop additional public-access natural gas fueling stations throughout the U.S. to support heavy-duty natural gas trucks.

In October 2014, we invested in and purchased a CNG station from NG Advantage, LLC (NG Advantage), a company engaged in the business of transporting CNG in high-capacity trailers to large industrial and institutional energy users, such as hospitals, food processors, manufacturers and paper mills, which do not have direct access to natural gas pipelines. We expect to sell increasing volumes of CNG to such customers.

Anticipated future trends. We anticipate that, over the long term, the prices for gasoline and diesel will continue to be higher than the price of natural gas as a vehicle fuel, which will continue to make natural gas vehicle fuel an attractive alternative to gasoline and diesel. Our belief that natural gas will continue, over the long term, to be a cheaper vehicle fuel than gasoline or diesel is based in large part on the growth in United States natural gas production in recent years.

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We believe there will be significant growth in the consumption of natural gas as a vehicle fuel among vehicle fleets, and our goal is to capitalize on this trend and enhance our leadership position as this market expands. With our acquisitions in 2010 of the natural gas compressor development and manufacturing business of IMW Industries, Ltd. (IMW) and of Wyoming Northstar Incorporated and its affiliated entities (Northstar), a leading provider of LNG station design, construction, operation and maintenance services, we are a fully integrated provider of advanced compression technology, CNG and LNG station design and construction, and CNG and LNG fueling. We anticipate expanding our sales of CNG, RNG and LNG in each of the markets in which we operate, including trucking, refuse, airports, ready mix, taxis and public transit, and plan to enter additional markets, including potentially rail. Consistent with the anticipated growth of our business, we also expect that our operating costs and capital expenditures will increase, primarily from the anticipated expansion of our station network and LNG and RNG production capacity, as well as the logistics of delivering more CNG, LNG and RNG to our customers. We also anticipate that we will continue to seek to acquire assets and/or businesses that are in the natural gas fueling infrastructure or RNG production business that may require us to raise and expend additional capital. Additionally, we have increased, and will continue to increase, our sales and marketing team and other necessary personnel as we seek to expand our existing markets and enter new markets, which will also result in increased costs.

We have made a significant commitment of capital and other resources to build a nationwide network of natural gas truck-friendly fueling stations, which we refer to as America s Natural Gas Highway or ANGH. Our ANGH stations have primarily been initially built to provide LNG. However, we believe operators will adopt heavy-duty trucks that run on both LNG and CNG, so to meet the needs of our customers, we have designed our ANGH stations to be capable of dispensing both fuels. We will need to invest additional capital in our ANGH stations to the extent we decide to add CNG fueling to our ANGH stations.

Some ANGH stations are located at Pilot Flying J Travel Centers (Pilot), one of the largest truck fueling operators in the U.S. Under our agreement with Pilot, we own the ANGH stations we build at Pilot locations and initially pay rent to Pilot for the use of its property. We are entitled to recoup all of our capital investments in ANGH stations we build at Pilot locations plus a defined return, after which we share a portion of the station profits with Pilot.

Sources of liquidity and anticipated capital expenditures. Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale or maturity of existing assets, or by the acquisition of additional funds through capital management. Historically, our principal source of liquidity has consisted of cash provided by financing activities.

Our business plan calls for approximately $9.5 million in capital expenditures from October 1, 2014 through the end of 2014, primarily related to construction of CNG fueling stations. We may also elect to invest additional amounts in companies or assets in the natural gas fueling infrastructure, services and production industries, including RNG production, to make capital expenditures to build additional LNG production facilities or to otherwise secure future LNG supply, and to use capital for other activities or pursuits. We will need to raise additional capital as necessary to fund any capital expenditures or investments that we cannot fund through available cash or cash generated by operations. The timing and necessity of any future capital raise may depend on various factors, including our rate of new station construction and any potential merger or acquisition activity, and other factors described under Liquidity and Capital Resources below. We may seek to raise additional capital we need through one or more sources, including, without limitation, selling assets, obtaining new or restructuring existing debt, or obtaining additional equity capital, or any combination of these or other available sources of capital. We may not be able to raise capital, when needed, on terms that are favorable to us or existing stockholders, or at all. Any inability to raise capital may impair our ability to invest in new stations, develop natural gas fueling infrastructure and invest in strategic transactions or acquisitions and may reduce our ability to grow our business and generate sustained or increased revenues.

Business risks and uncertainties. Our business and prospects are exposed to numerous risks and uncertainties. For more information, see Risk Factors in Part II, Item 1A of this report.

Operations

We generate revenues principally by selling CNG, LNG and RNG, and providing O&M services to our vehicle fleet customers. For the nine month period ended September 30, 2014, CNG and RNG (together) represented 72% and LNG represented 28% of our natural gas sales (on a gasoline gallon equivalent basis). To a lesser extent, we generate revenues by designing and constructing fueling stations and selling or leasing those stations to our customers. We also generate revenues through sales of advanced natural gas fueling compressors and other natural gas fueling station equipment, providing assessment, design and modification services designed to provide vehicle fleet operators with code-compliant service and maintenance facilities, providing financing for our customers natural gas vehicle purchases, and selling RIN and LCFS Credits.

CNG Sales

We sell CNG through fueling stations located on our customers properties and through our network of public access fueling stations. At these CNG fueling stations, we procure natural gas from local utilities or brokers under standard, floating-rate arrangements and then compress and dispense it into our customers vehicles. Our CNG sales are made primarily through contracts with our fleet customers. Under these contracts, pricing is principally determined on an index-plus basis, which is calculated by adding a margin to the local index or utility price for natural gas. CNG sales revenues based on an index-plus methodology increase or decrease as a result of an increase or decrease in the price of natural gas. Our fleet customers typically are billed monthly based on the volume of CNG sold at a station. Our other CNG sales are on a per fill-up basis at prices we set at our public access stations based on prevailing market conditions. We recognize revenue from the sale of CNG as the fuel is delivered.

LNG Production and Sales

We obtain LNG from our own plants as well as through relationships with suppliers. We own and operate LNG liquefaction plants near Houston, Texas and Boron, California, and we may build two new LNG plants in connection with our strategic collaboration with General Electric Capital Corporation (GE) (see note 12 to our condensed consolidated financial statements). We expect we will need to secure additional sources of LNG supply in the future, through building additional LNG plants ourselves, expanding our existing LNG plants, and/or entering additional third-party supply contracts.

We sell LNG on a bulk basis to fleet customers, who often own and operate their fueling stations, and we also sell LNG to fleet and other customers at our public-access LNG stations. During 2012, 2013, and the first nine months of 2014, we procured 44%, 33% and 44%, respectively, of our LNG from third-party producers, and we produced the remainder of the LNG at our liquefaction plants in Texas and California. We expect to enter additional purchase contracts with third party LNG producers in the future. For LNG that we purchase from third parties, we have entered into, and may enter into additional take or pay contracts that require us to purchase minimum volumes of LNG at index-based rates. We deliver LNG via our fleet of 84 tanker trailers to fueling stations, where it is stored and dispensed in liquid form into vehicles. For LNG customers who own and operate their fueling stations, we sell LNG through supply contracts that are priced on an index-plus basis. LNG sales revenues based on an index-plus methodology increase or decrease as a result of an increase or decrease in the price of natural gas. Our LNG contracts provide that we charge our customers periodically based on the volume of LNG supplied. We also sell LNG on a per fill-up basis at prices we set at our public access stations based on prevailing market conditions. We recognize revenue from the sale of LNG as the fuel is delivered. LNG generally costs more than CNG as LNG must be liquefied and transported, and the U.S. government imposes higher fuel taxes on LNG.

Government Incentives

From October 1, 2006 through December 31, 2011, we were eligible to receive a VETC credit of $0.50 per gasoline gallon equivalent of CNG and $0.50 per liquid gallon of LNG that we sold as vehicle fuel. Based on the service relationship with our customers, either we or our customers claimed the credit. We recorded these tax credits as revenues in our condensed consolidated statements of operations as the credits are fully refundable and do not need to offset tax liabilities to be received. As such, the credits are not deemed income tax credits under the accounting guidance applicable to income taxes. In addition, we believe the credits are properly recorded as revenue because we often incorporate the tax credits into our pricing with our customers, thereby lowering the actual price per gallon we charge them.

The American Taxpayer Relief Act, signed into law on January 2, 2013, reinstated VETC for calendar year 2013 and also made it retroactive to January 1, 2012. VETC revenues recognized during the three and nine month periods ended September 30, 2013 were $6.0 million and $38.1 million, respectively, which includes $20.8 million for CNG and LNG we sold in 2012 that we recognized in January 2013. The program under which we received VETC expired on December 31, 2013, and as such, we have not recognized any VETC revenue in 2014.

Operation and Maintenance

We generate a portion of our revenue from our performance of O&M services for CNG and LNG fueling stations where we do not supply the fuel. At these fueling stations the customer contracts directly with a local broker or utility to purchase natural gas. For O&M services, we do not sell the fuel itself, but generally charge a per-gallon fee based on the volume of fuel dispensed at the station. We include the volume of fuel dispensed at the stations at which we provide O&M services in our calculation of aggregate gasoline gallon equivalents delivered.

Station Construction

We generate a portion of our revenue from designing and constructing fueling stations and selling or leasing the stations to our customers. For these projects, we act as general contractor or supervise qualified third-party contractors. We charge construction fees or lease rates based on the size and complexity of the project.

Vehicle Acquisition and Finance

We offer vehicle finance services for some of our customers purchases of natural gas vehicles. We loan to certain qualifying customers a portion of, and on occasion up to 100% of, the purchase price of their natural gas vehicles. We may also lease natural gas vehicles to certain of our customers in the future. Where appropriate, we apply for and receive state and federal incentives associated with natural gas vehicle purchases and pass these benefits through to our customers. We may also secure vehicles to place with customers, or pay deposits with respect to such vehicles, prior to receiving a firm order from our customers, which we may be required to purchase if our customer fails to purchase the vehicle as anticipated. To help accelerate the conversion of heavy-duty truck fleets to natural gas, in 2013, we entered a strategic alliance with GE s Transportation Finance business. Fleet operators are eligible for loans and leases, including fair market value leases, from GE to acquire trucks from original equipment manufacturers. In exchange for committing to purchase specified amounts of natural gas fuel from our stations, we then help offset the monthly cost of the vehicles to make it consistent with the cost of a diesel truck. Our goal is to work with fleet operators to achieve a one to two-year payback on the incremental cost of natural gas heavy-duty trucks, and we consider our alliance with GE to be an important tool in achieving this goal. Through September 30, 2014, we have not generated significant income from vehicle financing activities.

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RNG

We own a 51% interest in a RNG production facility at the McCommas Bluff landfill located in Dallas, Texas. We sell specified levels of RNG produced at the facility to Shell Energy North America (US) L.P. under a gas sale agreement and, depending upon RNG production volumes, we have the ability to sell RNG produced by that facility as a vehicle fuel. We own a second RNG production facility located at a Republic Services landfill in Canton, Michigan. This facility was completed in 2012, and we have entered into a ten-year fixed-price sale contract for the majority of the RNG that we expect the facility to produce. We completed our third RNG facility at a Republic Services landfill in North Shelby, Tennessee, in March 2014. We are seeking to expand our RNG business by pursuing additional RNG production projects. We sell some of the RNG we currently produce, and expect to sell a significant amount of the RNG we produce at the facilities we plan to build, through our natural gas fueling infrastructure for use as a vehicle fuel. In addition, we purchase RNG from third party producers, and sell that RNG for vehicle use through our fueling infrastructure. The RNG we sell for vehicle fuel use is distributed under the name *Redeem*.

Vehicle Conversions

Prior to June 28, 2013, we owned BAF, a provider of natural gas vehicle conversions, alternative fuel systems, application engineering, service and warranty support and research and development. BAF s vehicle conversions included taxis, vans, pick-up trucks and shuttle buses. BAF owned ServoTech Engineering, Inc. (ServoTech), which provided, among other services, design and engineering services for natural gas engine systems. We generated revenues through the sale of natural gas vehicles that had been converted to run on natural gas by BAF, and design and engineering services for natural gas engine systems by ServoTech. For the nine months ended September 30, 2013, BAF and ServoTech combined contributed approximately $7.0 million to our revenue. On June 28, 2013, we sold our ownership interest in BAF and ServoTech for approximately $27.2 million.

Natural Gas Fueling Compressors

Our subsidiary, IMW, manufactures and services non-lubricated natural gas fueling compressors and related equipment for the global natural gas fueling market. IMW is headquartered near Vancouver, British Columbia, has other manufacturing facilities near Shanghai, China, and in Ferndale, Washington, and has sales and service offices in Bangladesh, Colombia, Peru and the U.S. For the three months ended September 30, 2013 and 2014, IMW contributed approximately $21.1 million and $19.4 million, respectively, to our revenue. For the nine months ended September 30, 2013 and 2014, IMW contributed approximately $57.9 million and $63.4 million, respectively, to our revenue.

Sales of RIN and LCFS Credits

We generate LCFS Credits when we sell RNG and conventional natural gas for use as a vehicle fuel in California, and we generate RIN Credits when we sell RNG for use as a vehicle fuel in the U.S. We can sell these credits to third parties who need the RIN and LCFS Credits to comply with federal and state emission requirements. During the three and nine month periods ended September 30, 2013, we realized $1.9 million and $3.6 million, respectively, in revenue through the sale of LCFS Credits. During the three month and nine month periods ended September 30, 2014, we realized $0.8 million and $2.7 million, respectively, in revenue through the sale of LCFS Credits. During the three and nine month periods ended September 30, 2013, we realized $2.2 million and $3.4 million, respectively, in revenue through the sale of RIN Credits. During the three and nine month periods ended September 30, 2014, we realized $0.8 million and $1.6 million, respectively, in revenue through the sale

of RIN Credits. We anticipate that we will generate and sell increasing numbers of RIN and LCFS Credits as we grow our business and sell increasing amounts of CNG, LNG and RNG for use as a vehicle fuel. The market for RIN Credits and LCFS Credits is volatile, and the prices for such credits may be subject to significant fluctuations. Further, the value of RIN Credits and LCFS Credits will be adversely affected by any changes to the state and federal programs under which such credits are generated and sold.

Volatility of Earnings and Cash Flows

During 2013 our futures contracts qualified for hedge accounting, so we had no derivative gains or losses recognized in our consolidated statements of operations for that period. We did not have any futures contracts in place during the first nine months of 2014. In accordance with our natural gas hedging policy, we plan to structure all futures contracts as cash flow hedges under the applicable derivative accounting guidance, but we cannot be certain that they will qualify. See Risk Management Activities below. If any of our futures contracts do not qualify for hedge accounting, we could incur significant increases or decreases in our earnings based on fluctuations in the market value of the contracts from period to period.

Additionally, we are required to maintain a margin account to cover losses related to any existing natural gas futures contracts. Futures contracts are valued daily, and if our contracts are in loss positions at the end of a trading day, our broker will transfer the amount of the losses from our margin account to a clearinghouse. If at any time the funds in our margin account drop below a specified maintenance level, our broker will issue a margin call that requires us to restore the balance. Consequently, these payments could significantly impact our cash balances. At September 30, 2014, we had no margin deposits or futures contracts in place.

Volatility of Earnings Related to Series I Warrants

Under Financial Accounting Standards Board (FASB) authoritative guidance, we are required to record the change in the fair market value of our Series I warrants in our consolidated financial statements. We have recognized a gain of $0.9 million and $5.4 million, respectively, related to recording the estimated fair value changes of our Series I warrants in the nine months ended September 30, 2013 and 2014. See note 17 to our condensed consolidated financial statements contained elsewhere herein. Our earnings or loss per share may be materially affected by future gains or losses we are required to recognize as a result of valuing our Series I warrants. As of September 30, 2014, 2,130,682 of the Series I warrants remained outstanding.

Debt Compliance

In connection with our acquisition of IMW, we assumed a credit agreement with HSBC Bank Canada that requires IMW to comply with certain financial covenants (see note 12 to our condensed consolidated financial statements). As of September 30, 2014, IMW was in compliance with these covenants.

The loan agreement entered into by DCEMB, our 51% owned subsidiary, in connection with the issuance of the Revenue Bonds, as defined and discussed in note 12 to our condensed consolidated financial statements, has certain non-financial debt covenants with which DCEMB must comply. As of September 30, 2014, we were in compliance with these debt covenants.

The loan agreements relating to the 7.5% Notes, as defined and discussed in note 12 to our condensed consolidated financial statements, have certain non-financial debt covenants with which we must comply. As of September 30, 2014, we were in compliance with these debt covenants.

The convertible note purchase agreements relating to the SLG Notes, as defined and discussed in note 12 to our condensed consolidated financial statements, have certain non-financial debt covenants with which we must comply. As of September 30, 2014, we were in compliance with these covenants.

The GE Credit Agreement, as defined and discussed in note 12 to our condensed consolidated financial statements, contains certain covenants with which we must comply. As of September 30, 2014, we were in compliance with these covenants.

The Mavrix Note, as defined and discussed in note 12 to our condensed consolidated financial statements, contains certain debt covenants with which we must comply. As of September 30, 2014, we were in compliance with these covenants.

The indenture relating to the 5.25% Notes, as defined and discussed in note 12 to our condensed consolidated financial statements, has certain non-financial debt covenants with which we must comply. As of September 30, 2014, we were in compliance with these debt covenants.

The Canton Bonds, as defined and discussed in note 12 to our condensed consolidated financial statements, contain certain debt covenants with which we must comply. As of September 30, 2014, we were in compliance with these covenants.

Risk Management Activities

Our risk management activities are discussed in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) of our 2013 10-K. For the quarter ended September 30, 2014, there were no material changes to our risk management activities.

Critical Accounting Policies

For the nine months ended September 30, 2014, there were no material changes to the Critical Accounting Policies discussed in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) of our 2013 10-K.

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Recently Issued Accounting Pronouncements

For a description of recently issued accounting pronouncements, see note 18 to our condensed consolidated financial statements contained elsewhere herein.

Results of Operations

The following is a more detailed discussion of our financial condition and results of operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2014**	**2013**	**2014**
Statement of Operations Data:				
Revenue:				
Product revenues	87.3%	87.5%	88.7%	88.5%
Service revenues	12.7	12.5	11.3	11.5
Total revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of sales:				
Product cost of sales	60.2	76.4	59.0	72.8
Service cost of sales	3.3	4.8	3.7	