Clean Energy Fuels Corp.
Form 10-Q
August 10, 2009

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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 June 30, 2009

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.)

3020 Old Ranch Parkway, Suite 400, Seal Beach CA 90740
(Address of principal executive offices, including zip code)

(562) 493-2804
(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. ý

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 o 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 o	Accelerated filer ý	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 ý

As of August 5, 2009, there were 59,692,712 shares of the registrant's common stock, par value $0.0001 per share, issued and outstanding.

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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, 2008 and June 30, 2009 (Unaudited)

	December 31, 2008	June 30, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 36,284,431	$ 19,775,730
Restricted cash	2,500,000	2,500,000
Accounts receivable, net of allowance for doubtful accounts of $657,734 and $739,478 as of December 31, 2008 and June 30, 2009, respectively	10,530,638	10,825,961
Other receivables	12,995,507	13,349,580
Inventory, net	3,110,731	4,237,261
Deposits on LNG trucks	6,197,746	2,801,983
Prepaid expenses and other current assets	3,542,387	3,394,613
Total current assets	75,161,440	56,885,128
Land, property and equipment, net	160,593,665	166,403,562
Capital lease receivables	364,500	1,645,098
Notes receivable and other long-term assets	7,176,755	9,753,995
Investments in other entities	4,879,604	6,729,396
Goodwill	20,797,878	20,797,878
Intangible assets, net of accumulated amortization	21,400,558	25,781,822
Total assets	$ 290,374,400	$ 287,996,879
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 2,232,875	$ 2,870,373
Accounts payable	14,276,591	13,491,951
Accrued liabilities	10,253,454	9,408,505
Deferred revenue	1,060,582	1,048,510
Total current liabilities	27,823,502	26,819,339
Long-term debt and capital lease obligations, less current portion	22,850,927	24,529,247
Other long-term liabilities	2,297,446	17,854,528
Total liabilities	52,971,875	69,203,114
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 99,000,000 shares; issued and outstanding 50,238,212 shares and 50,255,212 shares at December 31, 2008 and June 30, 2009, respectively	5,024	5,026
Additional paid-in capital	346,466,999	343,775,876
Accumulated deficit	(113,549,257)	(129,032,223)

Accumulated other comprehensive income	853,837	929,844
Total stockholders' equity of Clean Energy Fuels Corp.	233,776,603	215,678,523
Noncontrolling interest in subsidiary	3,625,922	3,115,242
Total equity	237,402,525	218,793,765
Total liabilities and equity	$ 290,374,400	$ 287,996,879

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 Six Months Ended

June 30, 2008 and 2009

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2009**	**2008**	**2009**
Revenue:				
Product revenues	$32,725,614	$24,827,576	$61,686,320	$53,209,857
Service revenues	1,087,367	3,042,455	2,074,018	4,908,318
Total revenues	33,812,981	27,870,031	63,760,338	58,118,175
Operating expenses:				
Cost of sales:				
Product cost of sales	28,316,620	15,164,592	50,478,217	36,416,458
Service cost of sales	297,410	1,039,899	549,489	1,432,282
Derivative (gain) loss	(5,706,981)	2,209,596	(5,706,981)	2,386,363
Selling, general and administrative	12,139,133	11,591,451	23,726,851	23,157,440
Depreciation and amortization	2,184,019	4,123,037	4,247,440	7,740,090
Total operating expenses	37,230,201	34,128,575	73,295,016	71,132,633
Operating loss	(3,417,220)	(6,258,544)	(9,534,678)	(13,014,458)
Interest income (expense), net	265,347	(59,538)	1,104,563	(92,076)
Other income (expense), net	1,622	(146,341)	39,978	(186,527)
Income (loss) from equity method investments	4,724	35,854	(140,322)	52,418
Loss before income taxes	(3,145,527)	(6,428,569)	(8,530,459)	(13,240,643)
Income tax expense	(56,203)	(72,963)	(99,970)	(140,850)
Net loss	(3,201,730)	(6,501,532)	(8,630,429)	(13,381,493)
Loss of noncontrolling interest in net income		124,766		510,680
Net loss attributable to Clean Energy Fuels Corp.	$ (3,201,730)	$ (6,376,766)	$ (8,630,429)	$(12,870,813)
Loss per share attributable to Clean Energy Fuels Corp.				
Basic	$ (0.07)	$ (0.13)	$ (0.19)	$ (0.26)
Diluted	$ (0.07)	$ (0.13)	$ (0.19)	$ (0.26)
Weighted average common shares outstanding				
Basic	44,300,309	50,247,366	44,291,401	50,242,814
Diluted	44,300,309	50,247,366	44,291,401	50,242,814

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp.

Condensed Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2008 and 2009

(Unaudited)

	Six Months Ended June 30,	
	2008	**2009**
Cash flows from operating activities:		
Net loss	$ (8,630,429)	$ (13,381,493)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,247,440	7,740,090
Provision for doubtful accounts	366,018	124,993
Loss (gain) on disposal of assets	(38,356)	254,280
Stock option expense	5,098,331	7,020,144
Derivative (gain) loss	(5,706,981)	2,386,363
Common stock issued in exchange for services	15,000	
Changes in operating assets and liabilities, net of assets and liabilities acquired:		
Accounts and other receivables	(5,413,292)	(1,691,207)
Inventory	(292,524)	109,936
Return (deposits) on LNG trucks	(1,840,000)	3,395,813
Margin deposits on futures contracts	(1,236,000)	(1,880,481)
Capital lease receivables	199,500	523,382
Prepaid expenses and other assets	(1,039,868)	289,104
Accounts payable	2,186,084	1,636,953
Accrued expenses and other	(827,382)	(946,326)
Net cash provided by (used in) operating activities	(12,912,459)	5,581,551
Cash flows from investing activities:		
Purchases of property and equipment	(36,719,601)	(18,153,466)
Proceeds from sale of property and equipment	48,432	49,666
Acquisition, net of cash acquired		(5,645,250)
Investments in other entities		(2,023,007)
Proceeds from sale of loans receivable		1,315,667
Purchases of short-term investments	(43,430,041)	
Maturity or sales of short-term investments	47,501,532	
Net cash used in investing activities	(32,599,678)	(24,456,390)
Cash flows from financing activities:		
Proceeds from long-term debt		3,059,570
Repayment of capital lease obligations and long-term debt	(30,969)	(743,752)
Proceeds from exercise of stock options	133,643	50,320
Net cash provided by financing activities	102,674	2,366,138
Net decrease in cash	(45,409,463)	(16,508,701)
Cash, beginning of period	67,937,602	36,284,431
Cash, end of period	$ 22,528,139	$ 19,775,730

Supplemental disclosure of cash flow information:				
Income taxes paid	$	116,567	$	51,569
Interest paid, net of $0 and $418,000 capitalized, respectively		10,606		375,372

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)

Note 1 General

Nature of Business: Clean Energy Fuels Corp. (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 public transit, refuse, airports and regional trucking. The Company operates, maintains or supplies approximately 185 natural gas fueling locations in Arizona, California, Colorado, District of Columbia, Georgia, Maryland, Massachusetts, Nevada, New Mexico, New York, Ohio, Oklahoma, Texas, Virginia, Washington and Wyoming within the United States, and in British Columbia and Ontario within Canada. The Company also generates revenue through operation and maintenance agreements with certain customers, through building and selling or leasing natural gas fueling stations to its customers, and through financing its customers' vehicle purchases. In April 2008, the Company opened its first compressed natural gas ("CNG") station in Lima, Peru through the Company's joint venture, Clean Energy del Peru. In August 2008, the Company acquired 70% of the outstanding membership interests of Dallas Clean Energy, LLC ("DCE"). DCE owns a facility that collects, processes and sells renewable biomethane collected from a landfill in Dallas, Texas.

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 for the three and six months ended June 30, 2008 and 2009. All intercompany accounts and transactions have been eliminated in consolidation. The three and six month periods ended June 30, 2008 and 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009 or for any other interim period or for any future year.

Certain information and disclosures normally included in the notes to consolidated 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 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, 2008 that are included in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2009.

The Company has evaluated its subsequent events through August 10, 2009.

Note 2 Acquisitions

Operating and Maintenance Contracts

In May 2009, the Company acquired four compressed natural gas operations and maintenance services contracts for $5.6 million in cash subject to certain post-closing adjustments. The Company has completed a preliminary allocation of the purchase consideration to tangible and intangible assets acquired and liabilities assumed based upon estimates of fair value. Such allocation includes $5.1 million to the identifiable intangible assets related to the fair value of the acquired operations and maintenance services contracts and associated customer relationships, which are being amortized over their expected lives. The results of operations of the acquired contracts are included in the Company's consolidated financial statements from their acquisition dates forward, which are May 2009 for two of

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 Acquisitions (Continued)

the contracts and June 2009 for the remaining two contracts. The pro-forma effect of the acquisition is not material to the Company's results of operations for the six months ended June 30, 2009 and the year ended 2008.

Landfill Operation

On August 15, 2008, the Company and Cambrian Energy McCommas Bluff LLC ("Cambrian") formed a joint venture to acquire all of the outstanding membership interests of Dallas Clean Energy, LLC ("DCE") which owns a facility that collects, processes and sells landfill gas at the McCommas Bluff landfill located in Dallas, Texas. This acquisition enables the Company to participate in the production of pipeline quality renewable biomethane which may be used as a vehicle fuel.

The Company paid an aggregate of $19.6 million, including transaction costs, to acquire a 70% interest in DCE. Of the purchase price, $1.0 million was deposited into a third-party escrow as security for indemnification claims. The amount remaining in the escrow will be released to the sellers on August 15, 2009, except for amounts subject to pending indemnification claims, if any.

Also as part of the transaction, the Company granted DCE's minority investor an exclusive, non-assignable option to purchase from the Company up to and including a 19% membership interest in DCE. The exercise price of the option is $368,000 for each 1%, up to $6,992,000 for the total 19%. The option may be exercised as a whole or in part (but only in 1% increments) during the ten-year period commencing on the date which the loan made by the Company to DCE has been repaid in full.

The Company borrowed $18.0 million from PlainsCapital Bank ("PCB") to finance its acquisition of its membership interests in DCE. The Company also obtained a $12.0 million line of credit from PCB to finance capital improvements of the DCE processing facility pursuant to a loan made by the Company to DCE and to pay certain costs and expenses related to the acquisition and the PCB loan. As of June 30, 2009, the Company had borrowed $7.7 million under the line of credit (see note 10).

The Company accounted for the acquisition in accordance with SFAS No. 141, *Business Combinations.* The Company has completed a preliminary allocation of the purchase price. Such allocation and amounts may change as management finalizes its analyses. The assets acquired and liabilities assumed were recorded at their estimated fair values at the acquisition date. The following table summarizes the preliminary allocation of the aggregate purchase price to the fair value of the assets acquired and liabilities assumed, net of Cambrian's minority interest, in the DCE acquisition:

Current assets	$ 1,129,389
Property, plant and equipment	1,821,770
Identifiable intangible assets	21,810,986
Total assets acquired	24,762,145
Current liabilities assumed	(1,480,770)
Non-controlling interest	(3,730,751)
Total purchase price	$ 19,550,624

Management preliminarily allocated approximately $21.8 million to the identifiable intangible asset related to the fair value of DCE's landfill lease with the City of Dallas that was acquired with the

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 2 Acquisitions (Continued)

acquisition. The fair value of the identifiable intangible asset will be amortized on a straight-line basis over the remaining life of the lease, approximately 16.5 years at the acquisition date.

The results of DCE's operations have been included in the Company's consolidated financial statements since August 15, 2008. The pro-forma effect of the acquisition is not material to the Company's results of operations for the years ended December 31, 2007 and 2008.

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 Natural Gas Derivative Financial Instruments

The Company, in an effort to manage its natural gas commodity price risk exposures related to certain contracts, utilizes derivative financial instruments. The Company, from time to time, enters into natural gas futures contracts that are over-the-counter swap transactions that convert its index-based gas supply arrangements to fixed-price arrangements. The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS 133"). SFAS 133 requires the recognition of all derivatives as either assets or liabilities in the consolidated balance sheet and the measurement of those instruments at fair value. Historically through June 30, 2008, the Company's derivative instruments have not qualified for hedge accounting under SFAS 133. On and after July 1, 2008, the Company entered into futures contracts that did qualify for hedge accounting. The Company's futures contracts at June 30, 2009 are being accounted for as cash flow hedges under SFAS 133 and are being used to mitigate the Company's exposure to changes in the price of natural gas and not for speculative purposes. At June 30, 2009, all of the Company's futures contracts qualified for hedge accounting.

The counter-party to the Company's derivative transactions is a high credit quality counterparty; however, the Company is subject to counterparty credit risk to the extent the counterparty to the derivatives is unable to meet its settlement commitments. The Company manages this credit risk by minimizing the number and size of its derivative contracts. The Company actively monitors the creditworthiness of its counterparties and records valuation adjustments against the derivative assets to reflect counterparty risk, if necessary. The counter-party is also exposed to credit risk of the Company, which requires the Company to provide cash deposits as collateral.

The Company marks to market its open futures positions at the end of each period and records the net unrealized gain or loss during the period in derivative (gains) losses in the consolidated statements of operations or in accumulated other comprehensive income in the condensed consolidated balance sheets in accordance with the provisions of SFAS 133. The Company recorded unrealized losses of approximately $35,000 in accumulated other comprehensive income for the six month period ended June 30, 2009 related to its futures contracts. The liability for the Company's futures contracts of approximately $689,000 at June 30, 2009 is included in accrued liabilities and other long-term liabilities on the Company's condensed consolidated balance sheet at June 30, 2009. The Company's ineffectiveness related to its futures contracts during the six month period ended June 30, 2009 was insignificant. For the six month period ended June 30, 2009, the Company recognized losses of

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 4 Natural Gas Derivative Financial Instruments (Continued)

approximately $1.1 million in cost of sales in the accompanying condensed consolidated statement of operations related to its futures contracts that did qualify for hedge accounting.

The Company is required to make certain deposits on its futures contracts, should any exist. At June 30, 2009, the Company had $2.6 million of margin deposits related to its futures contracts covering approximately 35.2 million gallons of fuel, of which $668,000 related to contracts that expire in the next 12 months and were classified as current at June 30, 2009. The deposits are recorded in prepaid expenses and other current assets and notes receivable and other long-term assets in the accompanying condensed consolidated balance sheet as of June 30, 2009.

The following table presents the notional amounts and weighted average fixed prices of the Company's natural gas futures contracts as of June 30, 2009:

	Gallons	Weighted Average Price
July to December, 2009	6,600,000	$ 0.62
2010	11,600,000	0.77
2011	11,600,000	0.82
2012	5,080,000	0.82
January to May, 2013	300,000	0.81

Note 5 Fixed Price and Price Cap Sales Contracts

The Company enters into contracts with various customers, primarily municipalities, to sell LNG or CNG at fixed prices, or through December 31, 2006, at prices subject to a price cap. The contracts generally range from two to five years. The most significant cost component of LNG and CNG is the price of natural gas.

As part of determining the fixed price or price cap in the contracts, the Company works with its customers to determine their future usage over the contract term. However, the Company's fixed price and price cap customers do not agree to purchase a minimum amount of volume or guarantee their volume of purchases. There is not an explicit volume in the contract as the Company agrees to sell its customers volumes on an "as needed" basis, also known as a "requirements contract." The volume required under these contracts varies each month, and is not subject to any minimum commitments. For U.S. generally accepted accounting purposes, there is not a "notional amount," which is one of the required conditions for a transaction to be a derivative pursuant to the guidance in SFAS 133.

The Company's sales agreements that fix the price or cap the price of LNG or CNG that it sells to its customers are, for accounting purposes, firm commitments, and U.S. generally accepted accounting principles do not require or allow the Company to record a loss until the delivery of the gas and corresponding sale of the product occurs. When the Company enters into these fixed price or price cap contracts with its customers, the price is set based on the prevailing index price of natural gas at that time. However, the index price of natural gas constantly changes, and a difference between the fixed price of the natural gas included in the customer's contract price and the corresponding index price of natural gas typically develops after the Company enters into the sales contract (with the price of natural gas having historically increased). From time to time, the Company has also entered into natural gas futures contracts to offset economically the adverse impact of rising natural gas prices (see

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 5 Fixed Price and Price Cap Sales Contracts (Continued)

note 4), and prior to December 31, 2006, if the Company believed the price of natural gas would decline in the future, periodically sold such contracts.

Historically, from an accounting perspective, during periods of rising natural gas prices, the Company's futures contracts have generally been marked-to-market through the recognition of a derivative asset and a corresponding derivative gain in its statements of operations. However, because the Company's contracts to sell LNG or CNG to its customers at fixed prices or an index-based price that is subject to a fixed price cap are not derivatives for purposes of U.S. generally accepted accounting principles, a liability or a corresponding loss has not been recognized in the Company's statements of operations during this historical period of rising natural gas prices for the future commitments under these contracts. As a result, the Company's statements of operations do not reflect its firm commitments to deliver LNG or CNG at prices that are below, and in some cases, substantially below, the prevailing market price of natural gas (and therefore LNG or CNG).

Note 6 Other Receivables

Other receivables at December 31, 2008 and June 30, 2009 consisted of the following:

	December 31, 2008	June 30, 2009
Loans to customers to finance vehicle purchases	$ 1,983,414	$ 1,226,710
Capital lease receivables	399,000	1,737,003
Accrued billings		1,175,786
Advances to vehicle manufacturers	4,510,386	4,672,433
Fuel tax credits	5,511,908	3,842,069
Other	590,799	695,579
	$ 12,995,507	$ 13,349,580

Note 7 Land, Property and Equipment

Land, property and equipment at December 31, 2008 and June 30, 2009 are summarized as follows:

	December 31, 2008	June 30, 2009
Land	$ 472,616	$ 472,616
LNG liquefaction plants	88,366,069	90,995,440
Station equipment	57,994,315	76,043,436
LNG tanker trailers	11,863,681	11,859,608
Other equipment	11,533,656	12,625,291
Construction in progress	22,439,115	12,479,455
	192,669,452	204,475,846
Less accumulated depreciation	(32,075,787)	(38,072,284)
	$ 160,593,665	$ 166,403,562

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 8 Investments in Other Entities

Through June 30, 2009, the Company invested approximately $6.4 million in The Vehicle Production Group LLC ("VPG"), a company that is developing a natural gas vehicle made in the United States for taxi and paratransit use. On July 16, 2009, the Company invested an additional $939,000 in VPG. The Company committed to fund up to $10.0 million in VPG from August 2008 through March 2010. $7.5 million is a firm commitment by the Company, and $2.5 million is contingent on VPG not being able to raise money on more-favorable terms than the funding from the original investor group. In addition, VPG may under certain circumstances make a capital call on investors which could require the Company to invest up to approximately $0.8 million in additional funds. The Company accounts for its investment in VPG under the cost method of accounting as the Company does not have the ability to exercise significant influence over VPG's operations.

On August 27, 2008, a subsidiary of the Company converted outstanding commercial loans previously made to Bachman NGV, Inc. ("BAF"), a natural gas vehicle conversion company, into a secured convertible promissory note (the "Note") that is convertible into equity interests in BAF. The Note is convertible at the Company's option after August 27, 2009 and may be converted earlier upon an acquisition of BAF. As of June 30, 2009, the $3.8 million outstanding under the Note would convert into approximately 49% of the outstanding equity interests of BAF if fully converted. The Company may, at the Company's discretion, advance up to $2.2 million in additional funds to BAF under the Note. The Note bears interest at 5% per annum and is due August 30, 2010.

Note 9 Accrued Liabilities

Accrued liabilities at December 31, 2008 and June 30, 2009 consisted of the following:

	December 31, 2008	June 30, 2009
Salaries and wages	$ 568,760	$ 1,867,975
Accrued gas purchases	777,086	1,113,618
Accrued refund of tax credits	3,606,000	
Obligation under derivative liability	654,483	474,421
Accrued property and other taxes	1,705,469	2,269,420
Accrued professional fees	1,230,958	666,567
Accrued employee benefits	434,788	694,321
Other	1,275,910	2,322,183
	$ 10,253,454	$ 9,408,505

Note 10 Long-term Debt

In conjunction with the Company's acquisition of its 70% interest in DCE (see note 2), on August 15, 2008, the Company entered into a Credit Agreement with PCB. The Company borrowed $18.0 million (the "Facility A Loan") to finance the acquisition of its membership interests in DCE. The Company also obtained a $12.0 million line of credit from PCB to finance capital improvements of the DCE processing facility and to pay certain costs and expenses related to the acquisition and the PCB loans (the "Facility B Loan"). As of June 30, 2009, the Company had borrowed $7.7 million under the Facility B Loan. The Company may request funds up to an additional approximately $4.3 million

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 Long-term Debt (Continued)

under the Facility B Loan through August 14, 2009. Interest accrues daily on the Facility A and B Loans at the greater of the prime rate of interest for the United States plus 0.50% per annum or 5.50% per annum. The Company paid a facility fee of $300,000 in connection with the Credit Agreement. As of June 30, 2009, the unamortized balance of the facility fee was $247,500. Amortization of the facility fee is recorded as additional interest expense in the consolidated statements of operations.

The Facility A Loan is due in level payments of principal and interest based on a 14 year amortization period. Payments of principal and interest are due on the 15th of each month until August 15, 2013, at which time the remaining amount of the unpaid principal and interest on the Facility A Loan is due and payable.

Interest on the unpaid principal balance of the Facility B Loans became due and payable quarterly commencing on September 30, 2008. The principal amount of the Facility B Loans became due and payable in annual payments commencing on August 1, 2009, and continuing each anniversary date thereafter, with each such payment being in an amount equal to the lesser of twenty percent of the aggregate principal amount of the Facility B Loan then outstanding or $2,800,000. On August 15, 2013, the remaining amount of unpaid principal and interest under the Facility B Loans is due and payable.

The Credit Agreement requires the Company to comply with certain covenants. The Company may not incur indebtedness or liens except as permitted by the Credit Agreement, or declare or pay dividends. The Company must maintain, on a quarterly basis, minimum liquidity of not less than $6.0 million, accounts receivable balances, as defined, of not less than $8.0 million, consolidated net worth, as defined, of not less than $150.0 million, and a debt to equity ratio, as defined, of not more than 0.3 to 1. Beginning in the quarter ended June 30, 2009, the Company must also maintain a debt service ratio, as defined, of not less than 1.5 to 1 at each quarter end. Effective in the fourth quarter of 2008, the Company established a lock-box arrangement with PCB subject to the Credit Agreement. Funds from the Company's customers are remitted to the lock-box and then deposited to a PCB bank account. The remitted funds are not used to pay-down the balance of the credit agreement. However, if the Company defaults on the Credit Agreement, all of the obligations under the Credit Agreement will become immediately due and payable and all funds received in the Company's lock-box held by PCB will be applied to the balance due on the Facility A and B Loans. One of the events of default is the occurrence of a "material adverse change," which is a subjective acceleration clause. Based on the guidance in Emerging Issues Tax Force Issue No. 95-22 *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement* (EITF No. 95-22), the Company has classified its debt pursuant to the Credit Agreement as short-term or long-term as appropriate and believes an event of default is more than remote but not more likely than not. One of the Company's bank covenants is a requirement to maintain accounts receivable balances from certain subsidiaries above $8.0 million at each quarter end during the term. To the extent natural gas prices fall, which a significant portion of the Company's revenues are derived from, or the Company's volumes decline, the Company could violate this covenant in the future. Beginning with the quarter ended June 30, 2009, the Company is required to maintain a debt service ratio, as defined, of not less than 1.5 to 1. To the extent the Company's operating results do not materialize as anticipated, the Company could violate this covenant in the future. In the event the Company would violate either of these covenants, it would seek a waiver from the bank. The

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 10 Long-term Debt (Continued)

Company is in compliance with the covenants as of June 30, 2009. The Credit Agreement is secured by the Company's interest in, and note receivable from, DCE (described below), certain of the Company's accounts receivable and inventory balances and 45 of the Company's LNG tanker trailers. The net book value of the collateral securing the PCB loans was approximately $45.0 million at June 30, 2009. The Company maintains $2.5 million in a payment reserve account at PCB. PCB may withdraw funds from the account to apply to the principal and interest payments due on Facility A and B Loans. Such amount is included as restricted cash in the Company's consolidated balance sheet at June 30, 2009.

As part of the transaction, the Company also entered into a Loan Agreement with DCE (the "DCE Loan") to provide secured financing of up to $14.0 million to DCE for future capital expenditures or other uses as agreed to by the Company in its sole discretion. As of August 7, 2009 we have approximately $4.4 million in debt financing outstanding under the DCE Loan. Interest on the unpaid balance accrues at a rate of 12% per annum and became payable quarterly beginning on September 30, 2008. The principal amount of the loan is due and payable in annual payments commencing on August 1, 2009, and continuing each anniversary date thereafter, with each such payment being in an amount equal to the lesser of the aggregate principal amount of the DCE Loan then outstanding or $2,800,000. On August 1, 2013, the entire amount of unpaid principal and interest under the DCE Loan is due and payable. The principal and accrued interest balances as well as any interest income related to the DCE Loan are eliminated in the consolidated financial statements of the Company. Any event of default by DCE on the DCE Loan results in a cross-default of the Company's Credit Agreement with PCB. Events of default include failure to make payments when due, DCE's failure to perform under the provisions of its landfill lease with the City of Dallas, DCE's violation of a covenant under its operating agreement and other standard events of default.

Principal payments under the Facility A Loan and the Facility B Loan at June 30, 2009 are as follows:

	Facility A Loan	Facility B Loan	Total
2009	$ 446,126	$ 1,549,341	$ 1,995,467
2010	931,536	1,239,474	2,171,010
2011	984,831	991,578	1,976,409
2012	1,038,825	793,263	1,832,088
2013	13,875,000	3,173,050	17,048,050
Total	$ 17,276,318	$ 7,746,706	$ 25,023,024

Note 11 Correction of Immaterial Error

Subsequent to the year ended December 31, 2008, the Company identified an error in the number of gallons it used to claim its Volumetric Excise Tax Credit ("VETC") refund. Due to this error, the Company's revenues were understated in 2007 and overstated in 2008.

The Company assessed the materiality of this error for each quarterly and annual period in accordance with Staff Accounting Bulletin No. 99, Materiality, and determined that the error was immaterial to previously reported amounts contained in its periodic reports. Accordingly, the Company has revised its consolidated balance sheet as of December 31, 2008 and it intends to revise its

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 11 Correction of Immaterial Error (Continued)

consolidated financial statements for certain quarterly and annual periods through subsequent periodic filings. For quarters prior to June 30, 2008, the Company's financial statements have not been revised as the net amount of the error is insignificant. The effect of recording this immaterial correction in the statements of operations for the year ended December 31, 2008, the balance sheet as of December 31, 2008, and for the fiscal 2008 quarterly periods to be reported in subsequent periodic filings are as follows:

	For the Quarter Ended June 30, 2008		For the Quarter Ended September 30, 2008		For the Quarter Ended December 31, 2008		For the Year Ended December 31, 2008	
(in thousands)	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised	As Reported	As Revised
Total revenues	$ 34,602	$ 33,813	$ 35,274	$ 33,819	$ 29,650	$ 28,288	$ 129,473	$ 125,867
Operating loss	(2,628)	(3,417)	(10,594)	(12,049)	(22,606)	(23,968)	(41,945)	(45,551)
Net loss	(2,413)	(3,202)	(10,637)	(12,092)	(22,378)	(23,740)	(40,857)	(44,463)
Accrued liabilities	4,654	5,443	7,252	9,496	6,647	10,253	6,647	10,253
Accumulated deficit	(76,928)	(77,717)	(87,565)	(89,809)	(109,943)	(113,549)	(109,943)	(113,549)
Total stockholders' equity	228,283	227,494	224,173	221,929	237,383	233,777	237,383	233,777

Note 12 Earnings Per Share

Basic earnings per share is based upon the weighted average number of shares outstanding during each period. Diluted earnings per share reflects the impact of assumed exercise of dilutive stock options and warrants. The information required to compute basic and diluted earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Basic and diluted:				
Weighted average number of common shares outstanding	44,300,309	50,247,366	44,291,401	50,242,814

Certain securities were excluded from the diluted earnings per share calculations at June 30, 2008 and 2009, respectively, as the inclusion of the securities would be anti-dilutive to the calculation. The amounts outstanding as of June 30, 2008 and 2009 for these instruments are as follows:

	June 30,	
	2008	2009
Options	6,741,654	9,259,052
Warrants	15,000,000	18,314,394

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 13 Comprehensive Income (Loss)

The following table presents the Company's comprehensive loss for the six months ended June 30, 2008 and 2009:

	Six Months Ended June 30,	
	2008	2009
Net loss	$(8,630,429)	$(13,381,493)
Unrealized gain on short-term investments	60,927	
Derivative unrealized losses		(34,624)
Foreign currency translation adjustments	(116,017)	110,631
Comprehensive loss	(8,685,519)	(13,305,486)
Comprehensive loss attributable to noncontrolling interest		510,680
Comprehensive loss attributable to Clean Energy Fuels Corp.	$(8,685,519)	$(12,794,806)

Note 14 Stock-Based Compensation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Stock options:				
Stock-based compensation expense	$2,599,895	$3,506,322	$5,098,331	$7,020,144
Income tax benefit				
Stock-based compensation expense, net of tax	$2,599,895	$3,506,322	$5,098,331	$7,020,144

Stock Options

The following table summarizes the Company's stock option activity during the six months ended June 30, 2009:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2008	8,234,467	$ 9.14
Granted	1,087,913	6.57
Exercised	(17,000)	2.96
Cancelled/Forfeited	(46,328)	9.96
Outstanding at June 30, 2009	9,259,052	8.84
Exercisable at June 30, 2009	4,577,143	7.90

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 14 Stock-Based Compensation (Continued)

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2009:

	Six Months Ended June 30, 2009
Dividend yield	0.00%
Expected volatility	70.22%
Risk-free interest rate	2.00%
Expected life in years	6.00

Based on these assumptions, the weighted average grant date fair value of options granted during the six months ended June 30, 2009 was $4.16.

Note 15 Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 16 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 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 has been and may become party to various legal actions that arise in the ordinary course of its business. During the course of its operations, the Company has been, currently is and may become 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 at this time to determine the ultimate liabilities that the Company may incur resulting from any 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 consolidated financial position or results of operations. However, the Company believes that the ultimate resolution of such actions will not have a material adverse affect on the Company's consolidated financial position, results of operations, or liquidity.

Note 17 Income Taxes

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48), requires that the Company recognize the impact of a tax position in its financial statements if the position is more likely than not of being sustained by the taxing

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 17 Income Taxes (Continued)

authority upon examination, based on the technical merits of the position. FIN 48 requires the Company to accrue interest based on the difference between the tax position recognized in the financial statements and the amount claimed on the return. The net interest incurred was immaterial for the six months ended June 30, 2008 and 2009. FIN 48 further requires that penalties be accrued if the tax position does not meet the minimum statutory threshold to avoid penalties. No penalties have been accrued by the Company. The Company's unrecognized tax benefits as of June 30, 2009 are unchanged from December 31, 2008. It is anticipated that the Company's liability for uncertain tax positions will be reduced by as much as $319,000 during the year as a result of the settlement of tax positions with various tax authorities.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. The Company's tax years for 2003 through 2007 are subject to examination by various tax authorities. The Company is no longer subject to U.S. examination for years before 2005, and state examinations for years before 2004. The Company is currently under audit by the Internal Revenue Service for tax years 2005 through 2007.

Note 18 Fair Value Measurements

On January 1, 2008, the Company adopted the applicable provisions of SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements related to financial instruments. In December 2007, the FASB provided a one-year deferral of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. Accordingly, the Company adopted SFAS 157 for non-financial assets and non-financial liabilities on January 1, 2009.

During the six months ended June 30, 2009, the Company's financial instruments consisted of natural gas futures contracts, debt instruments, and its Series I warrants. The Company uses quoted forward price curves, discounted to reflect the time value of money, to value its natural gas futures contracts. The Company uses a Monte Carlo simulation model to value the Series I warrants, which requires the Company to make estimates regarding risk-free interest rates, the volatility of its stock price, and its anticipated dividend yield. The Company's futures contracts are recorded in accrued liabilities and other long-term liabilities and the Series I warrants are recorded in other long-term liabilities in the accompanying condensed consolidated balance sheet at June 30, 2009. The fair market value of the Company's debt instruments approximated their carrying values at June 30, 2009.

The following table reflects the fair value as defined by SFAS 157, of the Company's natural gas futures contracts and the Series I warrants at June 30, 2009:

	Balance at June 30, 2009	Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Natural gas futures contracts obligation	$ 689,108	$	$ 689,108	$
Series I warrants	$ 14,760,101	$	$ 14,760,101	$

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 19 Recently Adopted Accounting Changes and Recently Issued Accounting Standards

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) provides new accounting guidance and disclosure requirements for business combinations. SFAS 141(R) is effective for business combinations which occur beginning in 2009. The adoption of SFAS 141(R) did not have a material impact on the Company's financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 requires presentation of non-controlling interests in consolidated subsidiaries separately within equity in the consolidated statements of financial position as well as the separate presentation within the consolidated statements of operations and comprehensive income (loss) attributable to the parent and noncontrolling interest. Accounting for changes in a parent's ownership interest, will generally be at fair value and if the parent retains control or significant influence of the subsidiary, any adjustments will be made through equity, while transactions where control changes occur will be accounted for through earnings. SFAS 160 was effective for the Company on January 1, 2009. As a result of adopting SFAS 160, the Company reclassified the minority interest of DCE to the stockholders' equity section of the consolidated balance sheet. References to minority interest in previous financial statements are now reflected as noncontrolling interest. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *"Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133"* ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of FASB Statement No. 133 (SFAS 133), requiring enhanced disclosures about the Company's derivative and hedging activities. The Company is required to provide enhanced disclosures about (a) how and why it uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect the Company's financial position, results of operations, and cash flows. The Company adopted this statement as of January 1, 2009 and the adoption did not have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets.* More specifically, FSP FAS 142-3 removes the requirement under paragraph 11 of SFAS 142 to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions and instead, requires an entity to consider its own historical experience in renewing similar arrangements. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP FAS 142-3 was effective for the Company on January 1, 2009. Adoption of this statement did not have a material impact on the Company's consolidated financial statements.

In June 2008, the Emerging Issues Task Force (the "EITF") reached a consensus in EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 19 Recently Adopted Accounting Changes and Recently Issued Accounting Standards (Continued)

(EITF No. 07-5). The EITF concluded, among other things, that contingent and other adjustment features in equity-linked financial instruments are consistent with equity indexation if they are based on variables that would be inputs to a "plain vanilla" option or forward pricing model and they do not increase the contract's exposure to those variables. The Company's Series I warrants issued on October 28, 2008 are linked to the Company's own equity shares; however, the investor has protective pricing features commonly referred to as "*down-round"* protection, whereby the conversion price potentially resets if the common stock price of the Company declines after issuance. As a result of this guidance, effective January 1, 2009, the Company accounts for the Series I warrants as a derivative under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of adopting EITF No. 07-5, the Company recorded a cumulative-effect adjustment of approximately $2.6 million to opening retained earnings and reclassed approximately $9.8 million from additional paid-in capital to long-term liabilities on the date of adoption, January 1, 2009. During the second quarter of 2009, the Company recorded a charge of $2.4 million related to valuing the Series I warrants.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, *Subsequent Events*, ("SFAS 165") which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events, and is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted the new disclosure requirements on April 1, 2009 and its adoption did not have a material impact on the Company's consolidated financial statements.

On June 30, 2009, the FASB issued FSP SFAS 107-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP 107-1, which amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires publicly-traded companies, as defined in APB Opinion No. 28, *Interim Financial Reporting*, to provide disclosures on the fair value of financial instruments in interim financial statements. The Company adopted the new disclosure requirements on April 1, 2009 and its adoption did not have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," which provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for the asset or liability have significantly decreased. This FSP re-emphasizes that regardless of market conditions the fair value measurement is an exit price concept as defined in SFAS No. 157. This FSP clarifies and includes additional factors to consider in determining whether there has been a significant decrease in market activity for an asset or liability and provides additional clarification on estimating fair value when the market activity for an asset or liability has declined significantly. The scope of this FSP does not include assets and liabilities measured under Level 1 inputs. The Company adopted FSP SFAS 157-4 on April 1, 2009 and its adoption did not have a material impact on the Company's consolidated financial statements.

On July 1, 2009, the FASB's *Accounting Standards Codification*, ("Codification") was released. The Codification will become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 19 Recently Adopted Accounting Changes and Recently Issued Accounting Standards (Continued)

releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for the Company's consolidated financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not expect transition to the Codification will have a material impact on the Company's consolidated financial statements.

Note 20 Subsequent Events

On July 1, 2009, the Company closed a follow-on public offering of 9,430,000 shares of common stock at a price of $8.30 per share. The aggregate amount of common shares sold reflects the exercise in full by the underwriters of their option to purchase 1,230,000 additional shares of the Company's common stock to cover over-allotments. The Company received aggregate net proceeds of approximately $73.2 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company.

As a result of the follow-on public offering, the exercise price of the Company's Series I Warrants issued on October 28, 2008 was adjusted to $12.68 per share from $13.50 per share per the terms of the Series I warrant agreements.

Note 21 Volumetric Excise Tax Credit (VETC)

The Company records 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. VETC revenues for the six month periods ended June 30, 2008 and 2009 were approximately $9.1 million and $8.1 million, respectively.

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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 elsewhere 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, 2008 contained in our 2008 Annual Report, as well as the consolidated financial statements and notes contained therein.

Cautionary Statement Regarding Forward Looking Statements

This MD&A and other sections of this report contain forward looking statements. We make 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," "will likely result," "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 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 the 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 2008 Annual Report. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our 2008 Annual Report 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 of filing of this report to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

We provide natural gas solutions for vehicle fleets primarily in the United States and Canada. Our primary business activity is selling CNG and LNG vehicle fuel to our customers. We also build, operate and maintain fueling stations, and help our customers acquire and finance natural gas vehicles and obtain local, state and federal clean air incentives. Our customers include fleet operators in a variety of markets, such as public transit, refuse hauling, airports, taxis and regional trucking. In April 2008, we opened our first compressed natural gas station in Lima, Peru, through our joint venture, Clean Energy del Peru. In August 2008, we acquired 70% of the outstanding membership interest of Dallas Clean Energy, LLC ("DCE"). DCE owns a facility that collects, processes and sells renewable biomethane collected from a landfill in Dallas, Texas.

Overview

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

Sources of revenue. We generate the majority of our revenue from selling CNG and LNG and providing operations and maintenance services to our customers. The balance of our revenue is provided by designing and constructing natural gas fueling stations, financing our customers' natural gas vehicle purchases and sales of pipeline quality biomethane produced by our DCE joint venture.

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 directly

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sell the CNG or LNG, plus (iii) our proportionate share of the gasoline gallon equivalents sold as CNG by our joint venture in Peru, plus (iv) our proportionate share of the gasoline gallon equivalents of biomethane produced and sold as pipeline quality natural gas by DCE); (2) our revenue; and (3) net income (loss). The following table, which you should read in conjunction with our condensed consolidated financial statements and notes contained elsewhere in this report, presents our key operating data for the years ended December 31, 2006, 2007 and 2008 and for the three and six months ended June 30, 2008 and 2009:

Gasoline gallon equivalents delivered (in millions)	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
CNG	41.9	48.0	47.6	11.8	23.4	16.3	28.4
Biomethane			2.0			1.5	2.4
LNG	26.5	27.3	23.9	6.7	12.7	5.9	11.2
Total	68.4	75.3	73.5	18.5	36.1	23.7	42.0
Operating data							
Revenue	$ 91,547,316	$ 117,716,233	$ 125,866,533	$ 33,812,981	$ 63,760,338	$ 27,870,031	$ 58,118,175
Net loss	(77,500,741)	(8,894,362)	(44,462,574)	(3,201,730)	(8,630,429)	(6,376,766)	(12,870,813)

Key trends in 2006, 2007, and 2008 and the first six months of 2009. Vehicle fleet demand for natural gas fuels increased during the three year and six-month period ended June 30, 2009. 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 and increasingly stringent environmental regulations affecting vehicle fleets. We capitalized on this growing demand by securing new fleet customers in a variety of markets, including public transit, refuse hauling, airports, taxis and regional trucking.

The number of fueling stations we served grew from 147 at December 31, 2004 to 185 at June 30, 2009 (a 25.9% increase). The amount of CNG and LNG gasoline gallon equivalents we delivered from 2006 to 2008 increased by 7.5%. The increase in gasoline gallon equivalents delivered, together with higher prices we charged our customers due to higher natural gas prices, contributed to increased revenues from 2006 through the end of 2008. During the first six months of 2009, our revenues declined as compared to the first six months of 2008 primarily due to lower natural gas prices. Our cost of sales also increased from 2006 through the end of 2008, which was attributable primarily to the increased costs related to delivering more CNG and LNG to our customers and the increased price of natural gas. Our cost of sales decreased during the first six months of 2009 as compared to the first six months of 2008 primarily due to lower natural gas prices.

Recent developments. On July 1, 2009, we closed a follow-on public offering of 9,430,000 shares of common stock at a price of $8.30 per share. The aggregate amount of common shares sold reflects the exercise in full by the underwriters of their option to purchase 1,230,000 additional shares of our common stock to cover over-allotments. We received aggregate net proceeds of approximately $73.2 million, after deducting underwriting discounts and commissions and estimated offering expenses.

Anticipated future trends. Despite the recent volatility and decline in energy prices, 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, and more stringent emissions requirements will continue to make natural gas vehicles an attractive alternative to traditional gasoline and diesel powered vehicles. Our belief that natural gas will continue, over the long term, to be a cheaper vehicle fuel than gasoline or diesel is based in part on the growth in U.S. natural gas production. A 2008 Navigant Consulting, Inc. study indicates that as a result of new unconventional gas shale discoveries from 22 basins in the U.S., maximum estimates of total recoverable domestic reserves from producers have increased to equal 118 years of U.S. production at 2007 producing rates. The study indicated a mean level of reserves

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equal to 88 years of supply at 2007 production levels. Indications were that shale gas production growth from only the major six shale plays, plus the Marcellus shale, could become 27 billion cubic feet per day and as high as 39 billion cubic feet per day by 2015. Navigant has also indicated that development of the shale resources base has resulted in a substantial current surplus of gas supply compared to demand of as much as 11 billion cubic feet per day. These current surplus levels are 18% of annual average historical U.S. consumption levels of approximately 20 Tcf per year making available gas supply to meet all existing markets and to meet new market requirements. Analysts believe that there is a significant worldwide supply of natural gas relative to crude oil as well. According to the 2008 BP Statistical Review of World Energy, on a global basis, the ratio of proven natural gas reserves to 2007 natural gas production was 45% greater than the ratio of proven crude oil reserves to 2007 crude oil production. This analysis suggests significantly greater longer term availability of natural gas than crude oil based on current consumption.

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. We have built natural gas fueling stations, and plan to build additional natural gas fueling stations, that will provide LNG to fleet vehicles at the Ports of Los Angeles and Long Beach. We also anticipate expanding our sales of CNG and LNG in the other markets in which we operate, including public transit, regional trucking, refuse hauling and airports. 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 as well as the logistics of delivering more CNG and LNG to our customers. Additionally, we have 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.

The disruption in the capital markets that began during 2008 and has continued into 2009 has made it more difficult for new customers to finance or invest in natural gas vehicle acquisitions or natural gas fueling stations. Continuing economic contraction and reduced economic activity may reduce our opportunities to attract new fleet customers. Many governmental entities, which during 2006 through 2008 represented approximately two-thirds of our revenues, are experiencing significant budget deficits as a result of the economic recession and have been and may continue to be unable to invest in new natural gas vehicles for their transit or refuse fleets or may be compelled to reduce public transportation and services, which would negatively affect our business.

Sources of liquidity and anticipated capital expenditures. In May 2007, we completed our initial public offering of 10,000,000 shares of common stock at a public offering price of $12.00 per share. Net cash proceeds from the initial public offering were approximately $108.5 million, after deducting underwriting discounts, commissions and offering expenses. Historically, our principal sources of liquidity have been cash provided by operations, capital contributions from our stockholders, our cash and cash equivalents and, during the third and fourth quarters of fiscal 2006, a revolving line of credit with Boone Pickens, a director and our largest stockholder. The line of credit was used to fund margin requirements on certain derivative contracts and was terminated in December 2006. In connection with our acquisition of 70% of the membership interests in DCE, we entered into a credit agreement on August 15, 2008 with PCB. We borrowed $18.0 million to finance the acquisition and entered into a $12.0 million line of credit from PCB to provide capital to DCE, primarily for capital expenditures, and to pay certain costs and expenses of the acquisition and the loans. As of August 7, 2009, approximately $4.3 million is available under the line of credit from PCB to provide further capital to DCE, however, we may only draw down on the line of credit through August 14, 2009. On September 24, 2008, we sold 319,488 shares of our common stock at a purchase price of $15.65 per share to Boone Pickens Interests, Ltd. for proceeds of approximately $5.0 million. On November 3, 2008, we sold 4,419,192 shares of common stock and warrants exercisable for common stock to third-party investors and

received net proceeds of approximately $32.5 million. On July 1, 2009, we sold 9,430,000 shares of common stock to third-party investors and received net proceeds of $73.2 million.

Our current business plan calls for approximately $14.9 million in additional capital expenditures from July 1, 2009 through the end of 2009, primarily related to construction of new fueling stations. In addition, we anticipate that during the remainder of 2009 we will provide approximately $0.3 million for financing natural gas vehicle purchases by our customers and up to $2.5 million in funding that we may be required to provide to the Vehicle Production Group, LLC, a company that is developing CNG paratransit vehicles and taxis. We anticipate that we will fund any capital expenditures of DCE during 2009 through our available cash reserves or our line of credit from PCB, if we fund such capital expenditures prior to August 14, 2009. We may also elect to invest additional amounts that are not budgeted for in our 2009 business plan in expansion of our California LNG plant, station construction for new or existing customers that are not currently under contract or for acquisitions or investments in companies or assets in the natural gas and biomethane fueling infrastructure, services and production industries. We intend to fund our principal liquidity requirements, other than our loan to DCE, through cash and cash equivalents and cash provided by operations. For more information, see "Liquidity and Capital Resources" below.

Volatility in operating results related to futures contracts. Historically, we have purchased futures contracts from time to time to help mitigate our exposure to natural gas price fluctuations in current periods and in future periods. Prior to 2008, our futures contracts did not qualify for hedge accounting under SFAS No. 133, and in 2008, some of our contracts qualified for hedge accounting under SFAS No. 133 and some did not. In 2009, all of our futures contracts did qualify for hedge accounting under SFAS 133. Gains and losses related to the futures contracts that did not qualify for hedge accounting, which appear in the line item derivative (gains) losses in our condensed consolidated financial statements, have materially impacted our results of operations in recent periods. For the years ended December 31, 2006, 2007 and 2008, derivative (gains) losses associated with futures contracts were $78,994,947, $0 and $611,175, respectively. For this reason and others, we caution investors that our past operating results may not be indicative of future results. For more information, please read "Volatility of Earnings and Cash Flows" and "Risk Management Activities" below.

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 and LNG and providing operations and maintenance services to our vehicle fleet customers. For the six months ended June 30, 2009, CNG and biomethane (together) represented 73% and LNG represented 27% 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. Substantially all of our operating and maintenance revenues are generated from CNG stations, as owners of LNG stations tend to operate and maintain their own stations. Substantially all of our station sale and leasing revenues have been generated from CNG stations. In 2006, we began providing vehicle finance services to our customers.

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 determined primarily 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. We sell a small amount of CNG under fixed-price contracts and also provide price caps to certain customers on their index-plus pricing arrangement. Effective January 1, 2007, we ceased offering price-cap contracts to our customers, but we will continue to perform our obligations under price-cap contracts we entered into before January 1, 2007. We will continue to offer fixed price contracts as appropriate and consistent with our natural gas hedging policy that was revised in May 2008. Our fleet customers typically are billed monthly based on the volume of CNG sold at a station. The remainder of our CNG sales are on a per fill-up basis at prices we set at the pump based on prevailing market conditions. These customers typically pay using a credit card at the station. In April 2008, we opened our first CNG station in Lima, Peru through our joint venture Clean Energy del Peru.

LNG Sales

We sell substantially all of our LNG to fleet customers, who typically own and operate their fueling stations. We also sell a small volume of LNG to customers for non-vehicle use. We procure LNG from third-party producers and also produce LNG at our liquefaction plants in Texas and California. For LNG that we purchase from third-parties, we typically enter into "take or pay" contracts that require us to purchase minimum volumes of LNG at index-based rates. We deliver LNG via our fleet of 58 tanker trailers to fueling stations, where it is stored and dispensed in liquid form into vehicles. We sell LNG principally through supply contracts that are priced on either a fixed-price or 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. We also provided price caps to certain customers on the index component of their index-plus pricing arrangement for certain contracts we entered into on or prior to December 31, 2006. Effective January 1, 2007, we ceased offering price-cap contracts to our customers, but we will continue to perform our obligations under price-cap contracts we entered into before January 1, 2007, including a one-year renewal period beginning April 1, 2010 that one of our customers is entitled to should they choose to exercise such renewal. This renewal period, if exercised, would obligate us to sell the customer approximately 2.1 million LNG gallons subject to a price cap of $7.50 per MMbtu on the SoCal Border Index. We will continue to offer fixed price contracts as appropriate and consistent with our natural gas hedging policy adopted in May 2008. Our LNG contracts provide that we charge our customers periodically based on the volume of LNG supplied.

Government Incentives

From October 1, 2006 through December 31, 2009, we may receive a VETC of $0.50 per gasoline gallon equivalent of CNG and $0.50 per liquid gallon of LNG that we sell as vehicle fuel. Based on the service relationship we have with our customers, either we or our customers are able to claim the credit. We record 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 SFAS No. 109. 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. We expect the tax credit will continue to factor into the price we charge our customers for CNG and LNG in the future. The legislation that created this tax credit also increased the federal excise taxes on sales of CNG from $0.061 to $0.183 per gasoline gallon equivalent and on sales of LNG from $0.119 to $0.243 per LNG gallon.

Operation and Maintenance

We generate a portion of our revenue from operation and maintenance agreements for CNG fueling stations where we do not supply the fuel. We refer to this portion of our business as "O&M."

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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 gallon equivalents sold.

Station Construction

We generate a small 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

In 2006, we commenced offering vehicle finance services for some of our customers' purchases of natural gas vehicles or the conversion of their existing gasoline or diesel powered vehicles to operate on natural gas. We loan to certain qualifying customers on average 60% and on occasion up to 100% of the purchase price of their natural gas vehicles. We may also lease vehicles 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. Through June 30, 2009, we have not generated significant revenue from vehicle finance activities.

Landfill Gas

In August 2008, we acquired 70% of the outstanding membership interests of DCE for a purchase price of $19.6 million including transaction costs. DCE owns a facility that collects, processes and sells biomethane from the McCommas Bluff landfill located in Dallas, Texas. From the acquisition date through December 31, 2008 and for the six months ended June 30, 2009, DCE generated approximately $1.8 million and $2.5 million, respectively, in revenue from sales of biomethane, all of which is included in our condensed consolidated statements of operations.

On April 3, 2009, DCE entered into a fifteen year gas sale agreement with Shell Energy North America (US), L.P. ("Shell") for the sale by DCE to Shell of biomethane produced by DCE's landfill gas processing facility. The gas sale agreement calls for the sale of up to the following quantity of biomethane by DCE to Shell daily:

April 2009 through September 2010: 4500 MMBtus per day
October 2010 through December 2010: 5200 MMBtus per day
Calendar year 2011: 5300 MMBtus per day
Calendar year 2012: 5400 MMBtus per day
Calendar year 2013: 5300 MMBtus per day
Calendar year 2014: 5300 MMBtus per day
Calendar year 2015-2018: 5000 MMBtus per day
Calendar year 2019 to March 2024: 6000 MMBtus per day

DCE's obligation and ability to sell greater than 4500 MMBtus per day is contingent on the successful permitting and commencement of commercial operation of an expansion to the existing gas processing facility to at least 15 million standard cubic feet per day inlet capacity of raw landfill gas. DCE retains the right to reserve from the gas sale agreement up to 500 MMBtus per day of biomethane for sale as a vehicle fuel. To the extent that DCE produces volumes of biomethane in excess of the volumes sold under the agreement with Shell, DCE will either attempt to sell such

volumes at then-prevailing market prices or seek to enter into another gas sale agreement in the future. There is no guarantee that DCE will produce or be able to sell up to the maximum volumes called for under the agreement, and DCE's ability to produce such volumes of biomethane is dependent on a number of factors beyond DCE's control including, but not limited to, the availability and composition of the landfill gas that is collected, the impact on DCE's operations of the operation of the landfill by the City of Dallas and the reliability of the processing plant's critical equipment.

The sale price for the gas under the agreement with Shell is fixed and increases in 2010 and 2011. The sale price for the gas represents a substantial premium to current prevailing prices for natural gas.

Under the terms of the agreement, DCE has retained the rights to any available greenhouse gas emission reduction credits that may be generated through the operation of the landfill gas collection and processing facility, provided that DCE must supply Shell with a sufficient number of such credits to enable the end-user of the gas to meet applicable "net-zero" emissions requirements under the relevant renewable portfolio standard with respect to use of the biomethane in power generation. DCE is in the preliminary stages of assessing whether greenhouse gas emission reduction credits will be generated or available for sale as a result of the landfill gas collection and pipeline quality biomethane production. Given the complex and changing standards and requirements in the market for greenhouse gas emission reduction credits, there can be no guarantee that any greenhouse gas emission credits will be generated or available for sale as a result of DCE's landfill gas operations.

The gas sale agreement is terminable by either party on 30 days' written notice if the California Energy Commission makes a written determination or adopts a ruling or regulation after the date of the agreement that the biomethane sold under the agreement will, from the date of such ruling or regulation, no longer qualify as a California Renewable Portfolio Standard eligible fuel. In addition, Shell has the right to terminate the agreement upon 30 days' written notice if the volumes of biomethane produced and delivered, calculated monthly on a rolling two-year average, are less than an annual average of 630,720 MMBtu per year (or 2,083 MMBtu per day).

Volatility of Earnings and Cash Flows Related to Natural Gas Futures Contracts

Our earnings and cash flows historically have fluctuated significantly from period to period based on our futures activities, as all but a few of our futures contracts have not historically qualified for hedge accounting under SFAS 133. We have therefore recorded any changes in the fair market value of these contracts that did not qualify for hedge accounting directly in our statements of operations in the line item derivative (gains) losses along with any realized gains or losses generated during the period. For example, we experienced derivative gains of $5.7 million for the three months ended June 30, 2008, and derivative losses of $0.3 million, $65.0 million, $13.7 million, $6.0 million and $0.3 million for the three months ended March 31, 2006, September 30, 2006, December 31, 2006, September 30, 2008 and December 31, 2008, respectively. We had no derivative gains or losses for the three months ended June 30, 2006, March 31, 2007, June 30, 2007, September 30, 2007, December 31, 2007, March 31, 2008, March 31, 2009 and June 30, 2009 related to our futures contracts. In accordance with our natural gas hedging policy, we plan to structure all subsequent futures contracts as cash flow hedges under SFAS No. 133, but we cannot be certain that they will qualify. See "Risk Management Activities" below. If the 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 our 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 June 30, 2009, we had $2.6 million on deposit in margin accounts.

The decrease in the value of our futures positions and any required margin deposits on our futures contracts that are in a loss position could significantly impact our financial condition in the future.

Volatility of Earnings Related to Series I Warrants

Beginning January 1, 2009, under EITF No. 07-5, we are required to record the change in the fair market value of our Series I warrants in our financial statements. We recognized an expense of $0.2 million and $2.4 million related to recording the fair market value changes of our Series I warrants in the quarters ended March 31, 2009 and June 30, 2009, respectively.

Debt Compliance

Our credit agreement with PCB ("Credit Agreement") requires us to comply with certain covenants. We may not incur indebtedness or liens except as permitted by the Credit Agreement, or declare or pay dividends. We must maintain, on a quarterly basis, minimum liquidity of not less than $6.0 million, accounts receivable balances, as defined, of not less than $8.0 million, consolidated net worth, as defined, of not less than $150.0 million, and a debt to equity ratio, as defined, of not more than 0.3 to 1. Beginning in the quarter ended June 30, 2009, we must also maintain a debt service ratio, as defined, of not less than 1.5 to 1 at each quarter end. Effective in the fourth quarter of 2008, we established a lock-box arrangement with PCB subject to the Credit Agreement. Funds received from our customers are remitted to the lock-box and then deposited to a PCB bank account. The remitted funds are not used to pay-down the balance of the credit agreement. However, if we default on the Credit Agreement, all of the obligations under the Credit Agreement will become due and payable and all funds received in our lock-box held by PCB will be applied to the balance due on the Credit Agreement. One of the events of default is the occurrence of a "material adverse change," which is a subjective acceleration clause. Based on the guidance in Emerging Issues Tax Force Issue No. 95-22 *Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement* (EITF No. 95-22), we have classified our debt pursuant to the Credit Agreement as short-term or long-term, as appropriate, and we believe an event of default is more than remote but not more likely than not. If we default on the Credit Agreement, all of the obligations under the Credit Agreement will become immediately due and payable and all funds received in our lockbox held by PCB and $2.5 million we have deposited with PCB in a payment reserve account will be applied to the balance due on the Credit Agreement. We were in compliance with the covenants as of June 30, 2009.

One of our bank covenants is a requirement to maintain accounts receivable balances from certain subsidiaries above $8.0 million at each quarter-end during the term. To the extent natural gas prices continue to fall, which a significant portion of our revenues are derived from, or our volumes decline, we could violate this covenant in the future. Beginning with the quarter ended June 30, 2009, we are required to maintain a debt service ratio, as defined, of not less than 1.5 to 1. To the extent our operating results do not materialize as planned, we could violate this covenant in the future. In the event we violate either of these covenants, we would seek a waiver from the bank.

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Risk Management Activities

Our risk management activities, including the revised natural gas hedging policy adopted by our board of directors in February 2007 and revised by our board of directors on May 29, 2008, are discussed in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operation) of our 2008 Annual Report, which discussion is incorporated herein by reference.

In an effort to mitigate the volatility of our earnings related to our futures contracts and to reduce our risk related to fixed-price sales contracts, our board of directors revisited our risk management policies and procedures and adopted a revised natural gas hedging policy in February 2007, which was amended effective May 29, 2008 and restricts our ability to purchase natural gas futures contracts and offer fixed-price sales contracts to our customers. Unless otherwise agreed in advance by the board of directors and the derivative committee, we will conduct our futures activities and enter into fixed-price sales contracts only in accordance with the natural gas hedging policy, a complete copy of which was filed as Exhibit 99.1 to our Form 8-K filed with the SEC on June 20, 2008 and is incorporated by reference herein. Pursuant to the policy, we only purchase futures contracts to hedge our exposure to variability in expected future cash flows related to a particular fixed price contract or bid. Subject to the conditions set forth in the policy, we purchase futures contracts in quantities reasonably expected to hedge effectively our exposure to cash flow variability related to such fixed-price sales contracts entered into after the date of the policy. The summary of the policy described above does not purport to be complete and is qualified in its entirety by reference to the copy of the policy previously filed.

Due to the restrictions of our revised hedging policy, we expect to offer significantly fewer fixed-price sales contracts to our customers. If we do offer a fixed-price sales contract, we anticipate including a price component that would cover our increased costs as well as a return on our estimated cash requirements over the duration of the underlying futures contract. The amount of this price component will vary based on the anticipated volume to be covered under the fixed-price sales contract.

Critical Accounting Policies

For the first six months of 2009, 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 2008 Annual Report.

Recently Issued Accounting Pronouncements

For a description of recently issued accounting pronouncements, see note 19 to our condensed consolidated financial statements contained elsewhere herein.

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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 June 30,		Six Months Ended June 30,	
	2008	2009	2008	2009
Statement of Operations Data:				
Revenue:				
Product revenues	96.8%	89.1%	96.7%	91.6%
Service revenues	3.2	10.9	3.3	8.4
Total revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of sales:				
Product cost of sales	83.7	54.4	79.2	62.7
Service cost of sales	0.9	3.7	0.9	2.5
Derivative (gain) loss	(16.9)	7.9	(9.0)	4.1
Selling, general and administrative	35.9	41.7	37.2	39.8
Depreciation and amortization	6.5	14.8	6.7	13.3
Total operating expenses	110.1	122.5	115.0	122.4
Operating loss	(10.1)	(22.5)	(15.0)	(22.4)
Interest income (expense), net	0.8	(0.2)	1.7	(0.2)
Other income (expense), net	0.0	(0.5)	0.1	(0.3)
Income (loss) from equity method investments	0.0	0.1	(0.2)	0.1
Loss before income taxes	(9.3)	(23.1)	(13.4)	(22.8)
Income tax expense	(0.2)	(0.2)	(0.1)	(0.2)
Net loss	(9.5)	(23.3)	(13.5)	(23.0)
Loss of noncontrolling interest in net income		0.4		0.9

Net los