HURCO COMPANIES INC
Form 10-Q
June 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended April 30, 2009 or
o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _________ to _________.

Commission File No. 0-9143

HURCO COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	35-1150732 (I.R.S. Employer Identification Number)
One Technology Way Indianapolis, Indiana (Address of principal executive offices)	46268 (Zip code)

Registrant's telephone number, including area code (317) 293-5309

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for the past 90 days:
Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the 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 x

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 in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the Registrant's common stock outstanding as of June 1, 2009 was 6,420,851.

HURCO COMPANIES, INC.
April 2009 Form 10-Q Quarterly Report

Table of Contents

Part I - Financial Information

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended April 30		Six Months Ended April 30	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Sales and service fees	$ 20,489	$ 58,285	$ 48,796	$ 119,208
Cost of sales and service	15,269	37,954	35,034	74,020
Gross profit	5,220	20,331	13,762	45,188
Selling, general and administrative expenses	7,518	11,676	15,547	24,052
Operating income (loss)	(2,298)	8,655	(1,785)	21,136
Interest expense	4	10	27	21
Interest income	45	133	149	282
Investment income	1	119	29	291
Other expense (income), net	(1,768)	376	(1,695)	840
Income (loss) before taxes	(488)	8,521	61	20,848
Provision (benefit) for income taxes	(207)	3,054	(12)	7,576
Net income (loss)	$ (281)	$ 5,467	$ 73	$ 13,272
Earnings (loss) per common share				
Basic	$ (0.04)	$ 0.85	$ 0.01	$ 2.07
Diluted	$ (0.04)	$ 0.85	$ 0.01	$ 2.06
Weighted average common shares outstanding				
Basic	6,421	6,410	6,421	6,410
Diluted	6,421	6,444	6,430	6,442

The accompanying notes are an integral part of the condensed consolidated financial statements.

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per-share data)

	April 30 2009 (Unaudited)	October 31 2008 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,850	$ 26,394
Short-term investments	—	6,674
Accounts receivable, net	15,903	31,952
Inventories, net	64,880	66,368
Deferred tax assets, net	7,856	5,444
Derivative assets	1,446	12,463
Other	2,591	2,017
	120,526	151,312
Property and equipment:		
Land	782	782
Building	7,127	7,127
Machinery and equipment	15,952	14,885
Leasehold improvements	1,878	1,765
	25,739	24,559
Less accumulated depreciation and amortization	(11,900)	(10,961)
	13,839	13,598
Non-current assets:		
Software development costs, less accumulated amortization	6,097	5,711
Other assets	7,438	6,823
	$ 147,900	$ 177,444
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 10,678	$ 28,303
Derivative liabilities	1,452	2,692
Accrued expenses	11,020	20,134
	23,150	51,129
Non-current liabilities:		
Deferred tax liabilities, net	2,006	2,056
Deferred credits and other obligations	827	782
Total liabilities	25,983	53,967
Shareholders’ equity:		
Preferred stock: no par value per share; 1,000,000 shares authorized; no shares issued	—	—

Common stock: no par value; $.10 stated value per share; 13,250,000 shares authorized, and 6,420,851 shares issued and outstanding	642	642
Additional paid-in capital	51,804	51,690
Retained earnings	71,962	71,889
Accumulated other comprehensive loss	(2,491)	(744)
Total shareholders' equity	121,917	123,477
	$ 147,900	$ 177,444

The accompanying notes are an integral part of the condensed consolidated financial statements.

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Three Months Ended April 30		Six Months Ended April 30	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income (loss)	$ (281)	$ 5,467	$ 73	$ 13,272
Adjustments to reconcile net income (loss) to Net cash used for operating activities:				
Provision for doubtful accounts	210	(116)	516	(141)
Deferred income tax provision	(140)	(378)	(1,246)	(646)
Equity loss of affiliates	64	9	88	29
Depreciation and amortization	814	730	1,605	1,413
Stock-based compensation	57	57	114	114
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	2,848	3,736	15,895	(6,283)
(Increase) decrease in inventories	571	(2,118)	3,500	(4,147)
Decrease in accounts payable	(4,072)	(1,715)	(17,513)	(733)
Decrease in accrued expenses	(1,313)	(1,966)	(9,306)	(3,970)
Net change in derivative assets and liabilities	5,675	1,043	9,777	769
Other	(5,326)	(6,037)	(5,906)	(4,660)
Net cash used for operating activities	(893)	(1,288)	(2,403)	(4,983)
Cash flows from investing activities:				
Proceeds from sale of property and equipment	217	—	221	12
Purchase of property and equipment	(536)	(659)	(1,328)	(1,755)
Purchase of investments	—	(1,100)	—	(9,100)
Sale of investments	—	6,350	6,674	10,350
Software development costs	(432)	(108)	(991)	(159)
Other investments	(846)	367	(894)	261
Net cash provided by (used for) investing activities	(1,597)	4,850	3,682	(391)
Cash flows from financing activities:				
Tax benefit from exercise of stock options	—	36	—	36
Proceeds from exercise of common stock options	—	97	—	151
Net cash provided by financing activities	—	133	—	187
Effect of exchange rate changes on cash	214	739	177	1,036
Net increase (decrease) in cash and cash equivalents	(2,276)	4,434	1,456	(4,151)
Cash and cash equivalents at beginning of period	30,126	21,175	26,394	29,760
Cash and cash equivalents at end of period	$ 27,850	$ 25,609	$ 27,850	$ 25,609

The accompanying notes are an integral part of the condensed consolidated financial statements.

HURCO COMPANIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the six months ended April 30, 2009 and 2008

(Dollars in thousands, except Shares Issued and Outstanding)	Common Stock Shares Issued & Outstanding	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
			(Dollars in thousands)			
Balances, October 31, 2007	6,392,220	$ 639	$ 50,971	$ 49,369	$ (3,376)	$ 97,603
Net income	—	—	—	13,272	—	13,272
Translation of foreign currency financial statements	—	—	—	—	2,284	2,284
Unrealized loss on derivative instruments, net of tax	—	—	—	—	(695)	(695)
Unrealized loss on investments, net of tax	—	—	—	—	(202)	(202)
Comprehensive income						14,659
Exercise of common stock options	28,631	3	148	—	—	151
Tax benefit from exercise of stock options	—	—	36	—	—	36
Stock-based compensation	—	—	114	—	—	114
Balances, April 30, 2008 (Unaudited)	6,420,851	$ 642	$ 51,269	$ 62,641	$ (1,989)	$ 112,563
Balances, October 31, 2008	6,420,851	$ 642	$ 51,690	$ 71,889	$ (744)	$ 123,477
Net income	—	—	—	73	—	73
Translation of foreign currency financial statements	—	—	—	—	156	156
	—	—	—	—	(2,105)	(2,105)

Unrealized loss on derivative instruments, net of tax										
Reversal of unrealized loss on investments, net of tax	—		—		—		—		202	202
Comprehensive loss										(1,674)
Stock-based compensation	—		—		114		—		—	114
Balances, April 30, 2009 (Unaudited)	6,420,851	$	642	$	51,804	$	71,962	$	(2,491)	$ 121,917

The accompanying notes are an integral part of the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

The unaudited Condensed Consolidated Financial Statements include the accounts of Hurco Companies, Inc. and its consolidated subsidiaries. As used in this report, and unless the context indicates otherwise, the terms "we", "us", "our" and similar language refer to Hurco Companies, Inc. and its consolidated subsidiaries. We design and produce computerized machine tools, interactive computer control systems and software for sale through our distribution network to the worldwide metal cutting market. We also provide software options, computer control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The condensed financial information as of April 30, 2009 and for the three and six months ended April 30, 2009 and April 30, 2008 is unaudited; however, in our opinion, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, results of operations, changes in shareholders' equity and cash flows at the end of the interim periods. We suggest that you read these condensed consolidated financial statements in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended October 31, 2008.

2. SHORT-TERM INVESTMENTS

As of October 31, 2008 we held $6.7 million of investments in auction rate securities, which represented investments in student loan obligations and municipal bonds. These auction rate securities were intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined intervals allowing us to either roll over the holdings or sell the investment at par value. We classified our auction rate securities as "available for sale" in accordance with the provisions of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

During the second quarter of fiscal 2008, we recorded an unrealized loss of $202,000, net of tax in Accumulated Other Comprehensive Loss as we had concluded there was a temporary decline in the estimated fair value of the auction rate securities. In the first quarter of fiscal 2009, we sold all of our holdings of auction rate securities at par value and accordingly reversed our unrealized loss of $202,000, net of tax, in Accumulated Other Comprehensive Loss. As a result, no gain or loss was recognized in our statement of operations for the six months ended April 30, 2009, on the sale of the auction rate securities.

3. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On February 1, 2009, we adopted FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), an amendment of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The adoption of SFAS 161 did not have a material impact on our consolidated financial position or results of operations, but does require increased disclosure of our derivative and hedging activities, including how derivative and hedging activities affect our consolidated financial statements. These disclosures are provided below.

We are exposed to certain market risks relating to our ongoing business operations, including foreign currency risk, interest rate risk and credit risk. We manage our exposure to these and other market risks through regular operating and financing activities. Currently, the only risk that we manage through the use of derivative instruments is foreign currency risk.

We operate on a global basis and are exposed to the risk that our financial condition, results of operations and cash flows could be adversely affected by changes in foreign currency exchange rates. To reduce the potential effects of foreign exchange rate movements on our net equity investment in our foreign subsidiary, gross profit and net earnings, we enter into derivative financial instruments in the form of foreign exchange forward contracts with a major financial institution. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in Euros, Pounds Sterling, Canadian Dollars, Singapore Dollars and New Taiwan Dollars.

We account for derivative instruments designated as hedging instruments in accordance with SFAS 133, and report all derivative instruments as assets or liabilities at fair value on our consolidated balance sheet.

Derivatives Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts periodically to hedge certain forecasted inter-company sales and purchases denominated in foreign currencies (the Pound Sterling, Euro and New Taiwan Dollar). The purpose of these instruments is to mitigate the risk that the U.S. Dollar net cash inflows and outflows resulting from sales and purchases denominated in foreign currencies will be adversely affected by changes in exchange rates. These forward contracts have been designated as cash flow hedge instruments, and are recorded in the Condensed Consolidated Balance Sheets at fair value in Derivative Assets and Derivative Liabilities. The effective portion of the gains and losses resulting from the changes in the fair value of these hedge contracts are deferred in Accumulated Other Comprehensive Loss and recognized as an adjustment to Cost of Sales in the period that the corresponding inventory sold that is the subject of the related hedge contract is recognized, thereby providing an offsetting economic impact against the corresponding change in the U.S. Dollar value of the inter-company sale or purchase being hedged. The ineffective portion of gains and losses resulting from the changes in the fair value of these hedge contracts is reported in Other Income (Expense) immediately. We perform quarterly assessments of hedge effectiveness by verifying and documenting the critical terms of the hedge instrument and determining that forecasted transactions have not changed significantly. We also assess on a quarterly basis whether there have been adverse developments regarding the risk of a counterparty default.

For forward contracts outstanding as of April 30, 2009, we have obligations to purchase Euros and Pounds Sterling and sell New Taiwan Dollars at set maturity dates ranging from May 2009 through April 2010. The contract amount at forward rates in U.S. Dollars at April 30, 2009 to purchase Euros and Pounds Sterling was $20.2 million and $1.3 million, respectively. The contract amount at forward rates in U.S. Dollars to sell New Taiwan Dollars was $14.3 million at April 30, 2009. At April 30, 2009, we had $1.5 million of gains, net of tax, related to cash flow hedges deferred in Accumulated Other Comprehensive Loss. Of this amount, $589,000 represents unrealized gains, net of tax, related to cash flow hedge instruments that remain subject to currency fluctuation risk. These deferred gains will be recorded as an adjustment to Cost of Sales in periods through April 2010, in which the corresponding inventory that is the subject of the related hedge contract is sold, as described above.

We are also exposed to foreign currency exchange risk related to our investment in net assets in foreign countries. To manage this risk, we entered into a forward contract on November 26, 2007 with a notional amount of €3.0 million. We designated this forward contract as a hedge of our net investment in Euro denominated assets. We selected the forward method under the guidance of the Derivatives Implementation Group Statement 133 Issue H8, “Foreign Currency Hedges: Measuring the Amount of Ineffectiveness in a Net Investment Hedge”. The forward method requires all changes in the fair value of the forward to be reported as a cumulative translation adjustment in Accumulated Other Comprehensive Loss, net of tax, in the same manner as the underlying hedged net assets. This forward contract matured on November 25, 2008 and we entered into a new forward contract for the same notional amount that is set to mature in November 2009. At April 30, 2009, we had $355,000 of realized gains and $58,000 of unrealized losses, net of tax, recorded as cumulative translation adjustments in Accumulated Other Comprehensive Loss related to these forward contracts.

Derivatives Not Designated as Hedging Instruments

We enter into foreign currency forward exchange contracts to protect against the effects of foreign currency fluctuations on receivables and payables denominated in foreign currencies. These derivative instruments are not designated as hedges under SFAS 133 and, as a result, changes in their fair value are reported currently as Other Expense (Income), Net in the Condensed Consolidated Statement of Operations consistent with the transaction gain or loss on the related non-hedged gains and losses.

For forward contracts outstanding as of April 30, 2009, we have obligations to purchase Euros, Pounds Sterling, Canadian Dollars and Singapore Dollars and sell New Taiwan Dollars at set maturity dates ranging from May 2009 through March 2010. The contract amounts at forward rates in U.S. Dollars at April 30, 2009 to purchase Euros, Pounds Sterling, Canadian Dollars and Singapore Dollars totaled $36.4 million. The contract amount at forward rates in U.S. Dollars to sell New Taiwan Dollars was $3.0 million at April 30, 2009.

Fair Value of Derivative Instruments

We recognize the fair value of derivative instruments as assets and liabilities on a gross basis on our consolidated balance sheet. As of April 30, 2009 and October 31, 2008, all derivative instruments are recorded at fair value on the balance sheet as follows (in thousands):

		2009		2008
Derivatives	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 1,344	Derivative assets	$ 9,733
Foreign exchange forward contracts	Derivative liabilities	$ 486	Derivative liabilities	$ 2,568
Not Designated as Hedging Instruments:				
Foreign exchange forward contracts	Derivative assets	$ 102	Derivative assets	$ 2,730
Foreign exchange forward contracts	Derivative liabilities	$ 966	Derivative liabilities	$ 124

Effect of Derivative Instruments on the Balance Sheets, Statements of Changes in Shareholders' Equity and Statements of Operations

Derivative instruments had the following effects on our consolidated balance sheets, statements of changes in shareholders' equity and statements of operations, net of tax during the quarter ended April 30, 2009 and 2008 (in thousands):

Derivatives	Amount of Gain Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from Other Comprehensive Income	Amount of Gain (Loss) Reclassified from Other Comprehensive Income	
	2009	2008		2009	2008
Designated as Hedging Instruments:					
(Effective Portion)					
	$ 1,835	$ 3,938		$ (104)	$ (1,191)

Foreign exchange forward contracts			Cost of sales and service					
(Ineffective Portion)								
Foreign exchange forward contracts	N/A	N/A	Other income (expense)	$	2,202	$	10

Derivatives	Location of Loss Recognized in Operations	Amount of Loss Recognized in Operations			
		2009		2008	
Not Designated as Hedging Instruments:					
Foreign exchange forward contracts	Other income (expense)	$	(1,487)	$	(1,287)

9

4. STOCK OPTIONS

In March 2008, we adopted the Hurco Companies, Inc. 2008 Equity Incentive Plan (the “2008 Plan”), which allows us to grant awards of stock options, Stock Appreciation Rights settled in stock (SARs), restricted shares, performance shares and performance units. The 2008 Plan replaced the 1997 Stock Option and Incentive Plan (the “1997 Plan”) which expired in March 2007. The Compensation Committee of the Board of Directors has authority to determine the officers, directors and key employees who will be granted awards; designate the number of shares subject to each award; determine the terms and conditions upon which awards will be granted; and prescribe the form and terms of award agreements. We have granted stock options under both plans which are currently outstanding. No stock option may be exercised more than ten years after the date of grant or such shorter period as the Compensation Committee may determine at the date of grant. The total number of shares of our common stock that may be issued as awards under the 2008 Plan is 750,000. The market value of a share of our common stock, for purposes of the 2008 Plan, is the closing sale price as reported by the Nasdaq Global Select Market on the date in question or, if not a trading day, on the last preceding trading date.

During the first six months of fiscal 2009, no options to purchase shares were exercised. During the first six months of fiscal 2008, options to purchase 28,631 shares were exercised, resulting in cash proceeds of approximately $151,000 and an additional tax benefit of approximately $36,000.

Effective November 1, 2005, we adopted SFAS No. 123(R), “Share Based Payment,” using the modified prospective method, and began applying its provisions to all options granted, as well as to the nonvested portion of previously granted options outstanding at that date. Compensation expense is determined at the date of grant using the Black-Scholes valuation model.

On April 16, 2009, the Compensation Committee granted a total of 21,000 options under the 2008 Plan to three new employees. The fair value of the options was estimated on the date of grant using a Black-Scholes valuation model with assumptions for expected volatility based on the historical volatility of our common stock, the ten year contractual term of the options and a risk-free interest rate based upon the five-year U.S. Treasury yield as of the date of grant. The options granted to the employees vest over a five-year period beginning one year from the date of grant. Based upon the foregoing factors, the grant date fair value of the options was determined to be $14.84 per share.

During the first six months of both fiscal 2009 and 2008, we recorded approximately $114,000 of stock-based compensation expense related to grants under the plans. As of April 30, 2009, there was approximately $427,000 of total unrecognized stock-based compensation cost that we expect to recognize by the end of fiscal 2014.

A summary of stock option activity for the six-month period ended April 30, 2009, is as follows:

	Stock Options	Weighted Average Exercise Price
Outstanding at October 31, 2008	64,369	$ 20.29
Options granted	21,000	14.84
Options exercised	—	—
Options cancelled	—	—

Outstanding at April 30, 2009	85,369	$	18.96

The aggregate intrinsic value of exercised stock options was $0 for the six-month period ended April 30, 2009 as no stock options were exercised during that period, and $1.2 million, for the six-month period ended April 30, 2008. The intrinsic value a stock option is calculated as the difference between the stock price as of April 30 and the exercise price of the option.

Summarized information about outstanding stock options as of April 30, 2009, that are already vested and those that are expected to vest, as well as stock options that are currently exercisable, is as follows:

	Options Already Vested and Expected to Vest	Options Currently Exercisable
Number of outstanding options	85,369	54,369
Weighted average remaining contractual life (years)	7.86	6.64
Weighted average exercise price per share	$ 18.96	$ 19.12
Intrinsic value	$ 280,000	$ 270,000

5. EARNINGS PER SHARE

Basic and diluted earnings per common share are based on the weighted average number of shares of our common stock outstanding. Diluted earnings per common share give effect to shares underlying outstanding stock options using the treasury method. The dilutive number of shares for the six months ended April 30, 2009 and 2008 was 9,000 and 34,000, respectively.

6. ACCOUNTS RECEIVABLE

Accounts receivable are net of allowances for doubtful accounts of $1.2 million as of April 30, 2009 and $678,000 as of October 31, 2008.

7. INVENTORIES

Inventories, priced at the lower of cost (first-in, first-out method) or market, are summarized below (in thousands):

	April 30, 2009	October 31, 2008
Purchased parts and sub-assemblies	$ 13,006	$ 13,098
Work-in-process	5,032	11,243
Finished goods	46,842	42,027
	$ 64,880	$ 66,368

8. SEGMENT INFORMATION

We operate in a single segment: industrial automation systems. We design and produce interactive computer control systems and software and computerized machine tools for sale through our own distribution network to the worldwide metal-working market. We also provide software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

9. GUARANTEES

From time to time, our subsidiaries guarantee third party payment obligations in connection with the sale of certain machines to customers that use lease financing. As of April 30, 2009, we had 51 outstanding third party guarantees totaling approximately $1.9 million. The terms of our subsidiaries' guarantees are consistent with the underlying customer financing terms. Upon shipment, the customer has the risk of ownership, but does not obtain title until the machine lease is paid in full. A retention of title clause allows us to recover the machine if the customer defaults on the lease. We believe that the proceeds obtained from liquidation of the machine would cover any payments required by the guarantee.

We provide warranties on our products with respect to defects in material and workmanship. The terms of these warranties are generally one year for machine labor and service parts. We recognize a reserve with respect to this obligation at the time of product sale, with subsequent warranty claims recorded against the reserve. The amount of the warranty reserve is determined based on historical trend experience and any known warranty issues that could cause future warranty costs to differ from historical experience. The warranty reserve may vary due to changes in sales volume, product mix and sales by region. A reconciliation of the changes in our warranty reserve is as follows (in thousands):

	Six months ended	
	April 30, 2009	April 30, 2008
Balance, beginning of period	$ 2,536	$ 2,449
Provision for warranties during the period	248	1,461
Charges to the reserve	(829)	(1,257)
Impact of foreign currency translation	(6)	141
Balance, end of period	$ 1,949	$ 2,794

10. COMPREHENSIVE INCOME

A reconciliation of our net income to comprehensive income was as follows (in thousands):

	Three months ended	
	April 30, 2009	April 30, 2008
Net income (loss)	$ (281)	$ 5,467
Translation of foreign currency financial statements	896	1,828
Unrealized loss on derivative instruments, net of tax	(1,806)	(725)
Unrealized loss on investments, net of tax	—	(202)
Comprehensive income (loss)	$ (1,191)	$ 6,368

11. DEBT AGREEMENTS

We are party to an unsecured domestic credit agreement that provides us with a $30.0 million unsecured revolving credit facility and a separate letter of credit facility in the amount of 100.0 million New Taiwan Dollars. We are also party to a Taiwan revolving credit agreement of 100.0 million New Taiwan Dollars, which is an uncommitted demand credit facility. In the event the Taiwan facility is not available, the Taiwan letter of credit facility from the domestic agreement would enable us to provide credit enhancement to a replacement lender in Taiwan. We also have a £1.0 million revolving credit facility in the United Kingdom.

The domestic and U.K. facilities mature on December 7, 2012.

Borrowings under the domestic facility may be used for general corporate purposes and will bear interest at a LIBOR-based rate or an alternate base rate, in each case, plus an applicable margin determined by reference to the ratio of the interest-bearing debt and obligations and the undrawn face amount of all letters of credit outstanding, on a consolidated basis, to consolidated EBITDA. The domestic facility contains customary affirmative and negative covenants and events of default for an unsecured commercial bank credit facility, including, among other things, limitations on consolidations, mergers and sales of assets. The financial covenants are a minimum rolling four quarter consolidated net income covenant and a covenant establishing a maximum ratio of consolidated total indebtedness to total indebtedness and net worth.

As of April 30, 2009, we had no debt or borrowings outstanding under our domestic or European credit facilities and no outstanding letters of credit issued to non-U.S. suppliers for inventory purchase commitments. As of April 30, 2009, we had unutilized credit facilities of $36.5 million available for either direct borrowings or commercial letters of credit.

12. INCOME TAXES

On November 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109," ("FIN 48"). Our total balance of unrecognized tax benefits as of April 30, 2009 was approximately $761,000, which included accrued interest.

We recognize accrued interest and penalties related to unrecognized tax benefits as components of our income tax provision. As of April 30, 2009, the gross amount of interest accrued and reported in other liabilities was approximately $103,000.

We file U.S. federal and state income tax returns, as well as tax returns in several foreign jurisdictions. The statute of limitations will expire between July 2009 and July 2010 with respect to unrecognized tax benefits related to FIN 48.

13. FAIR VALUE

On November 1, 2008, we adopted the provisions of FASB Statement No. 157 “Fair Value Measurements” (“SFAS 157”) as it relates to financial assets and liabilities recorded at fair value on a recurring basis. Financial Accounting Standards Board Staff Position (FSP) No. 157-2 has delayed the effective date of SFAS 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. We do not expect that the full adoption of SFAS 157 will have a material impact on our consolidated financial statements.

SFAS 157 established a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs, such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exist, therefore requiring an entity to develop its own assumptions.

In accordance with SFAS 157, the following table represents the fair value hierarchy for our financial assets and liabilities measured at fair value as of April 30, 2009 (in thousands):

	Level I	Level II	Level III	Total
Assets:				
Derivative Assets	$ —	$ 1,446	$ —	$ 1,446

	Level I	Level II	Level III	Total
Liabilities:				
Derivative Liabilities	$ —	$ 1,452	$ —	$ 1,452

Included as Level II fair value measurements are derivative assets and liabilities related to hedged and unhedged gains and losses on foreign currency forward exchange contracts entered into with a third party. We estimate the fair value of these derivatives on a recurring basis using foreign currency exchange rates obtained from active markets.

14. EMPLOYEE BENEFITS

We maintain defined contribution plans in which a majority of our employees participate. Our contributions to these plans are discretionary. The purpose of these plans is generally to provide additional financial security during retirement by providing employees with an incentive to save throughout their employment. Our contributions to the plans are based upon employee contributions or compensation. As of April 1, 2009, we suspended our discretionary contributions to the plans for an indefinite period.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

Hurco Companies, Inc. is an industrial technology company operating in a single segment. We design and produce computerized machine tools, featuring our proprietary computer control systems and software, for sale through our own distribution network to the worldwide metal cutting market. We also provide software options, control upgrades, accessories and replacement parts for our products, as well as customer service and training support.

The primary drivers of the sustained growth we experienced between fiscal 2002 and the beginning of fiscal 2009 has been the increasing worldwide demand for machine tools during that period, the expansion of our product line that includes more expensive, higher-margin products, customer acceptance of our products and our successes in selling and manufacturing outside the United States.

The market for machine tools is international in scope. We have both significant foreign sales and foreign manufacturing operations. During fiscal 2008, more than 75% of our revenues were attributable to customers located abroad. The percentage of revenues attributable to customers located abroad decreased during the first two quarters of fiscal 2009 to approximately 67%, due in part to deterioration of the European and Asian markets for machine tool products as well as the effect of a stronger U.S. Dollar when translating foreign sales to U.S. Dollars for financial reporting purposes. We sell our products through more than 100 independent agents and distributors in countries throughout North America, Europe and Asia. We also have our own direct sales and service organizations in Canada, France, Germany, Italy, Spain, Poland, Singapore, China, South Africa, and the United Kingdom. Our machine tools are manufactured in Taiwan to our specifications by our wholly owned subsidiary, Hurco Manufacturing Limited (HML).

Our sales to foreign customers are denominated, and payments by those customers are made, in the prevailing currencies—primarily the Euro and Pound Sterling—in the countries in which those customers are located. Our product costs are incurred and paid primarily in the New Taiwan Dollar and the U.S. Dollar. Changes in currency exchange rates may have a material effect on our operating results and consolidated balance sheets as reported under U.S. Generally Accepted Accounting Principles. For example, when a foreign currency increases in value relative to the U.S. Dollar, sales made (and expenses incurred) in that currency, when translated to U.S. Dollars for reporting in our financial statements, are higher than would be the case when that currency has a lower value relative to the U.S. Dollar. In our comparison of period-to-period results, we discuss not only the increases or decreases in those results as reported in our financial statements (which reflect translation to U.S. Dollars at exchange rates prevailing during the period covered by those financial statements), but also the effect that changes in exchange rates had on those results.

Our high levels of foreign manufacturing and sales also subject us to cash flow risks due to fluctuating currency exchange rates. We seek to mitigate those risks through the use of various derivative instruments – principally foreign currency forward exchange contracts.

Since the fourth quarter of fiscal 2008, we have been adversely affected by the ongoing global recession. During periods of adverse economic conditions, manufacturers and suppliers of capital goods, such as our company, are often the first to experience reductions in demand as their customers defer or eliminate investments in capital equipment. Additionally, customers who may want to purchase capital goods often find it difficult to obtain financing due to disruptions in the credit markets. During the first half of fiscal 2009, these conditions had the greatest impact on the European sales region where we primarily market our more expensive, higher-margin machines. As a result, we experienced a 59% decline in sales and a 65% decline in orders during the first half of fiscal 2009 in comparison to the same period of fiscal 2008.

We have implemented various initiatives to reduce expenses, including management and employee pay reductions, workforce reductions, the suspension of corporate 401K matching contributions and restrictions on travel expenditures, while staying committed to our strategic plan of product innovation and penetration of developing markets. We are also taking steps to reduce our inventories to reflect the decline in customer demand. Since our production lead time is approximately six months, the impact of reduced production levels on our inventories may not be fully realized until the end of calendar year 2009. We will continue to take actions to control costs and manage cash flow so long as current market conditions persist.

We believe that our cash position and lack of outstanding debt provide us with the capability to weather the current global economic recession.

RESULTS OF OPERATIONS

Three Months Ended April 30, 2009 Compared to Three Months Ended April 30, 2008

Sales and Service Fees. Sales and service fees for the second quarter of fiscal 2009 were $20.5 million, a decrease of $37.8 million, or 65%, from the second quarter of fiscal 2008. The drop of second quarter revenues was primarily the result of the global economic recession. Due to the effects of a stronger U.S. Dollar when translating foreign sales to U.S. Dollars for financial reporting purposes, sales and service fees for the second quarter of fiscal 2009 were approximately $3.2 million, or 5%, less than would have been the case if foreign sales had been translated at the same rate of exchange that was utilized for the second quarter of 2008.

The following tables set forth net sales (in thousands) by geographic region and product category for the second quarter of 2009 and 2008, respectively:

Net Sales and Service Fees by Geographic Region

	Three months ended April 30,				Change	
	2009		2008		Amount	%
North America	$ 6,171	30.1%	$ 11,706	20.1%	$ (5,535)	(47.3)%
Europe	13,042	63.7%	42,653	73.2%	(29,611)	(69.5)%
Asia Pacific	1,276	$ 1,634	$ 392			

Liabilities: Series I Warrants	September 30, 2012	September 30, 2013
Beginning Balance	$ 11,493	$ 8,102
Total gain included in earnings	(1,085)	(861)
Ending Balance	$ 10,408	$ 7,241

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

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

Table of Contents

Contingent Consideration

Pursuant to the terms in the asset purchase agreement related to the acquisition of IMW s assets, the IMW shareholder will earn additional consideration if IMW achieves certain minimum gross profit targets in fiscal years 2011 through 2014. Therefore, the Company estimated the fair value of the contingent consideration based on the payout structure using the following inputs as of September 30, 2013:

Unobservable Input	**Range**
Gross profit projection	$16,321 $32,641
Probability of reaching target gross profit	0.0% 60.0%

Generally, a positive change in the assumptions used for the probability of achieving a higher gross profit target threshold would result in a directionally similar change in the estimated fair value of the contingent consideration, and thus an increase in the associated liability.

Series I Warrant Liability

The Company estimated the fair value of its Series I warrant liability using the Black-Scholes Model based on the following inputs as of September 30, 2013:

Unobservable Input	**Range or Weighted Average**
Current market price of the Company s common stock	$12.77
Exercise price of the warrant	$12.68
Dividend yield	0.00%
Remaining term of the warrant	2.6
Implied volatility of the Company s common stock	41.50% 43.9%
Assumed discount rate	Simple average 0.6%

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

Non-financial assets

No impairments of long-lived assets measured at fair value on a non-recurring basis have been incurred during the nine months ended September 30, 2012 and 2013. The Company s use of these nonfinancial assets does not differ from their highest and best use as determined from the perspective of a market participant.

Note 19 Recently Adopted Accounting Changes and Recently Issued Accounting Standards

On January 1, 2013, the Company adopted Accounting Standards Update (ASU) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). The ASU requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items into net income if the amount being reclassified is required under US GAAP to be reclassified in its entirety to net income. An entity shall provide this information together, in one location, in either of the following ways: a) on the face of the statement where net income is presented, or b) as a separate disclosure in the notes to the financial statements. During the three and nine months ended September 30, 2013, there were no significant reclassifications requiring separate disclosure.

Table of Contents

Note 20 Volumetric Excise Tax Credit (VETC)

From October 1, 2006 through December 31, 2011, the Company was eligible to receive a federal fuel tax credit (VETC) of $0.50 per gasoline gallon equivalent of CNG and $0.50 per liquid gallon of LNG that it sold as vehicle fuel. Based on the service relationship with its customers, either the Company or its customers claimed the credit. The American Taxpayer Relief Act, signed into law on January 2, 2013, reinstated VETC for calendar year 2013 and also made it retroactive to January 1, 2012. 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. The Company did not record any VETC revenues in 2012. VETC revenues recognized during the three and nine month periods ended September 30, 2013 were $5,987 and $38,140, respectively. The VETC revenues recognized during the nine months ended September 30, 2013 includes $20,800 for CNG and LNG the Company sold in 2012 that was recognized in January 2013.

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, 2012 contained in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 28, 2013, as well as the consolidated financial statements and notes contained therein (collectively, the 2012 10-K). Unless the context indicates otherwise, all references to Clean Energy, the Company, we, us, or our in this MD&A and elsewhere in this report refer to Clean Energy Fuels Corp. toget with its majority and wholly owned subsidiaries.

Cautionary Statement Regarding Forward Looking Statements

This MD&A and other sections of this report contain forward looking statements. 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, 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 2012 10-K. In preparing this MD&A, we presume that readers have access to and have read the MD&A in our 2012 10-K pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date of filing of this report to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

We are the leading provider of natural gas as an alternative fuel for vehicle fleets in the United States and Canada, based on the number of stations operated and the amount of gasoline gallon equivalents of compressed natural gas (CNG) and liquefied natural gas (LNG) delivered. We design, build, operate and maintain fueling stations and supply our customers with CNG fuel for light, medium and heavy-duty vehicles and LNG fuel for medium and heavy-duty vehicles. We also sell non-lubricated natural gas compressors and other equipment used in CNG stations and LNG stations, provide operation and maintenance services (O&M) to customers, offer solutions designed to provide operators with code-compliant maintenance facilities to service their natural gas vehicle fleets, produce renewable natural gas (RNG), and sell tradable credits we generate by selling natural gas and RNG as a vehicle fuel, including credits we generate under the California Low Carbon Fuel Standard (LCFS Credits) and Renewable Identification Numbers (RIN Credits) we generate under the federal Renewable Fuel Standard Phase 2. In addition, we help our customers acquire and finance natural gas vehicles and obtain local, state and federal grants and incentives. Further, we previously owned BAF Technologies, Inc. and its wholly owned subsidiary, ServoTech Engineering, Inc. (BAF Technologies, Inc. and ServoTech Engineering Inc. are collectively referred to as BAF). BAF converted light and medium duty vehicles to run on natural gas and provided design and engineering services for natural gas engine systems. On June 28, 2013, we sold BAF to Westport Innovations (U.S.) Holdings Inc., a wholly owned subsidiary of Westport Innovations Inc.

Table of Contents

Overview

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

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

Key operating data. In evaluating our operating performance, our management focuses primarily on: (1) the amount of CNG and LNG gasoline gallon equivalents delivered (which we define as (i) the volume of gasoline gallon equivalents we sell to our customers, plus (ii) the volume of gasoline gallon equivalents dispensed to our customers at stations where we provide O&M services, but do not sell the CNG or LNG, plus (iii) our proportionate share of the gasoline gallon equivalents sold as CNG by our joint venture in Peru (through March 2013 when we sold our interest in the joint venture in Peru), plus (iv) our proportionate share of the gasoline gallon equivalents of RNG produced and sold as pipeline quality natural gas by our RNG production facilities, (2) our gross margin (which we define as revenue minus cost of sales), and (3) net income (loss) attributable to us. The following table, which you should read in conjunction with our condensed consolidated financial statements and notes contained elsewhere in this quarterly report on Form 10-Q and our consolidated financial statements and notes contained in our 2012 10-K, presents our key operating data for the years ended December 31, 2010, 2011 and 2012 and for the three and nine months ended September 30, 2012 and 2013:

Gasoline gallon equivalents delivered (in millions)	Year Ended December 31, 2010	Year Ended December 31, 2011	Year Ended December 31, 2012	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2013
CNG	81.4	101.8	130.5	34.1	37.2	95.3	106.8
RNG	7.4	6.7	8.9	2.3	2.5	6.4	6.9
LNG	33.9	47.1	55.5	14.5	16.7	41.5	45.2
Total	122.7	155.6	194.9	50.9	56.4	143.2	158.9
Operating data							
Gross margin	$ 69,945	$ 76,033	$ 80,324	$ 20,228	$ 31,514	$ 59,288	$ 99,991(1)
Net loss attributable to Clean Energy Fuels Corp.	(2,516)	(47,633)	(101,255)	(16,321)	(18,836)	(59,520)	(34,650)(1)

(1) See discussion under Operations Government Incentives below.

Key trends. According to the U.S. Department of Energy, Energy Information Administration, demand for natural gas fuels in the United States increased by approximately 19% during the period January 1, 2010 through December 31, 2012. We believe this growth in demand was attributable primarily to the rising prices of gasoline and diesel relative to CNG and LNG during these periods, increasingly stringent environmental regulations affecting vehicle fleets and increased availability of natural gas.

The number of fueling stations we owned, operated, maintained and/or supplied grew from 196 at December 31, 2009 to 445 at September 30, 2013 (a 127% increase). Included in this number are all of the CNG and LNG fueling stations we own, maintain or with which we have a fueling supply contract. The amount of CNG, RNG, and LNG gasoline gallon equivalents we delivered from 2010 to 2012 increased by 58.8%. The increase in gasoline gallon equivalents delivered was the primary contributor to increased revenues during 2010, 2011 and 2012. In addition, beginning in 2011, we also benefitted from increased revenues from compressor sales and LNG fueling station installations as a result of our acquisitions of IMW Industries, Ltd. (IMW) and Wyoming Northstar Incorporated and its affiliated companies (Northstar), which occurred during the third and fourth quarters of 2010, respectively. Our revenue can vary between periods due to timing of station construction and natural gas sale activity.

Our fuel cost of sales also increased during these periods, which was attributable primarily to increased costs related to delivering more CNG, RNG and LNG to our customers in 2010 through 2012 and the first nine months of 2013. Starting in 2011, the cost of sales related to compressors sold through IMW and fueling station installations performed by Northstar also contributed to the increase. Our cost of sales can vary between periods due to timing of station construction sale activity.

Table of Contents

During 2012 and the first nine months in 2013, prices for oil, gasoline, and diesel fuel were generally substantially higher than the price for natural gas. Oil hit a high of $107.07 in February 2012 and was $102.33 per barrel on September 30, 2013. In California, the average retail price for gasoline was $3.68 per gallon in January 2012, hit a high of $4.71 per gallon in October 2012, and was $3.98 per gallon at September 30, 2013. Average retail prices for diesel fuel in California were $4.05 per diesel gallon in January 2012, hit a high of $4.50 per diesel gallon in September 2012, and was $4.17 per diesel gallon at September 30, 2013. Higher gasoline and diesel prices improve our margins on fuel sales to the extent we price our fuel at a relatively consistent discount to gasoline or diesel and natural gas prices do not increase by a corresponding amount. During this time period, the price for natural gas increased slightly. The NYMEX price for natural gas fluctuated from $3.08 per MMbtu in January 2012, to $3.71 per MMbtu in December 2012, to $3.57 per MMbtu in September 2013. The average retail sales price of our CNG fuel sold in the Los Angeles metropolitan area ranged from $2.75 per gallon for the month of January 2012 to $2.90 per gallon for the month of September 2013. The average retail sales price of our LNG fuel sold in the Los Angeles metropolitan area ranged from $2.48 per gallon during January 2012 to $2.61 per gallon for the month of September 2013.

Recent developments. In January 2013, the federal fuel tax credit (VETC) of $0.50 per gasoline gallon equivalent of CNG and $0.50 per liquid gallon of LNG that is sold as vehicle fuel was extended through December 31, 2013 and made retroactive to January 1, 2012. The amount attributed to 2012, $20.8 million, has been recorded by us in the first quarter of 2013, the period in which the law was passed. In January and February 2013, an aggregate of $4.0 million of principal and accrued interest under an SLG Note (as defined and discussed elsewhere in this Item 2 and in note 13 to our condensed consolidated financial statements) was converted by the holder into 268,664 shares of our common stock. In March 2013, we completed the sale of our ownership interest in our joint venture in Peru for approximately $6.1 million after receiving a dividend distribution of approximately $1.1 million (see note 10 to our condensed consolidated financial statements). In April 2013, our subsidiary Mavrix, LLC (Mavrix) issued a secured multi-draw promissory note in the maximum aggregate principal amount of $30.0 million (the Mavrix Note) and received advances of $5.0 million in each of April 2013 and September 2013 under the Mavrix Note (see note 13 to our condensed consolidated financial statements). In May 2013, we purchased Mansfield Gas Equipment Systems Corporation (MGES) for approximately $21.0 million, 50% of which we paid in cash and 50% of which we paid in shares of our common stock (see note 2 to our condensed consolidated financial statements). In June 2013, we sold BAF for approximately $27.2 million (see note 2 to our condensed consolidated financial statements). In June 2013, Boone Pickens and Green Energy Investment Holdings, LLC, (i) purchased from Chesapeake NG Ventures Corporation (Chesapeake) the outstanding 7.5% convertible promissory notes in the aggregate principal amount of $100 million we had previously issued to Chesapeake, and (ii) delivered to us an aggregate of $50.0 million (in satisfaction of the funding requirement they assumed from Chesapeake in connection with the foregoing purchase) and were issued additional 7.5% convertible promissory notes in the aggregate principal amount of $50.0 million (all such 7.5% convertible notes are referred to as the 7.5% Notes) (see note 13 to our condensed consolidated financial statements). In August 2013, Green Energy Investment Holdings, LLC transferred $5 million in principal amount of the 7.5% Notes it had purchased in June 2013 to certain third parties. In September 2013, we completed a private offering of 5.25% Convertible Senior Notes due 2018 (the 5.25% Notes). The net proceeds from the sale of the 5.25% Notes, after the payment of certain debt issuance costs of $7.5 million, were $242.5 million (excluding additional debt issuance costs of $350,000 accrued as of September 30, 2013) (see note 13 to our condensed consolidated financial statements).

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

We believe there will be significant growth in the consumption of natural gas as a vehicle fuel among vehicle fleets, and our goal is to capitalize on this trend and enhance our leadership position as this market expands. With our acquisitions of IMW and Northstar, we are a fully integrated provider of advanced compression technology, CNG and LNG station design and construction, and CNG and LNG fueling. We anticipate expanding our sales of CNG and LNG in each of the markets in which we operate, including trucking, refuse hauling, airports, taxis and public transit, and plan to enter additional markets, including marine and rail. Consistent with the anticipated growth of our business, we also expect that our operating costs and capital expenditures will increase, primarily from the anticipated expansion of our station network and LNG production capacity, as well as the logistics of delivering more CNG and LNG to our customers. We also anticipate that we will continue to seek to acquire assets and/or businesses that are in the natural gas fueling infrastructure or RNG production business that may require us to raise additional capital. 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.

We anticipate the commercial roll-out of natural gas engines and tractors that are well-suited for the U.S. heavy-duty over-the-road (OTR) trucking market, together with the economic and environmental benefits of natural gas fuel, will result in increased adoption of natural gas fueled trucks by the U.S. trucking industry. Heavy-duty trucks in the United States are generally high-volume consumers of vehicle fuel, and we believe many use 20,000 gallons or more per truck per year. We

Table of Contents

expect that the lower cost of natural gas fuel compared to gasoline and diesel will result in substantial fuel savings for operators. With over eight million heavy-duty trucks registered in the U.S. market, we believe that this market may become our largest market. As a result, we have made a significant commitment of capital and other resources to build a nationwide network of CNG and LNG fueling stations, which we refer to as America s Natural Gas Highway, or ANGH, on the interstate highway system and in major metropolitan areas that will enable natural gas fueled freight trucking coast to coast and border to border within the 48 continental states. As of September 30, 2013, we had completed 70 stations, and 11 were open and selling natural gas fuel (in addition to six stations completed prior to 2011 that we consider part of America s Natural Gas Highway). We will continue to open stations and build new stations as natural gas engines and tractors that are well-suited for the trucking market (including the Cummins-Westport (CWI) 11.9 liter engine) become more widely available and trucks powered by such engines are deployed.

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

Our business plan calls for approximately $54.5 million in capital expenditures from October 1, 2013 through the end of 2013, as well as substantial capital expenditures thereafter, primarily related to construction of new fueling stations, including ANGH stations, expanding our California LNG plant, expanding and building landfill gas processing plants, and the purchase of LNG trailers. We may also elect to invest additional amounts in companies or assets in the natural gas fueling infrastructure, services and production industries, including RNG production, and to make capital expenditures to build additional LNG production facilities or to otherwise secure future LNG supply. We will need to raise additional capital as necessary to fund any capital expenditures or investments that we cannot fund through available cash or cash generated by operations. The timing and necessity of any future capital raise will depend on our rate of new station construction and potential merger or acquisition activity. For more information, see Liquidity and Capital Resources and Capital Expenditures below. We may not be able to raise capital on terms that are favorable to existing stockholders or at all. Any inability to raise capital may impair our ability to invest in new stations, develop natural gas fueling infrastructure and invest in strategic transactions or acquisitions and may reduce our ability to grow our business and generate increased revenues.

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

Operations

We generate revenues principally by selling CNG, LNG and RNG, and providing O&M services to our vehicle fleet customers. For the nine months ended September 30, 2013, CNG and RNG (together) represented 72% and LNG represented 28% of our natural gas sales (on a gasoline gallon equivalent basis). To a lesser extent, we generate revenues by designing and constructing fueling stations and selling or leasing those stations to our customers. We also generate revenues through sales of advanced natural gas fueling compressors and other natural gas fueling station equipment, providing station modification and maintenance services, providing financing for our customers natural gas vehicle purchases, and selling RIN and LCFS Credits.

CNG Sales

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

LNG Production and Sales

We obtain LNG from our own plants as well as through relationships with suppliers. We own and operate LNG liquefaction plants near Houston, Texas and Boron, California, and we plan to build two new LNG plants in connection with our strategic collaboration with GE (see note 13 to our condensed consolidated financial statements). We expect that these additional plants, as well as our planned expansion of our Boron, California plant, and other plants to be built by us or third parties in the future, will be necessary to secure sufficient sources of LNG in the future.

Table of Contents

We sell LNG on a bulk basis to fleet customers, who often own and operate their fueling stations, and we also sell LNG to fleet and other customers at our public-access LNG stations. During 2012 and the first nine months of 2013, we procured 44% and 34%, respectively, of our LNG from third- party producers, and we produced the remainder of the LNG at our liquefaction plants in Texas and California. We expect to enter additional purchase contracts with third party LNG producers in the future. For LNG that we purchase from third parties, we have entered into, and may enter into additional take or pay contracts that require us to purchase minimum volumes of LNG at index- based rates. We deliver LNG via our fleet of 80 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 an index-plus basis. LNG sales revenues based on an index-plus methodology increase or decrease as a result of an increase or decrease in the price of natural gas. Our LNG contracts provide that we charge our customers periodically based on the volume of LNG supplied. We also sell LNG on a per fill-up basis at prices we set at the pump based on prevailing market conditions.

Government Incentives

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

The American Taxpayer Relief Act, signed into law on January 2, 2013, reinstated VETC for calendar year 2013 and also made it retroactive to January 1, 2012. VETC revenues recognized during the nine month period ended September 30, 2013 were $38.1 million, which includes $20.8 million for CNG and LNG we sold in 2012 that we recognized in January 2013.

Operation and Maintenance

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

Station Construction

We generate a portion of our revenue from designing and constructing fueling stations and selling or leasing the stations to our customers. For these projects, we act as general contractor or supervise qualified third-party contractors. We charge construction fees or lease rates based on the size and complexity of the project. In May 2013, we purchased MGES for approximately $21.0 million. MGES is primarily engaged in the business of providing CNG station design and construction and CNG equipment repair and maintenance services.

Vehicle Acquisition and Finance

We offer 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 a portion of, 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. We have also entered into a strategic alliance with General Electric Capital Corporation (GE) whereby GE will provide loans and leases to operators to acquire natural gas vehicles and we will offset the monthly cost of those newly acquired vehicles if the operator makes a significant fuel commitment. Through September 30, 2013, we have not generated significant revenue from vehicle financing activities.

RNG

We own a 70% interest in a RNG production facility at the McCommas Bluff landfill located in Dallas, Texas. We sell RNG produced at the facility to Shell Energy North America (US) L.P. under a gas sale agreement and, depending upon RNG production volumes, we have the ability to sell RNG produced by that facility as a vehicle fuel. We own a second RNG production facility located at a Republic Services landfill in Canton, Michigan. This facility was completed in 2012, and we have entered into a ten-year fixed-price sale contract for the majority of the RNG that we expect the facility to produce. We are building a third RNG facility at a Republic Services landfill in North Shelby, Tennessee, and we expect the facility to be operational during the first quarter of 2014. We are seeking to expand our RNG business by pursuing additional RNG production projects. We sell some of the RNG we currently produce, and expect to sell a significant amount of the RNG we produce at the facilities we are building and plan to build, through our natural gas fueling infrastructure for use as a vehicle fuel. In addition, we purchase RNG from third party producers, and sell that RNG for vehicle use through our fueling infrastructure. The RNG we sell for vehicle fuel use is distributed under the name *Redeem*.

Vehicle Conversions

Prior to June 28, 2013, we owned BAF, a provider of natural gas vehicle conversions, alternative fuel systems, application engineering, service and warranty support and research and development. BAF s vehicle conversions included taxis, vans, pick-up trucks and shuttle buses. BAF utilized advanced natural gas system integration technology and had certified natural gas vehicles under standards of both the Environmental Protection Agency and the California Air Resources Board achieving Super Ultra Low Emission Vehicle emissions. BAF owned ServoTech Engineering, Inc. (ServoTech). ServoTech provided, among other services, design and engineering services for natural gas engine systems. We generated revenues through the sale of natural gas vehicles that had been converted to run on natural gas by BAF, and design and engineering services for natural gas engine systems by ServoTech. For the nine months ended September 30, 2012 and 2013, BAF and ServoTech combined contributed approximately $18.3 million, and $7.0 million, respectively, to our revenue. On June 28, 2013, we sold our ownership interest in BAF and its ServoTech subsidiary for approximately $27.2 million.

Natural Gas Fueling Compressors

Our subsidiary, IMW, manufactures and services non-lubricated natural gas fueling compressors and related equipment for the global natural gas fueling market. IMW is headquartered near Vancouver, British Columbia, has other manufacturing facilities near Shanghai, China, and in Ferndale, Washington, and has sales and service offices in Bangladesh, Colombia and Peru. For the nine months ended September 30, 2012 and 2013, IMW contributed approximately $43.1 million and $57.9 million, respectively, to our revenue.

Sales of RIN and LCFS Credits

We generate LCFS Credits when we sell RNG and conventional natural gas for use as a vehicle fuel in California, and we generate RIN Credits when we sell RNG for use as a vehicle fuel. We can sell these credits to third parties who need the RIN and LCFS Credits to comply with federal and state requirements. In 2012, we realized $2.9 million in revenue through the sale of LCFS Credits. During the nine month period ended September 30, 2013, we realized $3.6 million and $3.4 million in revenue through the sale of LCFS and RIN Credits, respectively. We anticipate that we will generate and sell increasing numbers of RIN and LCFS Credits as we grow our business and sell increasing amounts of CNG, LNG and RNG for use as a vehicle fuel.

Volatility of Earnings and Cash Flows

During 2012 and the first nine months of 2013, our futures contracts qualified for hedge accounting, so we had no derivative gains or losses recognized in our consolidated statements of operations for these periods. In accordance with our natural gas hedging policy, we plan to structure all futures contracts as cash flow hedges under the applicable derivative accounting guidance, but we cannot be certain that they will qualify. See Risk Management Activities below. If 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 September 30, 2013, we had no margin deposits or futures contracts in place.

Volatility of Earnings Related to Series I Warrants

Under Financial Accounting Standards Board (FASB) authoritative guidance, we are required to record the change in the fair market value of our Series I warrants in our consolidated financial statements. We have recognized a gain of $1.1 million and $0.9 million, respectively, related to recording the estimated fair value changes of our Series I warrants in the nine months ended September 30, 2012 and 2013. See note 18 to our condensed consolidated financial statements contained elsewhere herein. Our earnings or loss per share may be materially affected by future gains or losses we are required to recognize as a result of valuing our Series I warrants. As of September 30, 2013, 2,130,682 of the Series I warrants remained outstanding.

Table of Contents

Volatility of Earnings Related to Contingent Consideration

Under business combination accounting guidance, we are required to record the change in the value of the contingent consideration related to our acquisitions of IMW in our financial statements through the contingency period, which expires on March 31, 2014.

If the anticipated results of IMW increase or decrease during future periods, we may be required to recognize material losses or gains based on the valuation of the increased or decreased consideration due to the former IMW shareholder. During the first nine months of 2012 and 2013, we recognized a gain of $4.0 million and $1.1 million, respectively, related to the estimated change in value of the IMW contingent consideration. Our earnings or loss per share may be materially affected by future gains or losses we are required to recognize as a result of changes in the estimated fair value of the contingent consideration amount.

Debt Compliance

In connection with our acquisition of IMW, we entered into a credit agreement with HSBC Bank Canada that requires IMW to comply with certain financial covenants (see note 13 to our condensed consolidated financial statements). If we were to violate a covenant, we would seek a waiver from the bank, which the bank is not obligated to grant. If the bank does not grant a waiver, all of the obligations under the credit agreement would be due and payable. IMW was in compliance with these covenants as of September 30, 2013.

The indenture and the loan agreement entered into by Dallas Clean Energy McCommas Bluff, LLC (DCEMB), our 70% owned subsidiary, as part of issuing its Revenue Bonds, as defined and disclosed in note 13 to our condensed consolidated financial statements, have certain non-financial debt covenants with which DCEMB must comply. As of September 30, 2013, we were in compliance with these debt covenants.

The loan agreements relating to the 7.5% Notes, as defined and discussed in note 13 to our condensed consolidated financial statements, have certain non-financial debt covenants with which we must comply. As of September 30, 2013, we were in compliance with these debt covenants.

The convertible note purchase agreements we entered into as part of issuing the SLG Notes, as defined and discussed in note 13 to our condensed consolidated financial statements, have certain non-financial debt covenants with which we must comply. As of September 30, 2013, we were in compliance with these covenants.

The GE Credit Agreement, as defined and discussed in note 13 to our condensed consolidated financial statements, contains certain covenants with which we must comply. As of September 30, 2013, we were in compliance with these covenants.

The Mavrix Note, as defined and discussed in note 13 to our condensed consolidated financial statements, contains certain debt covenants with which we must comply. As of September 30, 2013, we were in compliance with these covenants.

The Indenture relating to the 5.25% Notes, as defined and discussed in note 13 to our condensed consolidated financial statements, has certain non-financial debt covenants with which we must comply. As of September 30, 2013, we were in compliance with these debt covenants.

Risk Management Activities

Our risk management activities are discussed in Part II, Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) of our 2012 10-K. For the quarter ended September 30, 2013, there were no material changes to our risk management activities.

Critical Accounting Policies

For the nine months ended September 30, 2013, 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 2012 10-K.

Recently Issued Accounting Pronouncements

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

Table of Contents

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2013	2012	2013
Statement of Operations Data:				
Revenue:				
Product revenues	90.4%	87.3%	87.8%	88.7%
Service revenues	9.6	12.7	12.2	11.3
Total revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of sales:				
Product cost of sales	73.7	60.2	69.4	59.0
Service cost of sales	4.2	3.3	5.4	3.7
Derivative (gains) loss on Series I warrant valuation	(6.2)	(1.6)	(0.5)	(0.3)
Selling, general and administrative	33.4	38.8	35.5	38.0
Depreciation and amortization	9.9	12.7	11.1	11.9
Total operating expenses	115.0	113.4	120.9	112.3
Operating loss	(15.0)	(13.4)	(20.9)	(12.3)
Interest expense, net	(4.7)	(8.6)	(4.8)	(7.0)
Other income (expense), net	2.1	0.9	0.7	(0.3)
Income (loss) from equity method investment	0.2		0.1	
Gain from sale of equity method investment				1.8
Gain from sale of subsidiary				5.8
Loss before income taxes	(17.4)	(21.1)	(24.9)	(12.0)
Income tax expense	(0.3)	(0.6)	(0.3)	(1.0)
Net loss	(17.7)	(21.7)	(25.2)	(13.0)
Loss (income) of noncontrolling interest	(0.1)		(0.1)	
Net loss attributable to Clean Energy Fuels Corp.	(17.8)	(21.7)	(25.3)	(13.0)

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2013

Revenue. Revenue decreased by $5.2 million to $86.3 million in the three months ended September 30, 2013, from $91.5 million in the three months ended September 30, 2012. Our station construction revenues decreased $25.8 million between periods, primarily due to the sale during the third quarter of 2012 of two large CNG stations to an existing transit customer. We did not have any similar large construction projects in the third quarter of 2013. Also contributing to the revenue decrease between periods was a $3.5 million decrease in sales of natural gas vehicle equipment and emission control services related to BAF, which we sold in June 2013. These decreases were offset by revenues related to an increase in the number of gallons delivered between periods from 50.9 million gasoline gallon equivalents to 56.4 million gasoline gallon equivalents. This increase in volume was primarily from an increase in CNG sales of 3.1 million gallons. Our net increase in CNG volume was primarily from 25 new refuse customers, three new airport customers and one new transit customer, which together accounted for 3.9 million gallons of the CNG volume increase between periods. We also experienced an increase of 1.7 million gallons in CNG volume between periods from our existing refuse, trucking and transit customers. These CNG gallon increases were offset by a decline of 2.5 million gallons associated with our sale of our 49% interest in our Peruvian joint venture in March 2013. Further, we experienced an increase of 2.2 million gallons in LNG volume between periods, which was in part due to 0.6 million gallons from five new refuse, transit and trucking customers. Also contributing to the LNG increase was 1.6 million gallons from existing trucking, refuse, and transit customers. We experienced an increase in our RNG sales of 0.2 million gallons between periods due to the RNG production at our facility in Canton, Michigan that began in December 2012. Revenue attributable to VETC increased between periods as we did not record any revenue related to fuel tax credits in the third quarter of 2012 because the fuel tax credits expired December 31, 2011, and we recorded $6.0 million of revenue related to fuel tax credits during the third quarter of 2013. In January 2013, the fuel tax credit was reinstated retroactive to January 1, 2012 and extended through December 31, 2013. Revenue attributable to IMW increased between periods by $5.6 million. Our effective price per gallon charged was $0.93 in the three months ended September 30, 2013, which represents a $0.13 per gallon increase from $0.80 per gallon in the three months ended September 30, 2012. The increase was due to higher natural gas prices in the third quarter of 2013, upon which we base a portion of our pricing to our customers. Revenue also increased by $1.2 million related to the sales of LCFS Credits between periods.

Table of Contents

Cost of sales. Cost of sales decreased by $16.4 million to $54.8 million in the three months ended September 30, 2013, from $71.2 million in the three months ended September 30, 2012. Our station construction costs decreased by $24.5 million between periods as station construction sales decreased between periods. Also contributing to the cost of sales decrease was a $3.6 million decrease in costs related to BAF s vehicle equipment sales and emission control services as we sold BAF in June 2013. These decreases were offset by the increased costs related to delivering and servicing more volume to our customers. Also offsetting the cost of sales decreases between periods was the increase in our effective cost per gallon. Our effective cost per gallon increased by $0.05 per gallon, from $0.53 per gallon to $0.58 per gallon, in the three months ended September 30, 2013. This increase was the result of higher natural gas costs between periods. Cost of sales at IMW increased between periods by $5.6 million due to their increased sales between periods.

Derivative (gain) loss on Series I warrant valuation. Derivative gains decreased by $4.3 million to $1.4 million in the three months ended September 30, 2013, from $5.7 million in the three months ended September 30, 2012. The amounts represent the non-cash impact with respect to valuing our outstanding Series I warrants based on our mark-to-market accounting for the warrants during the periods (see note 18 to our condensed consolidated financial statements contained elsewhere in this report).

Selling, general and administrative. Selling, general and administrative increased by $2.9 million to $33.5 million in the three months ended September 30, 2013, from $30.6 million in the three months ended September 30, 2012. Salaries and employee benefits increased by $1.6 million between periods, primarily due to higher average salaries and benefits per employee during the third quarter of 2013 compared to 2012, as we increased our sales force by 10 and hired more management level positions between periods to help support America s Natural Gas Highway and our continued business expansion. Also related to our expansion, we experienced a $1.7 million increase in consulting, legal, business insurance, bad debt, and rent and occupancy expenses between periods. Our travel and entertainment expenses increased by $0.4 million between periods, primarily due to the increased travel of our sales team to develop new customers in the heavy-duty trucking market. Offsetting these increases was the effect of recording $0.8 million of higher gains on the IMW contingent consideration in the three months ended September 30, 2013.

Depreciation and amortization. Depreciation and amortization increased by $1.9 million to $10.9 million in the three months ended September 30, 2013, from $9.0 million in the three months ended September 30, 2012. This increase was primarily due to additional depreciation expense in the three months ended September 30, 2013 related to increased property and equipment balances between periods, which primarily resulted from our expanded station network, including our efforts to build-out America s Natural Gas Highway and complete our RNG production facility in Canton, Michigan.

Interest expense, net. Interest expense, net, increased by $3.1 million to $7.4 million for the three months ended September 30, 2013, from $4.3 million for the three months ended September 30, 2012. This increase was primarily the result of an increase in interest expense related to the $50.0 million of convertible notes we issued in July 2012, the $50.0 million of convertible notes we issued in June 2013, the aggregate of $10.0 million advanced under the Mavrix Note in April and September 2013, and the $250.0 million of convertible notes we issued in September 2013 (see note 13 to our condensed consolidated financial statements for a description of our outstanding debt).

Other income (expense), net. Other income (expense), net, decreased by $1.2 million to $0.7 million of income for the three months ended September 30, 2013, compared to $1.9 million of income for the three months ended September 30, 2012. This decrease was primarily due to foreign currency exchange rate changes between periods on our IMW purchase notes (see note 13 to our condensed consolidated financial statements for a description of the IMW purchase notes).

Income from equity method investment. During the three months ended September 30, 2013 and 2012, we recorded $0.0 million and $0.2 million, respectively of equity in the income of our 49% interest in our Peruvian joint venture. We completed the sale of our interest in our Peruvian joint venture in March 2013.

Loss (income) of noncontrolling interest. During the three months ended September 30, 2013 and 2012, we recorded $0.0 million and $0.1 million, respectively, for the noncontrolling interest in the net income of DCEMB. The noncontrolling interest represents the 30% interest of our joint venture partner.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2013

Revenue. Revenue increased by $32.6 million to $267.5 million in the nine months ended September 30, 2013, from $234.9 million in the nine months ended September 30, 2012. A portion of this increase was the result of an increase in the number of gallons delivered between periods from 143.2 million gasoline gallon equivalents to 158.9 million gasoline gallon equivalents. This increase in volume was primarily from an increase in CNG sales of 11.5 million gallons. Our net increase in

Table of Contents

CNG volume was primarily from 28 new refuse customers, six new airport customers and three new transit customers, which together accounted for 9.2 million gallons of the CNG volume increase between periods. We also experienced an increase of 6.6 million gallons in CNG volume between periods from our existing refuse, airport, transit and trucking customers. These CNG gallon increases were offset by a decline of 4.3 million gallons associated with the sale of our 49% interest in our Peruvian joint venture in March 2013. Further, we experienced an increase of 3.7 million gallons in LNG volume between periods, which was primarily due to 1.4 million gallons from seven new refuse, transit, trucking and industrial customers and 3.3 million gallons from existing trucking, refuse, transit and industrial customers. These LNG gallon increases were offset by a decrease of 1.0 million gallons from one existing transit customer that is in the process of transitioning to CNG buses. We experienced a 0.5 million gallon increase between periods in our RNG sales, primarily due to increased RNG production at DCEMB s facility andRNG production at our facility in Canton, Michigan that began in December 2012. Revenue attributable to VETC increased by $38.1 million between periods, including $20.8 million related to recording all the 2012 VETC revenue in the first quarter of 2013, as a result of legislation passed in January 2013 that retroactively reinstated the fuel tax credit as of January 1, 2012 and extended such credit to December 31, 2013. Revenue attributable to IMW increased between periods by $14.8 million. Our effective price per gallon charged was $0.88 in the nine months ended September 30, 2013, which represents a $0.06 per gallon increase from $0.82 per gallon in the nine months ended September 30, 2012. The increase was due to higher natural gas prices in the first nine months of 2013, upon which we base a portion of our pricing to our customers. Revenue also increased by $1.1 million related to the sales of LCFS Credits between periods. These increases were offset by a $11.3 million decrease in the sales of natural gas vehicle equipment and emission control services by BAF between periods (we sold BAF in June 2013). We also experienced a $33.4 million decrease in station construction revenue between periods, primarily due to the sale during the first nine months of 2012 of two large CNG stations to an existing transit customer and five new CNG stations to trucking customers during the first nine months of 2012 that did not reoccur in the first nine months of 2013.

Cost of sales. Cost of sales decreased by $8.1 million to $167.5 million in the nine months ended September 30, 2013, from $175.6 million in the nine months ended September 30, 2012. Station construction costs decreased by $32.9 million between periods as station construction sales decreased between periods. Also contributing to the cost of sales decrease was a $7.3 million decrease in costs related to BAF s vehicle equipment sales and emission control services as we sold BAF in June 2013. These decreases were offset by the costs related to delivering and servicing more volume to our customers. Also offsetting the cost of sales decreases between periods was the increase in our effective cost per gallon. Our effective cost per gallon increased by $0.06 per gallon between periods, from $0.52 per gallon to $0.58 per gallon, in the nine months ended September 30, 2013. This increase was primarily the result of higher natural gas and LNG delivery costs between periods. Cost of sales at IMW increased between periods by $14.5 million due to their increased sales between periods.

Derivative loss on Series I warrant valuation. Derivative gains decreased by $0.2 million to $0.9 million in the nine months ended September 30, 2013, from $1.1 million in the nine months ended September 30, 2012. The amounts represent the non-cash impact with respect to valuing our outstanding Series I warrants based on our mark-to-market accounting for the warrants during the periods. (See note 18 to our condensed consolidated financial statements contained elsewhere herein.)

Selling, general and administrative. Selling, general and administrative increased by $18.3 million to $101.6 million in the nine months ended September 30, 2013, from $83.3 million in the nine months ended September 30, 2012. Salaries and employee benefits increased by $5.6 million between periods, primarily due to higher average salaries and benefits per employee during the first nine months of 2013 compared to 2012, as we increased our sales force by 33 and hired more management level positions between periods to help support America s Natural Gas Highway and our continued business expansion. Also related to our expansion, we experienced a $6.0 million increase in consulting, legal, accounting and professional, business insurance, rent and occupancy, and natural gas policy and promotion expenses between periods. Further contributing to the increase between periods was the effect of recording $2.9 million of lower gains on the IMW contingent consideration in the nine months ended September 30, 2013 and an increase in our stock based compensation expense of $0.9 million in the nine months ended September 30, 2013. During the first nine months of 2013, we incurred moving expenses related to the move of our corporate office to Newport Beach, California and costs related to vacating the offices we leased in Seal Beach, California, which amounted to $1.6 million. Our travel and entertainment expenses increased by $1.3 million between periods, primarily due to the increased travel of our sales team to develop new customers in the heavy-duty trucking market.

Depreciation and amortization. Depreciation and amortization increased by $5.8 million to $31.9 million in the nine months ended September 30, 2013, from $26.1 million in the nine months ended September 30, 2012. This increase was primarily due to additional depreciation expense in the nine months ended September 30, 2013 related to increased property and equipment balances between periods, which primarily resulted from our expanded station network, including our efforts to build-out America s Natural Gas Highway and complete our RNG production facility in Canton, Michigan.

Table of Contents

Interest expense, net. Interest expense, net, increased by $7.5 million to $18.8 million for the nine months ended September 30, 2013, from $11.3 million for the nine months ended September 30, 2012. This increase was primarily the result of an increase in interest expense related to the $50.0 million of convertible notes we issued in July 2012, the $50.0 million of convertible notes we issued in June 2013, the aggregate $10.0 million advanced under the Mavrix Note in April and September 2013, and the $250.0 million of convertible notes we issued in September 2013 (see note 13 to our condensed consolidated financial statements for a description of our outstanding debt).

Other income (expense), net. Other income (expense), net, decreased by $2.4 million to $0.8 million of expense for the nine months ended September 30, 2013, compared to $1.6 million of income for the nine months ended September 30, 2012. This decrease was primarily due to foreign currency exchange rate changes between periods on our IMW purchase notes (see note 13 to our condensed consolidated financial statements for a description of the IMW purchase notes).

Income (loss) from equity method investment. During the nine months ended September 30, 2013, we recorded $0.1 million of equity in the loss of our 49% interest in our Peruvian joint venture, compared to $0.3 million of equity in the income during the nine months ended September 30, 2012. We completed the sale of our interest in our Peruvian joint venture in March 2013.

Gain from sale of equity method investment. During the nine months ended September 30, 2013, we recorded a $4.7 million gain from the sale of our 49% interest in our Peruvian joint venture.

Gain from sale of subsidiary. During the nine months ended September 30, 2013, we recorded a $15.5 million gain from the sale of our former subsidiary, BAF.

(Loss) income of noncontrolling interest. During the nine months ended September 30, 2013 and 2012, we recorded $0.0 million and $0.3 million, respectively, for the noncontrolling interest in the net income of DCEMB. The noncontrolling interest represents the 30% interest of our joint venture partner.

Seasonality and Inflation

To some extent, we experience seasonality in our results of operations. Natural gas vehicle fuel amounts consumed by some of our customers tends to be higher in summer months when buses and other fleet vehicles use more fuel to power their air conditioning systems. Natural gas commodity prices tend to be higher in the fall and winter months due to increased overall demand for natural gas for heating during these periods.

Since our inception, inflation has not significantly affected our operating results. However, costs for construction, repairs, maintenance, electricity and insurance are all subject to inflationary pressures and could affect our ability to maintain our stations adequately, build new stations, build new LNG plants and expand our existing facilities, or materially increase our operating costs.

Liquidity and Capital Resources

We require cash to fund our capital expenditures, operating expenses and working capital requirements, including outlays for the construction of new fueling stations, construction of LNG production facilities, the purchase of new LNG tanker trailers, investment in RNG production, mergers and acquisitions, the financing of natural gas vehicles for our customers and general corporate purposes, including making deposits to support our derivative activities, geographic expansion (domestically and internationally), expanding our sales and marketing activities, support of legislative and regulatory initiatives and for working capital. Our principal sources of liquidity are cash on hand, cash provided by operating activities and cash provided by financing activities.

Liquidity

Cash used in operating activities was $2.4 million for the nine months ended September 30, 2013, compared to $18.9 million for the nine months ended September 30, 2012. During the nine months ended September 30, 2013, we recognized $38.1 million of VETC revenue, of which $20.8 million related to 2012 as VETC was extended in January 2013 and also made retroactive to January 1, 2012. We collected $40.5 million of such VETC amounts during the nine months ended September 30, 2013. During the nine months ended September 30, 2012, we collected $1.2 million in VETC receivables related to 2011 VETC amounts. Offsetting this cash flow increase were increased selling, general and administrative expenses and interest expense charges during the nine month period ended September 30, 2013. We also experienced other working capital changes between periods due to timing differences related to various cash flows.

Cash used in investing activities was $45.8 million for the nine months ended September 30, 2013, compared to $126.5 million for the nine months ended September 30, 2012. We purchased property and equipment for $60.0 million in the nine months ended September 30, 2013, which is a decrease of $72.8 million from $132.8 million paid to purchase property and equipment in the nine months ended September 30, 2012. This decrease is primarily related to our slowing the pace of ANGH-related construction activity as we seek to time such construction with commercial adoption of natural gas engines, including the Cummins-Westport 11.9 liter engine, and tractors that are well-suited for the U.S. heavy-duty trucking market. Restricted cash decreased by $10.5 million during the nine months ended September 30, 2013 as we funded the construction of America s Natural Gas Highway and certain RNG projects during the period, and only decreased by $4.3 million during the nine months ended September 30, 2012 as we funded similar projects during that period. During the nine months ended September 30, 2013, we received $6.1 million related to the sale of our Peruvian joint venture, paid $9.0 million related to the purchase of MGES, and transferred BAF s cash balance of $1.2 million to the buyer in connection with the sale of that entity. The loans we made to our customers to assist them in purchasing natural gas vehicles decreased to $2.2 million in the nine months ended September 30, 2013, from $7.7 million in the nine months ended September 30, 2012. During the nine months ended September 30, 2013 and 2012, we also collected on and sold $3.1 million and $7.2 million, respectively, of loans previously made to our customers. Additionally, a net amount of $6.9 million short-term investments matured or were sold during the nine months ended September 30, 2013, compared to a net amount of $3.5 million during the nine months ended September 30, 2012. Included in the 2013 amount is $23.7 million we received when we sold the initial Westport shares we received when we sold BAF in June 2013 (see note 2 to our condensed consolidated financial statements contained elsewhere in this report).

Cash provided by financing activities for the nine months ended September 30, 2013 was $292.0 million, compared to $55.7 million for the nine months ended September 30, 2012. During the nine months ended September 30, 2013, we received $50.0 million upon the issuance of additional 7.5% Notes, $10.0 million under the Mavrix Note, and $242.5 million upon the issuance of the 5.25% Notes after the payment of issuance costs of $7.5 million. These increases were offset by a reduction in the proceeds we received from the exercise of employee stock options of $7.7 million between periods.

Our financial position and liquidity are, and will be, influenced by a variety of factors, including our ability to generate cash flows from operations, the level of any outstanding indebtedness and the interest we are obligated to pay on this indebtedness, our capital expenditure requirements (which consist primarily of station construction costs, LNG plant construction costs, RNG plant construction costs and the purchase of LNG tanker trailers and equipment) and any merger or acquisition activity.

Sources of Cash

Historically, our principal sources of liquidity have consisted of cash provided by operations and financing activities. At September 30, 2013, we had total cash and cash equivalents of $352.1 million, compared to $108.5 million at December 31, 2012.

On November 7, 2012, we, through two wholly owned subsidiaries (the Borrowers), entered into a credit agreement with GE. Pursuant to that agreement, GE agreed to loan to the Borrowers up to an aggregate of $200.0 million to finance the development, construction and operation of two LNG production facilities, each with an expected production capacity of approximately 250,000 LNG gallons per day. At September 30, 2013, the Borrowers had not drawn any amounts under the agreement.

On April 25, 2013, Mavrix entered into a note purchase agreement pursuant to which the purchaser thereunder purchased the Mavrix Note in the maximum aggregate principal amount of $30.0 million and, as of September 30, 2013, has drawn $10.0 million under the Mavrix Note.

On June 14, 2013, Boone Pickens and Green Energy Investment Holdings, LLC delivered $50.0 million to us in satisfaction of a funding requirement they had assumed from Chesapeake.

In September 2013, we completed a private offering of the 5.25% Notes. The net proceeds from the sale of the 5.25% Notes after the payment of certain debt issuance costs of $7.5 million were approximately $242.5 million, which we intend to use to fund capital expenditures and for general corporate purposes.

Capital Expenditures

Our business plan calls for approximately $54.5 million in capital expenditures from October 1, 2013 through the end of 2013, as well as substantial capital expenditures thereafter, primarily related to construction of new fueling stations, including stations along ANGH, expansion of our California LNG plant, expansion and construction of landfill gas processing plants, and the purchase of LNG trailers. We may also elect to invest additional amounts in companies or assets in the natural gas fueling infrastructure, services and production industries, including RNG production. We will need to raise additional capital as necessary to fund any capital expenditures or investments that we cannot fund through available cash or

Table of Contents

cash generated by operations. The timing and necessity of any future capital raise will depend on our rate of new station construction and potential merger or acquisition activity. We may not be able to raise capital on terms that are favorable to existing stockholders or at all. Any inability to raise capital may impair our ability to invest in new stations, develop natural gas fueling infrastructure and invest in strategic transactions or acquisitions and may reduce the ability of our business to grow and generate increased revenues.

Off-Balance Sheet Arrangements

At September 30, 2013, we had the following off-balance sheet arrangements that had, or are reasonably likely to have, a material effect on our financial condition.

- outstanding surety bonds for construction contracts and general corporate purposes totaling $68.7 million,
- two take-or-pay contracts for the purchase of LNG,
- operating leases where we are the lessee, and
- operating leases where we are the lessor and owner of the equipment.

We provide surety bonds primarily for construction contracts in the ordinary course of business, as a form of guarantee. No liability has been recorded in connection with our surety bonds as we do not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these arrangements for which we will not be reimbursed.

We have two contracts that require us to purchase minimum volumes of LNG at index based prices. One contract expires in June 2014 and the other contract expires in October 2017.

We have entered into operating lease arrangements for certain equipment and for our office and field operating locations in the ordinary course of business. The terms of our leases expire at various dates through 2021. Additionally, in November 2006, we entered into a ground lease for 36 acres in California on which we built our California LNG liquefaction plant. The lease is for an initial term of thirty years and requires payments of $0.2 million per year, plus up to $0.1 million per year for each 30 million gallons of production capacity utilized, subject to future adjustment based on consumer price index changes. We must also pay a royalty to the landlord for each gallon of LNG produced at the facility, as well as a fee for certain other services that the landlord will provide.

We are also the lessor in various leases with our customers, whereby our customers lease certain stations and equipment that we own.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In the ordinary course of business, we are exposed to various market risk factors, including changes in general economic conditions, domestic and foreign competition, commodity price risk and foreign currency exchange rates.

Foreign exchange rate risk. Because we have foreign operations, we are exposed to foreign currency exchange gains and losses. Since the functional currency of our foreign operations is in their local currency, the currency effects of translating the financial statements of those foreign subsidiaries, which operate in local currency environments, are included in the accumulated other comprehensive income (loss) component of consolidated equity and do not impact earnings. However, foreign currency transaction gains and losses not in our subsidiaries functional currency do impact earnings and resulted in approximately $0.8 million of losses for the nine months ended September 30, 2013. During the nine months ended September 30, 2013, our primary exposure to foreign currency rates related to our Canadian operations that had certain outstanding notes payable denominated in the U.S. dollar which were not hedged.

We have prepared a sensitivity analysis to estimate our exposure to market risk with respect to our monetary transactions denominated in a foreign currency. If the exchange rate on these assets and liabilities were to fluctuate by 10% from the rate as of September 30, 2013, we would expect a corresponding fluctuation in the value of the assets and liabilities of approximately $1.1 million.

Table of Contents

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to various legal actions that have arisen in the ordinary course of our business. During the course of our operations, we are also subject to audit by tax authorities for varying periods in various federal, state, local, and foreign tax jurisdictions. Disputes have arisen, and may continue to 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 we 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 our consolidated financial position or results of operations. However, we believe that the ultimate resolution of such actions will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Item 1A. Risk Factors

An investment in our Company involves a high degree of risk of loss. You should carefully consider the risk factors discussed below and all of the other information included in this quarterly report on Form 10-Q before you decide to purchase shares of our common stock. We believe the risks and uncertainties described below are the most significant we face. The occurrence of any of the following risks could harm our business. In that case, the trading price of our common stock could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations.

We have a history of losses and may incur additional losses in the future.

For the nine months ended September 30, 2013, we incurred pre-tax losses of $32.0 million, which included a derivative gain of $0.9 million related to marking to market the value of our Series I warrants. In 2010, 2011 and 2012, we incurred pre-tax losses of $4.2 million, $48.2 million, and $99.6 million, respectively. Our loss for 2010 was decreased by a derivative gain of $10.3 million on our Series I warrants; our loss for 2011 includes a $2.7 million derivative gain; and our loss for 2012 includes a $3.4 million derivative gain. During 2010 and 2011, our losses were substantially decreased by approximately $16.0 million and $17.9 million of revenue from federal fuel tax credits, respectively. In addition, during the nine month period ended September 30, 2013, we recorded $38.1 million of revenue from federal fuel tax credits. To build our business and improve our financial performance, we must continue to invest in developing the natural gas vehicle fuel market and offer our customers competitively priced natural gas vehicle fuel and other products and services. If we do not achieve or maintain profitability that can be sustained in the absence of federal fuel tax credits and other government incentive programs, our business will suffer and the price of our common stock may drop. In addition, if the price of our common stock increases during future periods when our Series I warrants are outstanding, we may be required to recognize material losses based on the valuation of the outstanding Series I warrants.

Table of Contents

If CWI experiences difficulties or other delays in producing its 11.9 liter engine, or if the engine is not adopted by truck operators as we anticipate, our results of operations and business prospects will be adversely affected.

We believe that our entry into the heavy duty truck market, and the execution of our America s Natural Gas Highway (ANGH) initiative, depends upon the successful launch of the Cummins Westport (CWI) 11.9 liter engine (or a comparable engine that we believe would be well-suited for the U.S. heavy-duty over-the-road trucking market). Although CWI has announced that the engine has entered limited production, commercial availability of this engine has been previously delayed and may be further delayed, and we have no control over when the engine will become available in significant quantities. Further, the CWI 11.9 liter engine may not be adopted and deployed by heavy-duty truck operators in meaningful numbers. Heavy-duty trucks powered by the engine will cost more, as compared to comparable diesel trucks, and may experience operational or performance issues. If meaningful numbers of the CWI 11.9 liter engine are not deployed, our business and financial results could be harmed.

The failure of our initiative to build America s Natural Gas Highway would materially and adversely affect our financial results and business.

We are building America s Natural Gas Highway, a network of natural gas truck fueling stations on interstate highways and in major metropolitan areas. Building America s Natural Gas Highway requires a significant commitment of capital and other resources, and our ability to successfully execute our plan faces substantial risks, including:

- We have no influence over the development, production or availability of natural gas trucks powered by engines that are well-suited for the United States heavy duty truck market (including the CWI 11.9 liter engine);

- Operators may not adopt heavy-duty natural gas trucks due to cost, actual or perceived performance issues, or other factors that are outside our control;

- Operators may not fuel at our stations;

- We may not be able to identify, obtain and retain sufficient rights to use suitable locations for ANGH stations;

- Development of America s Natural Gas Highway will require substantial additional amounts of capital, which may not be available on terms favorable to us or at all;

- We may experience delays in building stations, in