Clean Energy Fuels Corp.
Form 10-Q
August 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

Commission File Number: 001-33480

CLEAN ENERGY FUELS CORP.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(949) 437-1000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 31, 2014, there were 89,884,250 shares of the registrant s common stock, par value $0.0001 per share, issued and outstanding.

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CLEAN ENERGY FUELS CORP. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Balance Sheets

December 31, 2013 and June 30, 2014

(Unaudited)

(In thousands, except share data)

	December 31, 2013	June 30, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 240,033	$ 124,700
Restricted cash	8,403	12,249
Short-term investments	138,240	152,113
Accounts receivable, net of allowance for doubtful accounts of $832 and $908 as of December 31, 2013 and June 30, 2014, respectively	53,473	70,245
Other receivables	26,285	17,876
Inventory, net	33,822	39,204
Prepaid expenses and other current assets	20,840	20,918
Total current assets	521,096	437,305
Land, property and equipment, net	487,854	532,574
Notes receivable and other long-term assets	73,697	71,260
Goodwill	88,548	88,406
Intangible assets, net	79,770	75,934
Total assets	$ 1,250,965	$ 1,205,479
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 23,401	$ 17,724
Accounts payable	33,541	34,256
Accrued liabilities	46,745	48,348
Deferred revenue	16,419	15,997
Total current liabilities	120,106	116,325

Long-term debt and capital lease obligations, less current portion		532,017		543,416
Long-term debt, related party		65,000		65,000
Other long-term liabilities		15,304		13,093
Total liabilities		732,427		737,834
Commitments and contingencies				
Stockholders equity:				
Preferred stock, $0.0001 par value. Authorized 1,000,000 shares; issued and outstanding no shares				
Common stock, $0.0001 par value. Authorized 224,000,000 shares; issued and outstanding 89,364,397 shares and 89,863,439 shares at December 31, 2013 and June 30, 2014, respectively		9		9
Additional paid-in capital		883,045		893,876
Accumulated deficit		(367,782)		(428,681)
Accumulated other comprehensive loss		(700)		(1,188)
Total Clean Energy Fuels Corp. stockholders equity		514,572		464,016
Noncontrolling interest in subsidiary		3,966		3,629
Total stockholders equity		518,538		467,645
Total liabilities and stockholders equity	$	1,250,965	$	1,205,479

See accompanying notes to condensed consolidated financial statements.

Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

For the Three Months and Six Months Ended June 30, 2013 and 2014

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Revenue:				
Product revenues	$ 78,375	$ 86,473	$ 161,858	$ 172,262
Service revenues	9,741	11,660	19,301	21,146
Total revenues	88,116	98,133	181,159	193,408
Operating expenses:				
Cost of sales (exclusive of depreciation and amortization shown separately below):				
Product cost of sales	58,925	69,175	105,739	137,042
Service cost of sales	3,016	4,080	6,943	7,844
Derivative (gains) losses:				
Series I warrant valuation	39	2,286	505	(2,169)
Selling, general and administrative	35,187	34,400	68,063	67,890
Depreciation and amortization	10,777	11,608	20,935	23,123
Total operating expenses	107,944	121,549	202,185	233,730
Operating loss	(19,828)	(23,416)	(21,026)	(40,322)
Interest expense, net	(6,282)	(10,130)	(11,353)	(19,640)
Other income (expense), net	(1,103)	1,121	(1,493)	(165)
Loss from equity method investment			(76)	
Gain from sale of equity method investment			4,705	
Gain from sale of subsidiary	15,498		15,498	
Loss before income taxes	(11,715)	(32,425)	(13,745)	(60,127)
Income tax expense	(293)	(147)	(2,098)	(1,109)
Net loss	(12,008)	(32,572)	(15,843)	(61,236)
Loss of noncontrolling interest	65	266	29	337
Net loss attributable to Clean Energy Fuels Corp.	$ (11,943)	$ (32,306)	$ (15,814)	$ (60,899)
Loss per share attributable to Clean Energy Fuels Corp.:				
Basic	$ (0.13)	$ (0.34)	$ (0.17)	$ (0.64)
Diluted	$ (0.13)	$ (0.34)	$ (0.17)	$ (0.64)
Weighted-average common shares outstanding:				

Basic	93,985,438	94,859,587	93,561,302	94,768,462
Diluted	93,985,438	94,859,587	93,561,302	94,768,462

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

For the Three Months and Six Months Ended June 30, 2013 and 2014

(Unaudited)

(In thousands)

	Clean Energy Fuels Corp. Three Months Ended June 30, 2013	Clean Energy Fuels Corp. Three Months Ended June 30, 2014	Noncontrolling Interest Three Months Ended June 30, 2013	Noncontrolling Interest Three Months Ended June 30, 2014	Total Three Months Ended June 30, 2013	Total Three Months Ended June 30, 2014
Net loss	$ (11,943)	$ (32,306)	$ (65)	$ (266)	$ (12,008)	$ (32,572)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(708)	(442)			(708)	(442)
Foreign currency adjustments on intra-entity long-term investments	(3,076)	3,495			(3,076)	3,495
Unrealized gains (losses) on available-for-sale securities	35	(81)			35	(81)
Unrecognized gains on derivatives	2				2	
Total other comprehensive income (loss), net of tax	(3,747)	2,972			(3,747)	2,972
Comprehensive loss	$ (15,690)	$ (29,334)	$ (65)	$ (266)	$ (15,755)	$ (29,600)

	Clean Energy Fuels Corp. Six Months Ended June 30, 2013	Clean Energy Fuels Corp. Six Months Ended June 30, 2014	Noncontrolling Interest Six Months Ended June 30, 2013	Noncontrolling Interest Six Months Ended June 30, 2014	Total Six Months Ended June 30, 2013	Total Six Months Ended June 30, 2014
Net loss	$ (15,814)	$ (60,899)	$ (29)	$ (337)	$ (15,843)	$ (61,236)
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments	(1,363)	(246)			(1,363)	(246)
Foreign currency adjustments on intra-entity long-term investments	(4,894)	157			(4,894)	157
Unrealized losses on available-for-sale securities	(2)	(399)			(2)	(399)

Unrecognized gains on derivatives		108								108		
Total other comprehensive loss, net of tax		(6,151)		(488)						(6,151)		(488)
Comprehensive loss	$	(21,965)	$	(61,387)	$	(29)	$	(337)	$	(21,994)	$	(61,724)

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp.

Condensed Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2013 and 2014

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net loss	$ (15,843)	$ (61,236)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	20,935	23,123
Provision for doubtful accounts	77	112
Derivative loss (gain)	505	(2,169)
Stock-based compensation expense	11,663	6,398
Amortization of debt issuance cost	510	1,527
Accretion of notes payable	609	138
Gain on sale of equity method investment	(4,705)	
Dividend received on equity method investment	1,091	
Gain on sale of subsidiary	(15,498)	
(Gain) loss on contingent consideration for acquisition	(671)	101
Changes in operating assets and liabilities, net of assets and liabilities acquired and disposed:		
Accounts and other receivables	413	(7,209)
Inventory	(2,765)	(5,382)
Prepaid expenses and other assets	188	1,891
Accounts payable	(17,260)	(1,715)
Accrued expenses and other	13,769	1,134
Net cash used in operating activities	(6,982)	(43,287)
Cash flows from investing activities:		
Purchases of short-term investments	(36,259)	(70,868)
Maturities of short-term investments	35,856	55,144
Purchases of property and equipment	(40,274)	(61,840)
Loans made to customers	(698)	(2,295)
Payments on and proceeds from sales of loans receivable	2,895	2,240
Restricted cash	(20,293)	(3,846)
Acquisition, net of cash acquired	(9,000)	
Cash transferred with sale of subsidiary	(1,178)	
Proceeds from sale of equity method investment	6,119	

Net cash used in investing activities		(62,832)		(81,465)
Cash flows from financing activities:				
Proceeds from issuance of common stock and exercise of stock options		419		684
Proceeds from debt instruments		55,213		12,720
Proceeds from revolving line of credit		14,501		23,621
Repayment of borrowing under revolving line of credit		(15,027)		(17,645)
Repayment of capital lease obligations and debt instruments		(7,245)		(9,338)
Payments for debt issuance costs				(914)
Net cash provided by financing activities		47,861		9,128
Effect of exchange rates on cash and cash equivalents		(549)		291
Net decrease in cash		(22,502)		(115,333)
Cash, beginning of period		108,522		240,033
Cash, end of period	$	86,020	$	124,700
Supplemental disclosure of cash flow information:				
Income taxes paid	$	2,004	$	690
Interest paid, net of approximately $1,233 and $1,992 capitalized, respectively		9,884		18,668

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(In thousands, except share and per share data)

Note 1 General

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

The Company has a broad customer base in a variety of markets, including trucking, airports, taxis, refuse, ready mix and public transit. The Company owns, operates, maintains and/or supplies over 500 natural gas fueling stations within the United States and Canada. The Company generates revenue through selling compressed natural gas (CNG) and liquefied natural gas (LNG), providing operation and maintenance services (O&M) to customers, building and selling natural gas fueling stations to customers, manufacturing and servicing natural gas fueling compressors and other equipment for CNG and LNG fueling stations, offering assessment, design and modification solutions designed to provide operators with code-compliant service and maintenance facilities for natural gas vehicle fleets, processing and selling renewable natural gas (RNG), financing customers vehicle purchases and selling tradable credits the Company generates by selling natural gas and RNG as a vehicle fuel, including credits under the California low carbon fuel standard (LCFS Credits) and Renewable Identification Numbers (RIN Credits) under the federal Renewable Fuel Standard Phase 2. In addition, through June 28, 2013, the Company provided natural gas vehicle conversions and design and engineering services for natural gas engine systems.

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

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

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

Note 2 Acquisitions and Divestitures

BAF

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

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

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

MGES

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

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

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

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

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

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Note 3 Cash and Cash Equivalents

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

Note 4 Restricted Cash

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

	December 31, 2013	June 30, 2014
Short-term restricted cash		
Standby letters of credit	$ 1,822	$ 1,822
DCEMB bonds current operating costs	6,581	7,486
Canton bonds current operating costs		2,941
Total short-term restricted cash	$ 8,403	$ 12,249

Note 5 Investments

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

The Company reviews available-for-sale investments for other-than-temporary declines in fair value below their cost basis each quarter, and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. This evaluation is based on a number of factors, including the length of time and the extent to which the fair value has been below its cost basis and adverse conditions related specifically to the security, including any changes to the credit rating of the security. As of June 30, 2014, the Company believes its carrying values for its available-for-sale investments are properly recorded.

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

	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds & notes	$ 60,047	$ (252)	$ 59,795
Corporate bonds	43,166	(342)	42,824

Certificate of deposits		35,630		(9)		35,621
	$	138,843	$	(603)	$	138,240

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

		Amortized Cost		Gross Unrealized Losses		Estimated Fair Value
Municipal bonds & notes	$	59,496	$	(425)	$	59,071
Corporate bonds		58,131		(572)		57,559
Certificate of deposits		35,488		(5)		35,483
	$	153,115	$	(1,002)	$	152,113

Note 6 Other Receivables

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

		December 31, 2013		June 30, 2014
Loans to customers to finance vehicle purchases	$	5,919	$	5,244
Accrued customer billings		6,327		6,040
Fuel tax and carbon credits		6,740		167
Other		7,299		6,425
	$	26,285	$	17,876

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Note 7 Inventories

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

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

	December 31, 2013	June 30, 2014
Raw materials and spare parts	$ 30,521	$ 34,105
Work in process	3,011	2,852
Finished goods	290	2,247
	$ 33,822	$ 39,204

Note 8 Land, Property and Equipment

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

	December 31, 2013	June 30, 2014
Land	$ 1,707	$ 2,289
LNG liquefaction plants	93,685	93,810
RNG plants	47,932	73,909
Station equipment	194,240	220,541
LNG trailers	22,667	22,667
Other equipment	62,127	64,297
Construction in progress	204,548	211,343
	626,906	688,856
Less: accumulated depreciation	(139,052)	(156,282)
	$ 487,854	$ 532,574

Included in land, property and equipment are capitalized software costs of $18,214 and $18,930 as of December 31, 2013 and June 30, 2014, respectively. The accumulated amortization on the capitalized software costs is $7,747 and $9,358 as of December 31, 2013 and June 30, 2014, respectively. The Company recorded $690 and $843 of amortization expense related to the capitalized software costs during the three months ended June 30, 2013 and June 30, 2014, respectively. For the six month periods ended June 30, 2013 and 2014, the Company recorded $1,488 and $1,611 of amortization expense related to the capitalized software costs respectively.

As of December 31, 2013 and June 30, 2014, $13,930 and $16,360 are included in accounts payable balances, respectively, which are related to purchases of property and equipment. These amounts are excluded from the condensed consolidated statements of cash flows as they are non-cash investing activities.

Note 9 Investments in Other Entities

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

Note 10 Accrued Liabilities

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

	December 31, 2013	June 30, 2014
Salaries and wages	$ 6,768	$ 8,020
Accrued gas and equipment purchases	8,035	14,511
Accrued property and other taxes	5,448	4,432
Accrued employee benefits	2,898	4,112
Accrued warranty liability	2,545	3,315
Accrued interest	4,216	3,890
Other	16,835	10,068
	$ 46,745	$ 48,348

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Note 11 Warranty Liability

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

	June 30, 2013	June 30, 2014
Warranty liability at beginning of year	$ 2,665	$ 2,545
Acquired liabilities	71	
Costs accrued for new warranty contracts and changes in estimates for pre-existing warranties	2,034	2,455
Service obligations honored	(1,833)	(1,685)
Sale of subsidiary	(582)	
Warranty liability at end of period	$ 2,355	$ 3,315

Note 12 Long-term Debt

DCEMB Bonds

In March 2011, the Company s 70% owned subsidiary, Dallas Clean Energy McCommas Bluff, LLC, a Delaware limited liability company (DCEMB), completed a $40,200 tax-exempt bond issuance (the Revenue Bonds). The Revenue Bonds will be repaid from the revenue generated by DCEMB from the sale of RNG. The Revenue Bonds are secured by the revenue and assets of DCEMB and are non-recourse to DCEMB s direct and indirect parent companies, including the Company. The bond repayments are amortized through December 2024 and the average coupon interest rate on the bonds is 6.6%. The bond proceeds were primarily used to finance further improvements and expansion of the landfill gas processing facility owned by DCEMB at the McCommas Bluff landfill outside of Dallas, Texas and to retire certain other indebtedness.

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

Purchase Notes

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

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

In connection with the closing of the Company s acquisition of the natural gas fuel infrastructure construction business of Weaver Electric, Inc. in October 2011, the Company paid $1,000 in cash and agreed to make four additional annual payments in the amount of $250 each with the first payment due October 3, 2012 (the Weaver Notes), subject to retention and/or offset by the Company for Weaver Electric s indemnity obligations. In May 2012, the Company prepaid $125 of the October 2012 payment, and the remaining amount of such payment was paid in October 2012. The Company has retained the payment otherwise due in October 2013 to offset an indemnity claim against the former owners of Weaver Electric.

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

HSBC Lines of Credit

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

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

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

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

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

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

(vi) An operating line of credit with a limit of 5,000 Renminbi (RMB) (CAD$866) bearing interest at the 6 month People s Bank of China rate plus 2.5% and a sub-limit bank guarantee line of 5,000 RMB. The aggregate of the balances in the lines cannot exceed 5,000 RMB.

(vii) A 16,750 Bangladeshi Taka (CAD$226) operating line of credit bearing interest at 14%.

(viii) A 170,000 Colombian Peso (CAD$102) operating line of credit bearing interest at the Colombia benchmark rate plus 7 to 12%.

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

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

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Chesapeake Notes (7.5% Notes)

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

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

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

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

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

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

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

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SLG Notes

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

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

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

GE Loans

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

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

The GE Credit Agreement further provides that (i) if initial Loans are not made prior to December 31, 2014, the GE Credit Agreement will automatically terminate, (ii) each Project must be completed by the earlier of (a) the date thirty months after the funding of the initial Loans with respect to such Project and (b) December 31, 2016 (with respect to each Project, the Date Certain), (iii) the then existing Loans with respect to each Project must be converted into term loans with eight year amortization schedules (Term Loans) on or before the Date Certain with respect to such Project (the date of such conversion with respect to each Project, the Conversion Date), provided that if such Loans are not converted into Term Loans by the applicable Date Certain, such Loans must be repaid by the applicable Date Certain, (iv) each Term Loan will be due and payable on the eighth anniversary of the Conversion Date with respect to such Term Loan, and (v) at any time prior to the applicable Conversion Date, the Loans may be prepaid in whole, and at any time after the applicable Conversion Date, the Loans may be prepaid in whole or in part. The Company expects the Loans to bear interest at an annual rate equal to the then-current LIBOR rate plus 7%, provided that for purposes of the GE Credit Agreement, the then-current LIBOR rate will always be at least 1%. The GE Credit Agreement includes various customary