

Clean Energy Fuels Corp.
Form 10-Q
August 09, 2016
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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, 2016

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 No

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 No

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 Accelerated filer

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes No
As of August 2, 2016, there were 131,188,075 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

(In thousands, except share data, Unaudited)

	December 31, 2015	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,724	\$ 102,316
Restricted cash	4,240	4,439
Short-term investments	102,944	79,364
Accounts receivable, net of allowance for doubtful accounts of \$1,895 and \$1,714 as of December 31, 2015 and June 30, 2016, respectively	73,645	77,681
Other receivables	60,667	31,037
Inventory	29,289	28,561
Prepaid expenses and other current assets	14,657	12,604
Total current assets	329,166	336,002
Land, property and equipment, net	516,324	495,791
Notes receivable and other long-term assets, net	14,732	17,990
Investments in other entities	5,695	2,657
Goodwill	91,967	94,405
Intangible assets, net	42,644	42,292
Total assets	\$ 1,000,528	\$ 989,137
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of debt and capital lease obligations	\$ 149,856	\$ 139,428
Accounts payable	26,906	19,766
Accrued liabilities	59,082	49,978
Deferred revenue	10,549	9,299
Total current liabilities	246,393	218,471
Long-term portion of debt and capital lease obligations	352,294	284,361
Long-term debt, related party	65,000	65,000
Other long-term liabilities	7,896	8,156
Total liabilities	671,583	575,988
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 92,382,717 shares and 116,344,723 shares at December 31, 2015 and June 30, 2016, respectively	9	12
Additional paid-in capital	915,199	989,348
Accumulated deficit	(591,683)	(587,325)
Accumulated other comprehensive loss	(20,973)	(14,353)
Total Clean Energy Fuels Corp. stockholders' equity	302,552	387,682
Noncontrolling interest in subsidiary	26,393	25,467
Total stockholders' equity	328,945	413,149

Total liabilities and stockholders' equity	\$ 1,000,528	\$ 989,137
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See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2016	2015	2016
Revenue:				
Product revenues	\$75,744	\$ 94,731	\$145,041	\$ 178,723
Service revenues	11,124	13,294	27,675	25,084
Total revenues	86,868	108,025	172,716	203,807
Operating expenses:				
Cost of sales (exclusive of depreciation and amortization shown separately below):				
Product cost of sales	59,387	61,880	114,766	115,251
Service cost of sales	4,399	6,848	13,753	12,732
Loss (gain) from change in fair value of derivative warrants	300	(1	) (583	) 1
Selling, general and administrative	28,994	25,262	59,227	50,855
Depreciation and amortization	13,402	14,920	26,288	29,881
Total operating expenses	106,482	108,909	213,451	208,720
Operating loss	(19,614	) (884	) (40,735	) (4,913
Gain from extinguishment of debt	—	10,120	—	26,043
Interest expense, net	(9,973	) (7,821	) (19,868	) (16,981
Other income (expense), net	317	(147	) 864	103
Income (loss) from equity method investments	(345	) 67	(549	) (7
Income (loss) before income taxes	(29,615	) 1,335	(60,288	) 4,245
Income tax expense	(740	) (432	) (1,594	) (813
Net income (loss)	(30,355	) 903	(61,882	) 3,432
Loss from noncontrolling interest	393	627	773	926
Net income (loss) attributable to Clean Energy Fuels Corp.	\$(29,962)	\$ 1,530	\$(61,109)	\$ 4,358
Income (loss) per share attributable to Clean Energy Fuels Corp.:				
Basic	\$(0.33	) \$ 0.01	\$(0.67	) \$ 0.04
Diluted	\$(0.33	) \$ 0.01	\$(0.67	) \$ 0.04
Weighted-average common shares outstanding:				
Basic	91,480,998	109,272,906	91,399,478	103,782,086
Diluted	91,480,998	111,743,512	91,399,478	106,252,692
See accompanying notes to condensed consolidated financial statements.				

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Clean Energy Fuels Corp. and Subsidiaries
 Condensed Consolidated Statements of Comprehensive Income (Loss)
 (In thousands, Unaudited)

	Clean Energy Fuels Corp		Noncontrolling Interests		Total	
	Three Months Ended		Three Months Ended		Three Months Ended	
	June 30,		June 30,		June 30,	
	2015	2016	2015	2016	2015	2016
Net income (loss)	\$ (29,962)	\$ 1,530	\$ (393)	\$ (627)	\$ (30,355)	\$ 903
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments, net of \$0 tax in 2015 and 2016	813	661	—	—	813	661
Foreign currency adjustments on intra-entity long-term investments, net of \$0 tax in 2015 and 2016	535	2	—	—	535	2
Unrealized losses on available-for-sale securities, net of \$0 tax in 2015 and 2016	(2)	10	—	—	(2)	10
Total other comprehensive income (loss)	1,346	673	—	—	1,346	673
Comprehensive income (loss)	\$ (28,616)	\$ 2,203	\$ (393)	\$ (627)	\$ (29,009)	\$ 1,576
	Clean Energy Fuels Corp		Noncontrolling Interests		Total	
	Six Months Ended		Six Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,	
	2015	2016	2015	2016	2015	2016
Net income (loss)	\$ (61,109)	\$ 4,358	\$ (773)	\$ (926)	\$ (61,882)	\$ 3,432
Other comprehensive income (loss), net of tax:						
Foreign currency translation adjustments, net of \$0 tax in 2015 and 2016	(4,868)	7,176	—	—	\$(4,868)	\$ 7,176
Foreign currency adjustments on intra-entity long-term investments, net of \$0 tax in 2015 and 2016	(2,776)	(633)	—	—	\$(2,776)	\$(633)
Unrealized losses on available-for-sale securities, net of \$0 tax in 2015 and 2016	14	77	—	—	14	77
Total other comprehensive income (loss)	(7,630)	6,620	—	—	(7,630)	6,620
Comprehensive income (loss)	\$ (68,739)	\$ 10,978	\$ (773)	\$ (926)	\$(69,512)	\$ 10,052

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands, Unaudited)

	Six Months Ended June 30,	
	2015	2016
Cash flows from operating activities:		
Net income (loss)	\$(61,882)	\$3,432
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	26,288	29,881
Provision for doubtful accounts, notes and inventory	1,440	1,304
Stock-based compensation expense	5,353	4,456
Gain on extinguishment of debt	—	(26,043)
Amortization of debt issuance cost	1,534	859
Accretion of notes payable	36	—
Changes in operating assets and liabilities:		
Accounts and other receivables	40,636	24,229
Inventory	3,293	263
Prepaid expenses and other assets	7,329	1,411
Accounts payable	(11,570)	(2,648)
Accrued expenses and other	(15,315)	(9,532)
Net cash provided by (used in) operating activities	(2,858)	27,612
Cash flows from investing activities:		
Purchases of short-term investments	(71,739)	(65,661)
Maturities and sales of short-term investments	64,861	88,946
Purchases and deposits on property and equipment	(26,236)	(11,589)
Loans made to customers	(2,510)	(1,710)
Payments on and proceeds from sales of loans receivable	892	442
Restricted cash	1,543	(77)
Capital from equity method investment	—	3,031
Net cash provided by (used in) investing activities	(33,189)	13,382
Cash flows from financing activities:		
Issuances of common stock	599	52,429
Fees paid for at-the-market stock offering program	—	(721)
Proceeds from debt instruments	6	938
Proceeds from revolving line of credit	24	50,008
Repayment of borrowing under revolving line of credit	(26)	(5)
Repayment of capital lease obligations and debt instruments	(2,509)	(86,470)
Net cash provided by (used in) financing activities	(1,906)	16,179
Effect of exchange rates on cash and cash equivalents	(1,132)	1,419
Net increase (decrease) in cash	(39,085)	58,592
Cash and cash equivalents, beginning of period	92,381	43,724
Cash and cash equivalents, end of period	\$53,296	\$102,316
Supplemental disclosure of cash flow information:		
Income taxes paid	\$497	\$854
Interest paid, net of approximately \$534 and \$270 capitalized, respectively	18,184	17,396

See accompanying notes to condensed consolidated financial statements.

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Clean Energy Fuels Corp. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(In thousands, except share and per share data, Unaudited)

Note 1—General

Nature of Business Clean Energy Fuels Corp., together with its majority and wholly owned subsidiaries (hereinafter collectively referred to as the “Company,” unless the context or the use of the term indicates otherwise), is engaged in the business of selling natural gas as an alternative fuel for vehicle fleets and related natural gas fueling solutions to its customers, primarily in the United States and Canada.

The Company's principal business is supplying compressed natural gas (“CNG”), liquefied natural gas (“LNG”) and renewable natural gas (“RNG”) (RNG can be delivered in the form of CNG or LNG) for light, medium and heavy-duty vehicles and providing operation, repair and maintenance (“O&M”) services for vehicle fleet customer stations. As a comprehensive solution provider, the Company also designs, builds, operates, and maintains fueling stations; manufactures, sells and services non-lubricated natural gas fueling compressors and other equipment used in CNG stations and LNG stations; offers assessment, design and modification solutions to provide operators with code-compliant service and maintenance facilities for natural gas vehicle fleets; transports and sells CNG to large industrial and institutional energy users who do not have direct access to natural gas pipelines; processes and sells RNG; sells tradable credits it generates by selling natural gas and RNG as a vehicle fuel, including credits under the California and the Oregon Low Carbon Fuel Standards (collectively, “LCFS Credits”) and Renewable Identification Numbers (“RIN Credits” or “RINs”) under the federal Renewable Fuel Standard Phase 2; helps its customers acquire and finance natural gas vehicles and obtains federal, state and local tax credits, grants and incentives.

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, comprehensive income (loss) and cash flows as of and for the three and six months ended June 30, 2015 and 2016. All intercompany accounts and transactions have been eliminated in consolidation. The three and six month periods ended June 30, 2015 and 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 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, 2015 that are included in the Company’s Annual Report on Form 10-K filed with the SEC on March 3, 2016.

Reclassifications Certain prior period items and amounts have been reclassified to conform to the classifications used to prepare the consolidated financial statements for the period ended June 30, 2016. These reclassifications had no material impact on the Company’s financial position, results of operations, or cash flows as previously reported.

During the three months ended March 31, 2016, the Company adopted Accounting Standards Update (“ASU”) No. 2015-03, Interest - Imputation of Interest, which requires that debt issuance costs be presented in the balance sheet as a deduction from the carrying amount of the related liability, rather than as a deferred charge. The standard is required to be applied on a retrospective basis. As a result of applying the standard, unamortized debt issuance costs of \$273 were reclassified from Prepaid expenses and other current assets to Current portion of long-term debt and capital lease obligations and \$4,991 were reclassified from Notes receivable and other long-term assets to Long-term debt and capital lease obligations as of December 31, 2015.

In addition, the Company has reclassified certain line items in accrued liabilities in Note 9 to conform to the current period presentation.

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. Significant estimates made in preparing the condensed consolidated financial statements include (but are not limited to) those related to revenue recognition, goodwill and long-lived intangible asset valuations and impairment assessments, income tax valuations, and stock-based compensation expense.

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Revenue Recognition Effective January 1, 2016, the Company implemented a cost tracking system that provides for a detailed tracking of costs incurred on its station construction projects on a project by project basis. The Company has also changed related accounting activities and processes to timely identify and monitor costs. As a result of this implementation, the Company is able to make reliable estimates as to the percentage of a project that is complete at the end of each reporting period. Therefore, beginning January 1, 2016, the Company began using the percentage of completion method to recognize revenue for station construction projects using the cost-to-cost method. Under this method, the Company estimates the percentage of completion of a project based on the costs incurred to date for the associated contract in comparison to the estimated total costs for such contract at completion.

The Company historically recognized revenue on station construction projects using the completed-contract method because it did not have a reliable means to make estimates of the percentage of the contract completed. Under the completed contract method, the construction projects were considered substantially complete at the earlier of customer acceptance of the fueling station or the time when the fuel dispensing activities began. The sale of compressors and related equipment continues to be recognized under the percentage of completion method as in previous periods.

Station construction contracts are generally short-term, except for certain larger and more complex stations, which can take up to 24 months to complete. Management evaluates the performance of contracts on an individual contract basis. Contract price and cost estimates are reviewed periodically as work progresses and adjustments proportionate to the percentage of completion are reflected in contract revenues in the reporting period when such estimates are revised. The nature of accounting for contracts is such that refinements of estimates to account for changing conditions and new developments are continuous and characteristic of the process. Many factors that can result in a change to contract profitability can and do change during a contract performance period, including differing site conditions, the availability of skilled contract labor, the performance of major suppliers and subcontractors, and unexpected changes in material costs. These factors may result in revisions to costs and income and are recognized in the period in which the revisions become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses become known. During the six months ended June 30, 2016, there were no losses on open contracts.

The Company considers unapproved change orders to be contract variations for which the customer has approved the change of scope but an agreement has not been reached as to an associated price change. Change orders that are unapproved as to both price and scope are evaluated as claims. Claims have historically been insignificant. There were no significant unapproved change orders, claims, contract penalties, settlements or changes in contract estimates during the six months ended June 30, 2016.

As a result of using the percentage of completion method to recognize revenues, station construction sales during the three months ended June 30, 2016 provided \$8,454 in revenues, \$1,074 in operating income, and \$0.01 of income per diluted share for such period that would otherwise not have been recognized during such period under the completed contract method. During the six months ended June 30, 2016, station construction sales provided \$17,847 in revenues, \$2,174 in operating income, and \$0.02 of income per diluted share for such period that would otherwise not have been recognized during such period under the completed contract method.

Note 2— Investments in Other Entities and Noncontrolling Interest in a Subsidiary
MCEP

On September 16, 2014, the Company formed a joint venture with Mansfield Ventures LLC (“Mansfield”) called Mansfield Clean Energy Partners LLC (“MCEP”), which is designed to provide natural gas fueling solutions to bulk fuel haulers in the United States. The Company and Mansfield each have a 50% ownership interest in MCEP. The Company accounts for its interest using the equity method of accounting, as the Company has the ability to exercise significant influence over MCEP’s operations. The Company recorded income (loss) from this investment of \$(345) and \$67 for the three months ended June 30, 2015 and 2016, respectively. The Company recorded a (loss) from this investment of \$(549) and \$(7) for the six months ended June 30, 2015 and 2016, respectively. Additionally, during the three months ended June 30, 2016, the Company received a return of capital of \$3,031 with no change in ownership

interest. The Company has an investment balance of \$4,695 and \$1,657 at December 31, 2015 and June 30, 2016, respectively.

NG Advantage

On October 14, 2014, the Company entered into a Common Unit Purchase Agreement (“UPA”) with NG Advantage, LLC (“NG Advantage”) for a 53.3% controlling interest in NG Advantage. NG Advantage is engaged in the business of transporting CNG in high-capacity trailers to large industrial and institutional energy users, such as hospitals, food processors, manufacturers and paper mills, that do not have direct access to natural gas pipelines.

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The Company viewed the acquisition as a strategic investment in the expansion of the Company's initiative to deliver natural gas to industrial and institutional energy users. The results of NG Advantage's operations have been included in the Company's consolidated financial statements since October 14, 2014. The Company reported a loss from the noncontrolling interest of \$393 and \$627 for the three months ended June 30, 2015 and 2016, respectively. The Company recorded a loss from the noncontrolling interest of \$773 and \$926 for the six months ended June 30, 2015 and 2016, respectively. The noncontrolling interest was \$26,393 and \$25,467 at December 31, 2015 and June 30, 2016, respectively.

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. The Company places its cash and cash equivalents with high credit quality financial institutions.

At times, such investments may be in excess of the Federal Deposit Insurance Corporation ("FDIC"), Canadian Deposit Insurance Corporation ("CDIC") and other foreign insurance limits. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits. The amounts in excess of FDIC, CDIC and other foreign insurance limits were approximately \$40,691 and \$99,906 at December 31, 2015 and June 30, 2016, respectively.

Note 4—Restricted Cash

The Company classifies restricted cash as short-term and a current asset if the cash is expected to be used in operations within a year or to acquire a current asset. Otherwise, the restricted cash is classified as long-term. Short-term restricted cash at December 31, 2015 and June 30, 2016 consisted of the following:

	December 31, June 30,	
	2015	2016
Short-term restricted cash:		
Standby letters of credit	\$ 1,631	\$ 1,753
Canton Bonds (see Note 10)	2,609	2,686
Total short-term restricted cash	\$ 4,240	\$ 4,439

Note 5—Investments

Available-for-sale securities are carried at fair value, inclusive of unrealized gains and losses. 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 securities 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 securities 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, 2016, the Company believes its carrying values for its available-for-sale securities are properly recorded.

Short-term investments at December 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
Municipal bonds and notes	\$ 16,797	\$ (7)	\$ 16,790
Zero coupon bonds	500	(1)	499
Corporate bonds	37,181	(77)	37,104
Certificate of deposits	48,551	—	48,551
Total short-term investments	\$ 103,029	\$ (85)	\$ 102,944

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Short-term investments at June 30, 2016 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains (Losses)	Estimated Fair Value
Municipal bonds and notes	\$ 21,565	\$ (4)	\$ 21,561
Zero coupon bonds	429	—	429
U.S. government agencies	5,000	1	5,001
Corporate bonds	3,730	(5)	3,725
Certificate of deposits	48,648	—	48,648
Total short-term investments	\$ 79,372	\$ (8)	\$ 79,364

Note 6—Other Receivables

Other receivables at December 31, 2015 and June 30, 2016 consisted of the following:

	December 31, June 30,	
	2015	2016
Loans to customers to finance vehicle purchases	\$ 10,531	\$8,990
Accrued customer billings	7,106	13,137
Fuel tax and carbon credits	40,730	6,039
Other	2,300	2,871
Total other receivables	\$ 60,667	\$31,037

Note 7—Inventory

Inventory consists of raw materials and spare parts, work in process and finished goods and is stated at the lower of cost (first-in, first-out) or market. The Company writes down the carrying value of its inventory to net realizable value for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions, among other factors.

Inventories at December 31, 2015 and June 30, 2016 consisted of the following:

	December 31, June 30,	
	2015	2016
Raw materials and spare parts	\$ 25,113	\$26,016
Work in process		