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

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AMENDMENT NO. 2  
TO  
**FORM S-1**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**CLEAN ENERGY FUELS CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**4932**  
(Primary Standard Industrial  
Classification Code Number)

**33-0968580**  
(I.R.S. Employer  
Identification Number)

**3020 Old Ranch Parkway, Suite 200  
Seal Beach, CA 90740  
(562) 493-2804**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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**Andrew J. Littlefair**  
**President and Chief Executive Officer**  
**Clean Energy Fuels Corp.**  
**3020 Old Ranch Parkway, Suite 200**  
**Seal Beach, CA 90740**  
**(562) 493-2804**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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**Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.**

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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**CALCULATION OF REGISTRATION FEE**

Common Stock, par value \$0.0001 per share	\$391,000,000	\$33,942 (2)
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- (1) Estimated solely for the purpose of computing the amount of the registration fee, in accordance with Rule 457(o) under the Securities Act of 1933. Includes offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.
- (2) In connection with the initial filing on Form S-1 on September 6, 2006, the registrant paid a filing fee of \$30,763 with respect to the registration of an offering of shares of its common stock with a proposed maximum aggregate offering price of \$287,500,000. In connection with the filing of Amendment No. 1 on March 27, 2007, the registrant paid a filing fee of \$1,766, representing the additional filing fee payable with respect to an increase of \$57,500,000 to the proposed maximum aggregate offering price. Concurrent with the filing of this Amendment No. 2, the registrant has transmitted \$1,413, representing the additional filing fee payable with respect to the increase of \$46,000,000 to the proposed maximum aggregate offering price.

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

The information in this prospectus is not complete and may be changed. We and the selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.



## Clean Energy Fuels Corp.

20,000,000 Shares  
of Common Stock

This is our initial public offering and no public market currently exists for our shares. Clean Energy Fuels Corp. is selling 10,000,000 shares of common stock, and the selling stockholders identified in this prospectus are selling an additional 10,000,000 shares. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. We expect that the initial public offering price will be between \$13.00 and \$17.00 per share.

THE OFFERING	PER SHARE	TOTAL
Initial Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds to Clean Energy Fuels Corp.	\$	\$
Proceeds to Selling Stockholders	\$	\$

Selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to 3,000,000 additional shares of common stock to cover over-allotments, if any.

Proposed NASDAQ Global Market Symbol: CLNE

**OpenIPO®:** The method of distribution being used by the underwriters in this offering differs somewhat from that traditionally employed in firm commitment underwritten public offerings. In particular, the public offering price and allocation of shares will be determined primarily by an auction process conducted by the underwriters and other securities dealers participating in this offering. The minimum size for any bid in the auction is 100 shares. A more detailed description of this process, known as an OpenIPO, is included in "Plan of Distribution" beginning on page 108.

**Investing in our stock involves a high degree of risk.  
See "Risk Factors" beginning on page 7.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**WRHAMBRECHT+CO**  
Susquehanna Financial Group, LLLP

**Simmons & Company  
International  
National Bank Financial**

The date of this prospectus is \_\_\_\_\_, 2007

# The Natural Gas Vehicle Advantage



## **The Market for Natural Gas as an Alternative Fuel**

Natural gas fuels are well suited for use by vehicle fleets which consume large amounts of fuel and refuel at centralized locations.

### **Cheaper**

Natural gas vehicle fuels are cheaper than gasoline and diesel.

### **Cleaner**

Use of natural gas as a vehicle fuel creates less pollution than use of gasoline or diesel.

### **Domestic**

In 2006, an estimated 98% of the natural gas consumed in the United States was supplied from the United States and Canada.

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*The Pickens Plant, an LNG liquefaction plant located in Willis, Texas*



*Clean Energy Founders:  
Boone Pickens and Andrew Littlefair*



*Fueling station at Los Angeles International Airport*



*Natural gas powered refuse haulers*



*Natural gas powered buses*



Dispensing CNG at fueling station



Automated payment system at the dispenser



Small CNG fueling station



LNG tanker trailer

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You should rely only on the information in this prospectus. We and the selling stockholders have not authorized anyone to provide you with different information. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our stock only in jurisdictions where offers and sales are permitted. You should assume that the information in this prospectus is only accurate as of the date of this prospectus. Our business and financial condition may have changed since that date.

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## PROSPECTUS SUMMARY

*This summary should be read together with the more detailed information in this prospectus regarding our company and the stock being sold in this offering. This summary provides an overview and does not contain all the information you should consider before investing in our stock. Please read the entire prospectus carefully, including "Risk Factors" beginning on page 7 and the "Glossary of Key Terms" beginning on page A-1.*

### **Our Business**

We are the leading provider of natural gas as an alternative fuel for vehicle fleets in the United States and Canada, having supplied natural gas fuels to our customers since 1997. In the late 1980s, one of our founders, Boone Pickens, became convinced that natural gas had a number of advantages over gasoline and diesel as a vehicle fuel. Over the next decade and a half, Mr. Pickens and Andrew Littlefair, our CEO, were pioneers in developing this market, targeting vehicle fleets because they consume large amounts of fuel, refuel at centralized locations and are subject to increasingly stringent requirements to reduce emissions. Natural gas vehicle fuels include compressed natural gas (CNG) and liquefied natural gas (LNG).

Messrs. Pickens and Littlefair founded our company on the premise that natural gas is cheaper and cleaner than gasoline and diesel, and that almost all natural gas consumed in the United States is produced in North America.

*Cheaper*—Over the last several years, natural gas vehicle fuels have become increasingly less expensive than gasoline and diesel fuel, as the spread has increased between the price of natural gas (on a gasoline gallon equivalent basis) and the prices of gasoline and diesel. Retail fuel prices for the month of March 2007 show that the average pump price of regular gasoline, as reported by Oil Price Information Service (OPIS), was \$0.89 per gasoline gallon equivalent higher than our average CNG pump price in the State of California. Tax incentives further increase the cost advantage of natural gas vehicle fuels, such as the federal Volumetric Excise Tax Credit (VETC) of \$0.50 per gasoline gallon equivalent of CNG and per liquid gallon of LNG sold for vehicle use, which became effective October 1, 2006.

*Cleaner*—CNG and LNG create less pollution than gasoline or diesel. Natural gas vehicles have been shown to reduce smog-causing NOx emissions by 50% or greater and particulate matter (soot) by 70% when compared to same-model diesel vehicles in South Coast Air Quality Management District engine tests. Emissions reductions are increasingly important as more stringent federal regulations effective in 2007 and 2010 will limit acceptable levels of emissions for new heavy-duty vehicles, such as buses and trucks. From well to wheels, natural gas reduces levels of greenhouse-gas emissions up to 27% for light-duty vehicles and up to 21% for medium and heavy-duty vehicles.

*Domestically available*—In 2006, according to the U.S. Department of Energy's Energy Information Administration, or EIA, the United States consumed 17.1 million barrels of crude oil per day, of which 58% was imported from outside the United States and Canada. By comparison, an estimated 98% of the natural gas consumed in the United States in 2006 was supplied from the United States and Canada, making natural gas less vulnerable to foreign supply disruption. Additionally, biogas, which is sourced from waste streams, represents a renewable and domestic supply of natural gas.

We offer a comprehensive solution to enable vehicle fleets to run on natural gas as an alternative to gasoline or diesel. We design, build, finance and operate fueling stations and supply



our customers with CNG and LNG. CNG is produced from natural gas which is supplied by local utilities to vehicle fueling stations, where it is compressed and dispensed into vehicles in gaseous form. LNG generally is used in trucks and other medium to heavy-duty vehicles as an alternative to diesel, typically where a vehicle must carry a greater volume of fuel. LNG is natural gas that is super cooled at a liquefaction plant until it condenses into a liquid. We deliver LNG supplied by third party plants as well as our own plant to fueling stations via our fleet of 48 tanker trailers. At the stations, LNG is stored in above ground containers until dispensed into vehicles in liquid form.

We also help our customers acquire and finance natural gas vehicles and obtain local, state and federal clean air incentives. We serve over 200 fleet customers operating over 14,000 natural gas vehicles in a variety of markets, including public transit, refuse hauling, airports, taxis and regional trucking. We own, operate or supply 172 natural gas fueling stations in 12 U.S. states and Canada. In 2006, we delivered over 68.4 million gasoline gallon equivalents of CNG and LNG and for the first three months of 2007 we delivered over 17.8 gasoline gallon equivalents of CNG and LNG.

We have built critical mass in our primary regions of operation and expanded into new areas through strategic investments in fueling stations and through acquisitions. Although most of our LNG is currently supplied by third parties, we also have made a significant investment in LNG production capacity in an effort to expand and optimize our dedicated sources of LNG supply. In addition to our dedicated LNG liquefaction plant in Texas, we have established relationships with four LNG supply plants in the western United States, which enable us to better serve this key region. We are also in the initial stages of constructing an LNG liquefaction plant in California to enhance our ability to serve the California and Arizona markets.

### **Corporate Information**

We were incorporated in Delaware in April 2001 to combine the businesses of Pickens Fuel Corp., a natural gas fuels company started by our founders in 1996, and BCG eFuels, Inc., a Canadian natural gas fuels company. Our principal executive offices are located at 3020 Old Ranch Parkway, Suite 200, Seal Beach, California 90740, and our telephone number is (562) 493-2804. Our website is [www.cleanenergyfuels.com](http://www.cleanenergyfuels.com). The information on our website is not part of this prospectus.

The "Clean Energy" name and related images and symbols are our properties, trademarks and service marks. All other trade names, trademarks and service marks appearing in this prospectus are the property of their respective owners.

## The Offering

<b>Common stock offered:</b>	
By Clean Energy Fuels	10,000,000 shares
By selling stockholders	10,000,000 shares
Total	20,000,000 shares
<b>Common stock outstanding after this offering</b>	
	44,449,555 shares
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately \$137.1 million, assuming an initial public offering price of \$15.00 per share, and after deducting the estimated underwriter discounts and commissions and estimated offering expenses payable by us. We expect to use our proceeds from this offering approximately as follows:
	<ul style="list-style-type: none"><li>• \$50 to 55 million to build an LNG liquefaction plant in California,</li><li>• \$30 to 35 million to build CNG and LNG fueling stations,</li><li>• \$15 to 20 million to finance the purchase of natural gas vehicles by our customers, and</li><li>• the balance for general corporate purposes, including making deposits to support our derivative activities, domestic and possible international geographic expansion and to expand our sales and marketing activities.</li></ul>
	We may also use proceeds from this offering to acquire additional assets or businesses, though no acquisitions are currently pending. We will not receive any of the proceeds from the sale of shares by the selling stockholders.
Risk Factors	See "Risk Factors" beginning on page 7 for a discussion of factors you should carefully consider before deciding to invest in our stock.
Proposed Nasdaq Global Market symbol	CLNE

Except as otherwise noted, all information in this prospectus assumes no exercise of the underwriters' over-allotment option to purchase from selling stockholders up to 3,000,000 shares of our common stock.

The number of shares of our common stock to be outstanding after this offering is based on the number of shares of capital stock outstanding as of March 31, 2007 and excludes:

- 15,000,000 shares of common stock issuable upon the exercise of outstanding warrants held by Boone Pickens at an exercise price of \$10.00 per share,
- 2,401,000 shares of common stock issuable upon the exercise of outstanding options at a weighted average exercise price of \$2.97 per share (of which options to purchase 2,376,000 shares of our common stock at a weighted average exercise price of \$2.96 per share were exercisable), 256,144 of which will be issued upon exercise of such options by selling stockholders in connection with this offering,
- 2,825,500 shares of common stock issuable upon the exercise of options to be granted to employees at the closing of this offering at an exercise price equal to the initial public offering price, and
- 2,187,750 shares of common stock reserved and available for future issuance under our equity incentive plans.

This offering will be made through the OpenIPO process, in which the allocation of shares and the public offering price are primarily based on an auction in which prospective purchasers are required to bid for the shares. This process is described under "Plan of Distribution" beginning on page 108.

## Summary Historical Consolidated Financial Data

The following tables present our summary historical consolidated financial data. You should read this information together with our financial statements and related notes and the information under "Selected Historical Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus. The summary financial data below for the years ended December 31, 2004, 2005 and 2006 are derived from our audited financial statements included in this prospectus. The summary financial data for the three months ended March 31, 2006 and 2007 are derived from our unaudited financial statements included in this prospectus.

	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006	2007
<b>Statement of Operations Data:</b>					
Revenue <sup>(1)</sup>	\$ 57,641,605	\$ 77,955,083	\$ 91,547,316	\$ 21,033,865	\$ 28,167,044
Operating expenses:					
Costs of sales	48,772,296	72,004,077	74,047,901	19,142,726	21,321,159
Derivative (gains) losses <sup>(2)</sup>	(10,572,349)	(44,067,744)	78,994,947	282,348	—
Selling, general and administrative	11,112,878	17,108,425	20,860,181	4,882,141	6,299,878
Depreciation and amortization	3,810,419	3,948,544	5,765,001	1,199,720	1,576,057
Total operating expenses	53,123,244	48,993,302	179,668,030	25,506,935	29,197,094
Operating income (loss)	4,518,361	28,961,781	(88,120,714)	(4,473,070)	(1,030,050)
Interest (income) expense, net	96,983	(59,780)	(746,339)	(165,306)	(292,212)
Other expense, net	605,312	140,921	255,479	24,972	123,372
Income (loss) before income taxes	3,816,066	28,880,640	(87,629,854)	(4,332,736)	(861,210)
Income tax expense (benefit)	1,686,825	11,623,053	(12,271,208)	(1,286,823)	8,969
Net income (loss)	\$ 2,129,241	\$ 17,257,587	\$ (75,358,646)	\$ (3,045,913)	\$ (870,179)
Basic earnings (loss) per share	\$ 0.11	\$ 0.76	\$ (2.38)	\$ (0.12)	\$ (0.03)
Fully diluted earnings (loss) per share	\$ 0.11	\$ 0.75	\$ (2.38)	\$ (0.12)	\$ (0.03)
Weighted average common shares outstanding:					
Basic	18,949,636	22,602,033	31,676,399	26,214,505	34,192,786
Diluted	18,949,636	23,191,674	31,676,399	26,214,505	34,192,786

(1) Revenue includes the following amounts:

	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006	2007
Fuel tax credits (VETC)	\$ 0	\$ 0	\$ 3,810,109	\$ 0	\$ 3,846,197

(2) 2006 amount includes \$78,712,599 of losses on derivative contracts. The contracts were assumed by our majority stockholder, Boone Pickens, on December 28, 2006. See "Certain Relationships and Related Party Transactions—Obligation Transfer and Securities Purchase Agreement with Boone Pickens" on page 96.

The following table presents a summary of our unaudited balance sheet data as of March 31, 2007:

	<b>As of March 31, 2007</b>				
<b>Balance Sheet Data:</b>					
Cash and cash equivalents				\$	11,576,014
Working capital					33,014,024
Total assets					139,775,231
Long-term debt, inclusive of current portion					268,553
Total stockholders' equity					122,023,851
	<b>Year ended December 31,</b>			<b>Three months ended</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>March 31,</b>	<b>2007</b>
<b>Key Operating Data:</b>					
Fueling stations served	147	161	170	165	172
Gasoline gallon equivalents delivered (in millions):					
CNG	30.6	36.1	41.9	9.5	11.1
LNG	15.7	20.7	26.5	6.1	6.7
Total	46.3	56.8	68.4	15.6	17.8

#### **Adjusted Margin (Non-GAAP)**

A portion of our natural gas fuel sales are covered by contracts under which we are obligated to sell fuel to our customers at a fixed price or a variable price subject to a cap. Our policy is to purchase natural gas futures contracts to cover our estimated fuel sales under these contracts to mitigate the risk that natural gas prices may rise above the natural gas component of the price at which we are obligated to sell gas to our customers. However, from time to time, we have sold these underlying futures contracts when we believed natural gas prices were going to fall. When we sold the futures contracts, we were exposed to the economic risk of rising natural gas prices causing our fixed price or price cap sales contracts to be in a reduced margin position or in a loss position, which occurred from time to time. At December 31, 2006, we had sold all such underlying futures contracts. Effective March 2007, we may no longer sell the underlying futures contracts associated with our fixed-price sales contracts without the prior approval of our board of directors and derivative committee.

Our management uses a measure called Adjusted Margin to measure our operating performance and manage our business. Adjusted Margin is defined as operating income (loss), plus (1) depreciation and amortization, (2) selling, general and administrative expenses and (3) derivative (gains) losses, the sum of which is adjusted by a non-GAAP measure which we call "futures contract adjustment," which is described below. Management believes Adjusted Margin provides helpful information for investors about the underlying profitability of our fuel sales activities. Adjusted Margin attempts to approximate the results that would have been reported if our futures contracts would have qualified for hedge accounting under SFAS No. 133 and were held until they matured.

Futures contract adjustment reflects the gain or loss we would have experienced in a respective period on the underlying futures contracts associated with our fixed price and price cap contracts had those underlying contracts been held and allowed to mature according to their contract terms.

The material limitations of Adjusted Margin are as follows: Adjusted Margin is not a recognized term under GAAP and does not purport to be an alternative to gross margin as an indicator of operating performance or any other GAAP measure. Moreover, because not all companies use identical calculations, this presentation of Adjusted Margin may not be comparable to other similarly-titled measures of other companies. We compensate for these limitations by using Adjusted Margin in conjunction with traditional GAAP operating performance and cash flow measures, and therefore, we do not place undue reliance on this measure.

The table below shows Adjusted Margin and also reconciles these figures to the GAAP measure operating income (loss):

	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006	2007
<b>Operating income (loss)</b>	\$ 4,518,361	\$ 28,961,781	\$ (88,120,714)	\$ (4,473,070)	\$ (1,030,050)
Futures contract adjustment	3,062,468	6,992,251	3,921,022	2,203,080	868,567
Derivative (gains) losses	(10,572,349)	(44,067,744)	78,994,947	282,348	—
Selling, general and administrative	11,112,878	17,108,425	20,860,181	4,882,141	6,299,878
Depreciation and amortization	3,810,419	3,948,544	5,765,001	1,199,720	1,576,057
<b>Adjusted Margin</b>	\$ 11,931,777	\$ 12,943,257	\$ 21,420,437	\$ 4,094,219	\$ 7,714,452

## RISK FACTORS

*An investment in our stock involves significant risks. You should carefully consider the risks described below, together with all of the other information in this prospectus, before making a decision to invest in our stock. If any of these risks actually occurs, our business, results of operations, financial condition and prospects could suffer. As a result, the trading price of our stock could decline and you may lose part or all of your investment.*

### **Risks Related to Our Business and Industry**

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

In 2006 and the first three months of 2007, we incurred pre-tax losses of \$8.6 million and \$0.9 million, respectively, related to our operations, which consist of natural gas fueling activities and station operations, and derivative losses of \$79.0 million and \$0.0 million, respectively, combining for overall pre-tax losses of \$87.6 million and \$0.9 million, respectively. In 2004 and 2005, excluding derivative gains, we incurred pre-tax losses of \$6.8 million and \$15.2 million, respectively, related to our operations. We must continue to invest in developing the natural gas vehicle fuel market, and we cannot assure you that our natural gas sales activities and station operations will achieve or maintain profitability. If our natural gas sales activities and station operations continue to lose money, our business will suffer.

#### **We historically have relied on capital contributions by related parties, particularly by Boone Pickens, and such capital may not be available in the future.**

For the fiscal years ended December 31, 2004, 2005 and 2006, Boone Pickens and an affiliated trust made cash investments of \$1.9 million, \$12.0 million and \$18.0 million, respectively, in our company. In August 2006, we entered into a \$50 million revolving line of credit with Mr. Pickens to fund margin calls related to our futures contracts. This line of credit was increased to \$100 million in November 2006. In December 2006, Mr. Pickens cancelled all amounts we owed to him under this line of credit (approximately \$69.7 million) and assumed all of our outstanding futures contracts, together with all associated liabilities and obligations (approximately \$78.7 million), in exchange for (1) the issuance to Mr. Pickens of a five-year warrant to purchase up to 15,000,000 shares of our common stock at \$10.00 per share, and (2) the assignment to Mr. Pickens of any refunds of margin deposits related to the assumed futures contracts that were made using money borrowed under the line of credit. Additionally, for the fiscal years ended December 31, 2004, 2005 and 2006, Perseus ENRG Expansion, L.L.C. and a related fund invested \$3.0 million, \$2.0 million and \$3.0 million, respectively, in our company. We may not be able to obtain capital from related parties in the future. None of our officers, directors or stockholders (or their respective affiliates) are under any obligation to continue to provide cash to meet our future liquidity needs. If capital is unavailable to us in the future from related parties or from other persons on terms favorable to us, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

#### **The volatility of natural gas prices could adversely impact the adoption of CNG and LNG vehicle fuel and our business.**

In the recent past, the price of natural gas has been volatile, and this volatility may continue. From the end of 1999 to the end of 2006, the price for natural gas, based on the NYMEX daily futures data, ranged from a low of \$1.65 per Mcf to a high of \$19.38 per Mcf. As of March 30, 2007, the NYMEX index price for natural gas was \$7.50 per Mcf. Increased natural gas prices affect the cost to us of natural gas and will adversely impact our operating margins in cases where we have committed to sell natural gas at a fixed price without a futures contract or with an ineffective futures contract that does not fully mitigate the price risk or otherwise cannot pass on the increased

costs to our customers. In addition, higher natural gas prices may cause CNG and LNG to cost more than gasoline and diesel generally, which would adversely impact the adoption of CNG and LNG as vehicle fuel. Among the factors that can cause price fluctuations in natural gas prices are changes in domestic and foreign supplies of natural gas, domestic storage levels, crude oil prices, the price difference between crude oil and natural gas, price and availability of alternative fuels, weather conditions, level of consumer demand, economic conditions, price of foreign natural gas imports, and domestic and foreign governmental regulations and political conditions.

**The use of natural gas as a vehicle fuel may not become sufficiently accepted for us to expand our business.**

To expand our business, we must develop new fleet customers and obtain and fulfill CNG and LNG fueling contracts from these customers. We cannot guarantee that we will be able to develop these customers or obtain these fueling contracts. Whether we will be able to expand our customer base will depend on a number of factors, including: the level of acceptance and availability of natural gas vehicles, the growth in our target markets of fueling station infrastructure that supports CNG and LNG sales, and our ability to supply CNG and LNG at competitive prices.

**The infrastructure to support gasoline and diesel consumption is vastly more developed than the infrastructure for natural gas vehicle fuels.**

Gasoline and diesel fueling stations and service infrastructure are widely available in the United States. For natural gas vehicle fuels to achieve more widespread use in the United States and Canada, they will require a promotional and educational effort, and the development and supply of more natural gas vehicles and fueling stations. This will require significant continued effort by us, as well as government and clean air groups, and we may face resistance from oil companies and other vehicle fuel companies. There is no assurance natural gas will ever achieve the level of acceptance as a vehicle fuel necessary for us to expand our business significantly.

**A decline in the demand for vehicular natural gas will reduce our revenue and negatively affect our ability to sustain and grow our operations.**

We derive our revenue primarily from sales of CNG and LNG as a fuel for fleet vehicles, and we expect this trend will continue. A downturn in demand for CNG and LNG would adversely affect our revenue and ability to sustain and grow our operations. Circumstances that could cause a drop in demand for CNG and LNG vehicle fuel are described in other risk factors and include a reduction in supply of natural gas, changes in governmental incentives, the development of other alternative fuels and technologies and a sustained increase in the price of natural gas relative to gasoline and diesel.

**If the prices of CNG and LNG do not remain sufficiently below the prices of gasoline and diesel, potential fleet customers will have less incentive to purchase natural gas vehicles or convert their fleets to natural gas, which would decrease demand for CNG and LNG and limit our growth.**

Natural gas vehicles cost more than comparable gasoline or diesel powered vehicles because converting a vehicle to use natural gas adds to its base cost. If the prices of CNG and LNG do not remain sufficiently below the prices of gasoline or diesel, fleet operators may be unable to recover the additional costs of acquiring or converting to natural gas vehicles in a timely manner, and they may choose not to use natural gas vehicles. In that event, our growth would be slowed and our business would suffer.

**Automobile and engine manufacturers produce very few originally manufactured natural gas vehicles and engines for the U.S. and Canadian markets which may restrict our sales.**

Limited availability of natural gas vehicles restricts their wide scale introduction and narrows our potential customer base. Currently, original equipment manufacturers produce a small number of natural gas engines and vehicles, and they may not make adequate investments to expand their natural gas engine and vehicle product lines. For the North American market, there is only one automobile manufacturer that makes natural gas powered passenger vehicles, and manufacturers of medium and heavy-duty vehicles produce only a narrow range and number of natural gas vehicles. Due to the limited supply of natural gas vehicles, our ability to promote natural gas vehicles and our sales may be restricted, even if there is demand.

**There are a small number of companies that convert vehicles to operate on natural gas, which may restrict our sales.**

Conversion of vehicle engines from gasoline or diesel to natural gas is performed only by a small number of vehicle conversion suppliers that must meet stringent safety and engine emissions certification standards. The engine certification process is time consuming and expensive and raises vehicle costs. Without an increase in vehicle conversion, vehicle choices for fleet use will remain limited and our sales may be restricted, even if there is demand.

**If there are advances in other alternative vehicle fuels or technologies, or if there are improvements in gasoline, diesel or hybrid engines, demand for natural gas vehicles may decline and our business may suffer.**

Technological advances in the production, delivery and use of alternative fuels that are, or are perceived to be, cleaner, more cost-effective or more readily available than CNG or LNG have the potential to slow adoption of natural gas vehicles. Advances in gasoline and diesel engine technology, especially hybrids, may offer a cleaner, cost-effective option and make fleet customers less likely to convert their fleets to natural gas. Technological advances related to ethanol or biodiesel, which are increasingly used as an additive to, or substitute for, gasoline and diesel, may slow the need to diversify fuels and impact the growth of the natural gas vehicle market. In addition, hybrid, electric, hydrogen, and other alternative fuels in experimental or developmental stages may eventually offer a cleaner, more cost-effective alternative to gasoline and diesel than natural gas. Advances in technology which slow the growth of or conversion to natural gas vehicles or which otherwise reduce demand for natural gas as a vehicle fuel will have an adverse effect on our business. Failure of natural gas vehicle technology to advance at a sufficient pace may also limit its adoption and ability to compete with other alternative fuels.

**Our ability to supply LNG to new and existing customers is restricted by limited production of LNG and by our ability to source LNG without interruption and near our target markets.**

Production of LNG in the United States is fragmented. LNG is produced at a variety of smaller natural gas plants around the United States as well as at larger plants where it is a byproduct of their primary natural gas production. It may become difficult for us to source additional LNG without interruption and near our current or target markets at competitive prices. If our current LNG liquefaction plant, or any of those from which we purchase LNG, is damaged by severe weather, earthquake or other natural disaster, or otherwise experiences prolonged downtime, our LNG supply will be restricted. In addition, the LNG liquefaction plant we are in the process of building in California may be significantly delayed or never built. If we are unable to supply enough of our own LNG or purchase it from third parties to meet existing customer demand, we may be liable to our customers for penalties. An LNG supply interruption would also limit our ability to expand LNG sales to new customers, which would hinder our growth. Furthermore, because



transportation of LNG is relatively expensive, if we are required to supply LNG to our customers from distant locations, our operating margins will decrease on those sales.

**Our third-party LNG suppliers may cancel their supply contracts with us on short notice or increase LNG prices, which would hinder our ability to meet customer demand and increase our costs.**

Two third-party LNG suppliers supplied approximately 64% of the LNG we sold for the year ended December 31, 2006 and 59% for the first three months ended March 31, 2007. Our contracts with these LNG suppliers generally may be terminated by the supplier on short notice. In particular, our supply agreement with Williams Gas Processing Company, which supplied 47% of our LNG for both the year ended December 31, 2006 and for the first three months ended March 31, 2007, can be terminated by Williams effective June 1, 2007. In addition, under certain circumstances, Williams may significantly increase the price of LNG we purchase upon 24 hours' notice if Williams' costs to produce LNG increases, and we may be required to reimburse Williams for certain other expenses. Our contract with Exxon Mobil Corporation, which supplied 17% of our LNG for the year ended December 31, 2006 and 12% for the first three months ended March 31, 2007, expires July 1, 2007. We may be unable to renew these fueling contracts. Furthermore, there are a limited number of LNG suppliers in or near the areas where our LNG customers are located. It may be difficult to replace an LNG supplier, and we may be unable to obtain alternate suppliers at acceptable prices, in a timely manner or at all. If supply interruptions were to occur, our ability to meet customer demand would be impaired, customers may cancel orders and we may be subject to supply interruption penalties. If we are subject to LNG price increases, our operating margins may be impaired and we may be forced to sell LNG at a loss under our fixed-price LNG supply contracts.

**Our growth depends in part on environmental regulations mandating the use of cleaner burning fuels, and modification or repeal of these regulations may adversely impact our business.**

Our business depends in part on environmental regulations in the United States that promote or mandate the use of cleaner burning fuels, including natural gas for vehicles. Industry participants with a vested interest in gasoline and diesel, many of which have substantially greater resources than we do, invest significant time and money in an effort to influence environmental regulations in ways that delay or repeal requirements for cleaner vehicle emissions. The delay, repeal or modification of federal or state policies and regulations that encourage the use of cleaner vehicles could have a detrimental effect on the U.S. natural gas vehicle industry, which, in turn, could slow our growth and adversely affect our business.

**Our growth depends in part on tax and related government incentives for clean burning fuels. A reduction in these incentives would increase the cost of natural gas fuel and vehicles for our customers and could significantly reduce our revenue.**

Our business depends in part on tax credits, rebates and similar federal, state and local government incentives that promote the use of natural gas as a vehicle fuel in the United States. The federal excise tax credit of \$0.50 per gasoline gallon equivalent of CNG and liquid gallon of LNG sold for vehicle fuel use, which began on October 1, 2006, is scheduled to expire in September 2009. Based on the service relationship we have with our customers, either we or our customers are able to claim the credit. The failure to extend the federal excise tax credit for natural gas, or the repeal of federal or state tax credits for the purchase of natural gas vehicles or natural gas fueling equipment, could have a detrimental effect on the natural gas vehicle industry, which, in turn, could adversely affect our business and results of operations. In addition, if grant funds were no longer available under existing government programs, the purchase of or conversion to natural gas vehicles could slow and our business and results of operations could be adversely affected.

**If we are unable to obtain natural gas in the amounts needed on a timely basis or at reasonable prices, we could experience an interruption of CNG or LNG deliveries or increases in CNG or LNG costs, either of which could have an adverse effect on our business.**

Some regions of the United States and Canada depend heavily on natural gas supplies coming from particular fields or pipelines. Interruptions in field production or in pipeline capacity could reduce the availability of natural gas or possibly create a supply imbalance that increases fuel price. If there are interruptions in field production, pipeline capacity, equipment failure, liquefaction production or delivery, we may experience supply stoppages which could result in our inability to fulfill delivery commitments. This could result in our being liable for contractual damages and daily penalties or otherwise adversely affect our business.

**Oil companies and natural gas utilities, which have far greater resources and brand awareness than we have, may expand into the natural gas fuel market, which could harm our business and prospects.**

There are numerous potential competitors who could enter the market for CNG and LNG as vehicle fuels. Many of these potential entrants, such as integrated oil companies and natural gas utilities, have far greater resources and brand awareness than we have. If the use of natural gas vehicles increases, these companies may find it more attractive to enter the market for natural gas vehicle fuels and we may experience increased pricing pressure, reduced operating margins and fewer expansion opportunities.

**We are in the process of constructing a new LNG liquefaction plant, which could cost more to build and operate than we estimate and divert resources and management attention.**

We are in the initial stages of designing and constructing an LNG liquefaction plant in California, which we plan to operate upon completion. The construction, implementation and operation of any plant of this nature has inherent risks. Permitting, environmental issues, lack of materials and lack of human resources, among other factors, could delay implementation and start up of the new LNG liquefaction plant and affect the operation of the plant. Building the new facility could also present increased financial exposure through project delays, cost-overruns and incomplete production capability. If the new plant has higher than expected construction or operating costs and is not able to produce expected amounts of LNG, we may be forced to sell LNG at a price below production costs and we may lose money.

**If we do not have effective futures contracts in place, increases in natural gas prices may cause us to lose money.**

From 2004 to 2006, we sold and delivered approximately 30 percent of our total gasoline gallon equivalents of CNG and LNG under contracts that provided a fixed price or a price cap to our customers over terms typically ranging from one to three years, and in some cases up to five years. At any given time, however, the market price of natural gas may rise and our obligations to sell fuel under fixed price contracts may be at prices lower than our fuel purchase or production price if we do not have effective futures contracts in place. This circumstance has in the past and may again in the future compel us to sell fuel at a loss, which would adversely affect our results of operations and financial condition. Commencing with the adoption of our revised natural gas hedging policy in February 2007, we expect to purchase futures contracts to hedge our exposure to variability related to substantial fixed price contracts. However, such contracts may not be available or we may not have sufficient financial resources to secure such contracts. In addition, under our hedging policy, we may reduce or remove futures contracts we have in place related to these contracts if such disposition is approved in advance by our board of directors. If we are not economically hedged with respect to our fixed price contracts, we will lose money in connection

with those contracts during periods in which natural gas prices increase above the prices of natural gas included in our customers' contracts. As of March 31, 2007, we were not economically hedged with respect to any of the anticipated requirements of our fixed price contracts, having sold the related futures contracts which we previously held. At March 31, 2007, based on natural gas prices as of that date, we estimate we will incur between \$9.9 million to \$12.1 million to cover the increased price of natural gas above the inherent price of natural gas embedded in our customer's fixed price and price cap contracts over the duration of the contracts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Fixed Price and Price Cap Sales Contracts" on page 38 for more information about these contracts.

**Our futures contracts may not be as effective as we intend.**

Our purchase of futures contracts can result in substantial losses under various circumstances, including if we do not accurately estimate the volume requirements under our fixed or price cap customer contracts when determining the volumes included in the futures contracts we purchase. We also could incur significant losses if a counterparty does not perform its obligations under the applicable futures arrangement, the futures arrangement is economically imperfect or ineffective, or our futures policies and procedures are not properly followed or do not work as planned. Furthermore, we cannot assure you that the steps we take to monitor our futures activities will detect and prevent violations of our risk management policies and procedures.

**A decline in the value of our futures contracts may result in margin calls that would adversely impact our liquidity.**

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. Payments we make to satisfy margin calls will reduce our cash reserves, adversely impact our liquidity and may also adversely impact our ability to expand our business. Moreover, if we are unable to satisfy the margin calls related to our futures contracts, our broker may sell these contracts to restore the margin requirement at a substantial loss to us.

**Boone Pickens cancelled his guarantee of our futures contracts which will require us to make significantly larger initial margin deposits when we purchase futures contracts. This will adversely affect our cash flows, and we may be unable to secure these contracts on terms that are favorable or affordable to us or at all.**

Historically, we have purchased all of our natural gas futures contracts through Sempra Energy Trading Corp. We did not have any futures contracts outstanding at March 31, 2007. Our past obligations under our contract with Sempra were guaranteed by Boone Pickens. Mr. Pickens is our largest stockholder, a director and the principal of BP Capital, L.P., which advises us regarding our hedging activities. As Mr. Pickens cancelled his guarantee with Sempra as of March 7, 2007, Sempra may cancel our contract with them at any time. Without Mr. Pickens' guarantee, we expect to have significantly larger requirements for upfront margin deposits, on the order of up to ten to fifteen times greater than current deposit requirements. We also anticipate that it will be more difficult to purchase futures contracts generally (i.e., through Sempra or other third parties) without his guarantee. If we cannot enter into futures contracts, our ability to offer fixed price supply contracts to our customers may be impaired and we will become more susceptible to price fluctuations and losses if this were to occur.

**If our futures contracts do not qualify for hedge accounting, our net income and stockholders' equity will fluctuate more significantly from quarter to quarter based on fluctuations in the market value of our futures contracts.**

We account for our futures activities under Statement of Financial Accounting Standards No. 133, which requires us to value our futures contracts at fair market value in our financial statements. Our futures contracts historically have not qualified for hedge accounting, and therefore we have recorded any changes in the fair market value of these contracts directly in our consolidated statements of operations in the line item "derivative (gains) losses" along with any realized gains or losses during the period. In the future, we will attempt to qualify all of our futures contracts for hedge accounting under SFAS No. 133, but there can be no assurances that we will be successful in doing so. To the extent that all or some of our futures contracts do not qualify for hedge accounting, we could incur significant increases and decreases in our net income and stockholders' equity in the future based on fluctuations in the market value of our futures contracts from quarter to quarter. For example, we experienced a derivative gain of \$33.1 million for the three months ended September 30, 2005 and experienced derivative losses of \$19.9 million, \$0.3 million, \$65.0 million and \$13.7 million for the three months ended December 31, 2005, March 31, 2006, September 30, 2006 and December 31, 2006, respectively. We had no derivative gains or losses for the three months ended June 30, 2006 and March 31, 2007. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quarterly Results of Operations" on page 46 for more information. Any negative fluctuations may cause our stock price to decline due to our failure to meet or exceed the expectations of securities analysts or investors.

**Natural gas operations entail inherent safety and environmental risks that may result in substantial liability to us.**

Natural gas operations entail inherent risks, including equipment defects, malfunctions and failures and natural disasters, which could result in uncontrollable flows of natural gas, fires, explosions and other damages. For example, operation of LNG pumps requires special training and protective equipment because of the extreme low temperatures of LNG. LNG tanker trailers have also in the past been, and may in the future be, involved in accidents that result in explosions, fires and other damage. These risks may expose us to liability for personal injury, wrongful death, property damage, pollution and other environmental damage. We may incur substantial liability and cost if damages are not covered by insurance or are in excess of policy limits.

**Our business is heavily concentrated in the western United States, particularly in California and Arizona. Economic downturns in these regions could adversely impact our business.**

Our operations to date have been concentrated in California and Arizona. For the year ended December 31, 2006 and the three months ended March 31, 2007, sales in California accounted for approximately 38% and 40%, respectively and sales in Arizona accounted for approximately 23% and 22%, respectively, of the total amount of gallons we delivered. A decline in the economy in these areas could slow the rate of adoption of natural gas vehicles or impact the availability of incentive funds, both of which could negatively impact our growth.

**We provide financing to fleet customers for natural gas vehicles, which exposes our business to credit risks.**

We loan to our customers up to 100% of the purchase price of natural gas vehicles. We may also lease vehicles to customers in the future. There are risks associated with providing financing or leasing that could cause us to lose money. Some of these risks include: most of the equipment financed is vehicles, which are mobile and easily damaged, lost or stolen; there is a risk the borrower may default on payments; we may not be able to bill properly or track payments in

adequate fashion to sustain growth of this service; and the amount of capital available to us is limited and may not allow us to make loans required by customers.

**Our finance and leasing activities may be unsuccessful due to competitive pressures.**

The fleet financing and leasing marketplace is competitive and dominated by large finance companies. These companies may have greater financial resources than we do, offer more attractive rates to customers, finance other types of vehicles and equipment and offer a wider range of financial services to the customer. If these large finance companies do not finance natural gas vehicles and if potential customers prefer to work with these companies, our business may be disadvantaged.

**We may incur losses and use working capital if we have to purchase vehicles that we intend to place with customers.**

To ensure availability for our customers, we from time to time enter into binding purchase agreements for natural gas vehicles when there is a production lead time. Although we attempt to arrange for customers to purchase the vehicles before their delivery to us, we may be unable to locate purchasers timely and consequently may need to take delivery of and title to the vehicles. These purchases would adversely affect our cash reserves until such time as we can sell the vehicles to our customers, and we may be forced to sell the vehicles at a loss. At March 31, 2007, we had approximately \$6.8 million of vehicles under binding purchase agreements without corresponding customer orders.

**If we are unable to attract, retain and motivate our executives and other key personnel our business would be harmed.**

Our ability to manage and expand our business depends significantly on the skills and services of our management team, each of whom may terminate his or her service with us at any time and none of whom are subject to non-compete restrictions. We believe the loss of one or more members of our management team would harm our business because few people have comparable experience working in the natural gas vehicle industry or managing companies similar to ours. Moreover, we intend to grow our operations and to do so will need to hire additional personnel in all areas of our business, particularly in sales and marketing. Competition for qualified personnel is intense, and we therefore may be unable to attract or retain qualified personnel and expand our business as planned.

**We rely on related parties for advice regarding our derivative activities, and this advice may not be available to us in the future.**

We depend upon Boone Pickens and his firm, BP Capital, L.P., for advice regarding energy markets and derivative activities. We cannot guarantee that we will be able to retain these services for any period of time. BP Capital may terminate its investment advisory agreement with us at any time upon 30 days written notice to us.

**We may have difficulty managing our planned growth.**

If we grow our business as planned, our management team and our operational, financial and accounting systems will also need to be expanded. This expansion would result in increased expenses and may strain our resources. If we are unable to manage this growth, we may experience higher expenses, poor internal controls, employee attrition and customer dissatisfaction, any of which could harm our business. Additionally, we may find it difficult to maintain important

aspects of our corporate culture, which could negatively affect our ability to retain and recruit personnel, and otherwise adversely affect our future success.

**Our business is subject to a variety of governmental regulations that may restrict our business and may result in costs and penalties.**

We are subject to a variety of federal, state and local laws and regulations relating to the environment, health and safety, labor and employment and taxation, among others. These laws and regulations are complex, change frequently and have tended to become more stringent over time. Failure to comply with these laws and regulations may result in a variety of administrative, civil and criminal enforcement measures, including assessment of monetary penalties and the imposition of remedial requirements. From time to time, as part of the regular overall evaluation of our operations, including newly acquired operations, we may be subject to compliance audits by regulatory authorities.

In connection with our LNG liquefaction activities, we need to apply for facility permits or licenses to address storm water or wastewater discharges, waste handling, and air emissions related to production activities or equipment operations. This may subject us to permitting conditions that may be onerous or costly. Compliance with laws and regulations and enforcement policies by regulatory agencies could require us to make material expenditures.

**Risks Related to the Auction Process for this Offering**

**Potential investors should not expect to sell our shares for a profit shortly after our common stock begins trading.**

A principal factor in determining the initial public offering price for the shares sold in this offering will be the clearing price resulting from an auction conducted by us and our underwriters. The clearing price is the highest price at which all of the shares offered, including the shares subject to the underwriters' over-allotment option, may be sold to potential investors. Although we and our underwriters may elect to set the initial public offering price below the clearing price, the public offering price may be at or near the clearing price. If there is little to no demand for our shares at or above the initial public offering price once trading begins, the price of our shares could decline following our initial public offering. If your objective is to make a short-term profit by selling the shares you purchase in the offering shortly after trading begins, you should not submit a bid in the auction.

**Some bids made at or above the initial public offering price may not receive an allocation of shares.**

Our underwriters may require that bidders confirm their bids before the auction for our initial public offering closes. If a bidder is requested to confirm a bid and fails to do so within a required time frame, that bid will be rejected and will not receive an allocation of shares even if the bid is at or above the initial public offering price. In addition, we, in consultation with our underwriters, may determine, in our sole discretion, that some bids that are at or above the initial public offering price are manipulative or disruptive to the bidding process or are not creditworthy, in which case such bids will be reduced or rejected.

**Potential investors may receive a full allocation of the shares they bid for if their bids are successful and should not bid for more shares than they are prepared to purchase.**

If the public offering price is at or near the clearing price for the shares offered in this offering, the number of shares represented by successful bids will equal or nearly equal the number of shares offered by this prospectus. As a result, successful bidders may be allocated all or nearly

all of the shares that they bid for in the auction. Therefore, we caution investors against submitting a bid that does not accurately represent the number of shares of our stock they are willing and prepared to purchase.

### **Risks Related to this Offering and Going Public**

**If we fail to establish and maintain effective internal controls, our ability to produce accurate financial statements could be impaired, which could adversely affect our operating results, and investors' views of us.**

We will need to strengthen our internal controls over financial reporting in order to ensure that we are able to report financial results accurately and on a timely basis. We have operated as a privately held company and our independent registered public accounting firm has identified certain internal controls over financial reporting that we will need to strengthen so that we can meet our reporting obligations as a public company in a timely and accurate manner. Specifically, we need to automate several of our processes, hire additional personnel with finance and accounting expertise and add additional policies and procedures to bolster our control and disclosure environments. Hiring qualified employees is challenging, and there can be no assurance we will be able to find the people with the skill sets we require in a timely manner. Modifying and changing systems and procedures is also challenging, and there can be no assurance that the systems or procedures will be efficient and effective once they are in place. Our accounting and financial reporting department may not currently have all of the necessary resources to ensure that we will not have significant deficiencies or material weaknesses in our system of internal control over financial reporting. The effectiveness of our internal control over financial reporting may be limited by a variety of factors including: faulty human judgment and errors, omissions or mistakes; inappropriate management override of policies and procedures; and the possibility that any enhancements to disclosure controls and procedures may still not be adequate to assure timely and accurate financial information.

Ensuring that we have adequate financial and accounting controls to produce accurate financial statements on a timely basis is a costly and time-consuming effort that needs to be re-evaluated frequently. We are beginning the process of documenting, reviewing and improving our internal controls in order to comply with Section 404 of the Sarbanes-Oxley Act of 2002, which requires management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent registered public accounting firm addressing these assessments. Both we and our independent registered public accounting firm will be testing our internal controls in connection with the Section 404 requirements and, as part of that documentation and testing, identify areas for further attention and improvement. Improving our internal controls will likely involve substantial costs and take a significant time to complete, which may distract our officers, directors and employees from the operation of our business. These efforts may not ultimately be effective to maintain adequate internal controls. If we fail to establish and maintain effective controls and procedures for financial reporting, we could be unable to provide timely and accurate financial information. In addition, investor perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements may negatively affect our stock price.

**We will incur increased costs as a result of being a public company.**

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC, Nasdaq and stock exchanges have required changes in corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

For example, as a result of becoming a public company, we have created additional board committees and adopted policies regarding internal controls and disclosure. In addition, we will incur additional costs associated with our public company reporting. We also expect these new rules to make it more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage.

**Our quarterly results of operations have not been predictable in the past and have fluctuated significantly and may not be predictable and may fluctuate in the future.**

Our quarterly results of operations have historically experienced significant fluctuations. Our net losses were \$3.0 million, \$1.1 million, \$41.2 million, \$30.0 million and \$0.9 million for the three months ended March 31, 2006, June 30, 2006, September 30, 2006, December 31, 2006 and March 31, 2007, respectively. After this offering, our quarterly results may fluctuate significantly as a result of a variety of factors, many of which are beyond our control. If our quarterly results of operations fall below the expectations of securities analysts or investors, the price of our common stock could decline substantially. Fluctuations in our quarterly results of operations historically have primarily been attributable to our derivative gain and losses, but also may be due to a number of other factors, including, but not limited to: our ability to increase sales to existing customers and attract new customers; the addition or loss of large customers; construction cost overruns; the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business, operations and infrastructure; changes in the price of natural gas; changes in the prices of CNG and LNG relative to gasoline and diesel; changes in our pricing policies or those of our competitors; the costs related to the acquisition of assets or businesses; regulatory changes; and geopolitical events such as war, threat of war, or terrorist actions. Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quarterly Results of Operations" on page 46.

Investors in our stock should not rely on the results of one quarter as an indication of future performance as our quarterly revenues and results of operations may vary significantly in the future. Therefore, period-to-period comparisons of our operating results may not be meaningful.

**If you purchase shares of our common stock in this offering, you will experience substantial and immediate dilution.**

If you purchase shares of our common stock in this offering, you will experience substantial and immediate dilution of \$9.63 per share based on an assumed initial public offering price of \$15.00 per share, as the price that you pay will be substantially greater than the net tangible book value per share of the common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the initial public offering price when they purchased their shares of our stock. You will experience additional dilution upon the exercise of warrants or options to purchase common stock under our equity incentive plans, if we issue restricted stock to our employees under these plans or if we otherwise issue additional shares of our common stock.

**The price of our common stock may be volatile as a result of market conditions unrelated to our company, and the value of your investment could decline.**

The trading price of our common stock following this offering may fluctuate substantially due to factors in the market beyond our control. The price of our common stock that will prevail in the market after this offering may be lower than the price you pay, depending on many factors unrelated to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock. Factors that could cause fluctuations in the trading price of



our common stock include: price and volume fluctuations in the overall stock market from time to time; actual or anticipated changes or fluctuations in our results of operations; actual or anticipated changes in the expectations of investors or securities analysts; actual or anticipated developments in our competitors' businesses or the competitive landscape generally; litigation involving us or our industry; domestic and international regulatory developments; general economic conditions and trends; widespread adoption of other alternative fuels and technologies; major catastrophic events; or sales of large blocks of our stock.

**We cannot assure you that a market will develop for our stock.**

Before this offering, there was no public trading market for our stock, and we cannot assure you that one will develop or be sustained after this offering. If a market does not develop or is not sustained, it may be difficult for you to sell your shares of stock at an attractive price or at all. It is possible that, in future quarters, our operating results may be below the expectations of securities analysts or investors. As a result of these and other factors, the price of our stock may decline, possibly materially.

**Sales of outstanding shares of our stock into the market in the future could cause the market price of our stock to drop significantly, even if our business is doing well.**

After this offering, approximately 44,449,555 shares of our common stock will be outstanding. Of these shares, only the 20,000,000 shares of our common stock sold in this offering will be freely tradable, without restriction, in the public market. Additionally, our directors, executive officers and certain principal stockholders have agreed to enter into "lock up" agreements with the underwriters, in which they will agree to refrain from selling their shares for a period of 180 days after this offering. The lock-up is subject to extension under certain circumstances. After the lock-up agreements pertaining to this offering expire, up to an additional 24,449,525 currently outstanding shares will be eligible for sale in the public market, 22,934,159 of which are held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 under the Securities Act of 1933, and various vesting agreements. If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the contractual lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. WR Hambrecht + Co may, in its sole discretion, permit our directors, officers, employees and current stockholders who are subject to the 180-day contractual lock-up to sell shares prior to the expiration of the lock-up agreements.

In addition, as of March 31, 2007, there were 17,401,000 shares underlying options and warrants that were issued and outstanding, and we have authorized grants of options covering 2,825,500 shares of common stock to employees, directors and consultants at the closing of this offering under our 2006 Equity Incentive Plan. These shares will become eligible for sale in the public market to the extent permitted by the provisions of various option and warrant agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our stock could decline.

Shortly after the effectiveness of this offering, we also intend to file a registration statement on Form S-8 under the Securities Act covering shares of common stock reserved for issuance under our equity incentive plans. Upon the filing of the Form S-8, shares of common stock issued upon the exercise of options under our equity incentive plans will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates and subject to the lock-up agreements described above.

**The warrant for 15,000,000 shares of common stock held by Boone Pickens may have a dilutive effect on the common stock you purchase in this offering.**

In December 2006, we issued to Boone Pickens a warrant to purchase 15,000,000 shares of common stock at an exercise price of \$10.00 per share. For more information about the issuance of this warrant, see "Certain Relationships and Related Party Transactions — Obligation Transfer and Securities Purchase Agreement" on page 96. If the value of our common stock exceeds \$10.00 per share in the future, this warrant will be dilutive to net income per share of our common stock, which dilution could contribute to a decline in the value of your common stock. Assuming an initial public offering price of \$15.00 per share, this warrant will contribute five million shares to the company's fully-diluted shares outstanding calculation.

**If securities analysts do not publish research or reports about our business, or if they downgrade our stock, the price of our stock could decline.**

The trading market for our stock will rely in part on the availability of research and reports that third-party industry or financial analysts publish about us. Further, if one or more of the analysts who do cover us downgrade our stock, our stock price may decline. If one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

**A majority of our stock is beneficially owned by a single stockholder whose interests may differ from yours and who will be able to exert significant influence over our corporate decisions, including a change of control.**

After this offering, Boone Pickens and affiliates (including Madeleine Pickens, his wife) will beneficially own in the aggregate approximately 51.0% of our outstanding common stock, assuming no exercise of the underwriters' over-allotment option, or approximately 49.0%, if the over-allotment option is exercised in full. As a result, Mr. Pickens will be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. Mr. Pickens may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their stock as part of a sale of our company and might ultimately affect the market price of our stock. Conversely, concentration may facilitate a change in control at a time when you and other investors may prefer not to sell.

**Provisions in our certificate of incorporation and bylaws and Delaware law may discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our stock.**

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- authorize the issuance of "blank check" preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt,

- provide that a special meeting of stockholders may only be called by our board of directors or our chief executive officer,
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws, and
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder and which may discourage, delay or prevent a change of control of our company.

#### **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology such as "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should," "would" or "will" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including those discussed under "Risk Factors," which could cause our actual results to differ from those projected in any forward-looking statements we make.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are unable to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Except as required by law, including U.S. securities laws and rules of the SEC, we do not plan to publicly update or revise any forward-looking statements after we distribute this prospectus, whether as a result of any new information, future events or otherwise. Potential investors should not place undue reliance on our forward-looking statements. Before you invest in our stock, you should be aware that the occurrence of any of the events described in the "Risk Factors" section and elsewhere in this prospectus could harm our business, prospects, operations and financial condition. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

## USE OF PROCEEDS

We estimate that we will receive net proceeds of \$137.1 million from our sale of the shares of common stock offered by us in this offering, assuming an initial public offering price of \$15.00 per share, the midpoint of the range set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any of the proceeds from the sale of shares of common stock by the selling stockholders. A \$1.00 increase or decrease in the assumed initial public offering price of \$15.00 per share would increase or decrease the net proceeds to us from this offering by \$9.4 million, assuming no change in the number of shares offered by us as set forth on the cover page of this prospectus.

We expect to use our proceeds from this offering approximately as follows:

- \$50 to 55 million to build an LNG liquefaction plant in California,
- \$30 to 35 million to build CNG and LNG fueling stations,
- \$15 to 20 million to finance the purchase of natural gas vehicles by our customers, and
- the balance for general corporate purposes, including making deposits to support our derivative activities, geographic expansion (domestically and perhaps internationally) and to expand our sales and marketing activities.

We may also use our proceeds from this offering to acquire additional assets or businesses, though no acquisitions are currently pending. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Pending the uses described above, we intend to invest the net proceeds from this offering in short-term, interest-bearing, investment-grade securities.

## DIVIDEND POLICY

We currently intend to retain any future earnings to finance the growth, development and expansion of our business and do not anticipate paying cash dividends in the future. Payments of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion, and any legal or contractual restrictions on the payment of dividends.

## CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2007:

- on an actual basis, and
- on an as adjusted basis to reflect (1) the issuance and sale by us of 10,000,000 shares of our common stock in this offering at an assumed price of \$15.00 per share and after deducting underwriting discounts and commissions and estimated offering expenses, and (2) the exercise of options to purchase 256,144 shares of our common stock by selling stockholders in connection with this offering, in each case at an exercise price of \$2.96 per share.

You should read the information below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus and our financial statements and the notes thereto in this prospectus.

	As of March 31, 2007	
	Actual	As adjusted
	(Unaudited)	(Unaudited)
Cash and cash equivalents	\$ 11,576,014	\$ 149,409,200
Long-term debt and capital lease obligation	\$ 268,553	\$ 268,553
Stockholders' equity:		
Preferred stock, \$0.0001 par value per share; 1,000,000 shares authorized; no shares issued and outstanding, actual and as adjusted	—	—
Common stock, \$0.0001 par value per share; 99,000,000 shares authorized, 34,193,411 shares issued and outstanding, actual; 44,449,555 shares issued and outstanding, as adjusted	3,420	4,446
Additional paid-in capital	179,562,965	317,395,125
Accumulated deficit	(58,920,305)	(58,920,305)
Accumulated other comprehensive income	1,377,771	1,377,771
Total stockholders' equity	122,023,851	259,857,037
Total capitalization	\$ 122,292,404	\$ 260,125,590

A \$1.00 increase or decrease in the assumed initial public offering price of \$15.00 per share would increase or decrease each of cash and cash equivalents, additional paid-in capital, stockholders' equity and total capitalization by \$9.4 million, assuming no change in the number of shares offered by us as set forth on the cover page of this prospectus.

The table above excludes the following shares:

- 15,000,000 shares of common stock issuable upon the exercise of outstanding warrants held by Boone Pickens at an exercise price of \$10.00 per share,
- 2,401,000 shares of common stock issuable upon the exercise of outstanding options at a weighted average exercise price of \$2.97 per share (of which options to purchase 2,376,000 shares of our common stock at a weighted average exercise price of \$2.96 per share were exercisable), 256,144 of which will be issued upon exercise of such options by selling stockholders in connection with this offering,
- 2,825,500 shares of common stock issuable upon the exercise of options to be granted to employees at the closing of this offering at an exercise price equal to the initial public offering price, and
- 2,187,750 shares of common stock reserved and available for future issuance under our equity incentive plans.

## DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock immediately after this offering. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding at March 31, 2007.

Investors participating in this offering will incur immediate, substantial dilution. The net tangible book value of our common stock as of March 31, 2007 was \$101,075,135 million, or \$2.96 per share. Assuming (1) the sale by us of 10,000,000 shares of common stock offered in this offering at an initial public offering price of \$15.00 per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, and (2) the exercise of options to purchase 256,144 shares of common stock by selling stockholders in connection with this offering at an exercise price of \$2.96 per share, our pro forma net tangible book value at March 31, 2007 would have been \$238,908,321 million, or \$5.37 per share of common stock. This represents an immediate increase in net tangible book value of \$2.41 per share of common stock to our existing stockholders and an immediate dilution of \$9.63 per share to the new investors purchasing shares in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share		\$	15.00
Net tangible book value per share as of March 31, 2007		\$	2.96
Increase in net tangible book value per share attributable to the sale of common stock in this offering		\$	2.41
Pro forma net tangible book value per share after this offering		\$	5.37
<b>Dilution per share to new investors</b>		<b>\$</b>	<b>9.63</b>

A \$1.00 increase or decrease in the assumed initial public offering price of \$15.00 per share would increase or decrease our net book value by \$9.4 million, the net tangible book value per share, after giving effect to this offering, by \$0.21 per share, and the dilution in net tangible book value per share to new investors in this offering by \$0.79 per share, assuming no change in the number of shares offered by us as set forth on the cover page of this prospectus.

The following table sets forth on a pro forma basis, at March 31, 2007, the number of shares of common stock purchased or to be purchased from us, the total consideration paid or to be paid and the average price per share paid or to be paid by existing holders of common stock and by the new investors, before deducting estimated underwriting discounts and estimated offering expenses payable by us.

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing stockholders <sup>(1)</sup>	34,449,555	77.5%	\$ 102,496,138	40.6%	\$ 2.98
New investors	10,000,000	22.5%	\$ 150,000,000	59.4%	\$ 15.00
<b>Total</b>	<b>44,449,555</b>	<b>100.0%</b>	<b>\$ 252,496,138</b>	<b>100.0%</b>	<b>\$ 5.67</b>

(1) Includes 256,144 shares of common stock issued upon exercise of options by selling stockholders in connection with this offering.

The discussion and tables above are based on the number of shares of common stock outstanding at March 31, 2007.

The discussion and tables above (except for the last table above) exclude the following shares:

- 15,000,000 shares of common stock issuable upon the exercise of outstanding warrants held by Boone Pickens at an exercise price of \$10.00 per share,
- 2,401,000 shares of common stock issuable upon the exercise of outstanding options at a weighted average exercise price of \$2.97 per share (of which options to purchase 2,376,000 shares of our common stock at a weighted average exercise price of \$2.96 per share were exercisable), 256,144 of which will be issued upon exercise of such options by selling stockholders in connection with this offering,
- 2,825,500 shares of common stock issuable upon the exercise of options to be granted to employees at the closing of this offering at an exercise price equal to the initial public offering price, and
- 2,187,750 shares of common stock reserved and available for future issuance under our equity incentive plans.

**SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

You should read the following selected historical consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the notes elsewhere in this prospectus.

The consolidated statements of operations data for the years ended December 31, 2004, 2005 and 2006, and the consolidated balance sheet data at December 31, 2005 and 2006, are derived from our audited consolidated financial statements in this prospectus. The consolidated statements of operations data for the years ended December 31, 2002 and 2003, and the consolidated balance sheet data at December 31, 2002, 2003 and 2004 are derived from our audited consolidated financial statements that are not included in this prospectus. The consolidated statements of operations data for the three months ended March 31, 2006 and 2007, and the consolidated balance sheet data at March 31, 2006 and 2007, are derived from our unaudited consolidated financial statements included in this prospectus. The unaudited consolidated financial statements include, in the opinion of management, all adjustments that management considers necessary for the fair presentation of the financial information set forth in those statements. The historical results are not necessarily indicative of the results to be expected in any future period.

	Year ended December 31,					Three months ended March 31,	
	2002	2003	2004	2005	2006	2006	2007
<b>Statement of Operations Data:</b>							
Revenue <sup>(1)</sup>	\$ 20,512,809	\$ 40,293,500	\$ 57,641,605	\$ 77,955,083	\$ 91,547,316	\$ 21,033,865	\$ 28,167,044
Operating expenses:							
Costs of sales	15,057,617	37,622,166	48,772,296	72,004,077	74,047,901	19,142,726	21,321,159
Derivative (gains) losses <sup>(2)</sup>	(6,263,469)	(12,161,875)	(10,572,349)	(44,067,744)	78,994,947	282,348	—
Selling, general and administrative	7,220,338	11,131,743	11,112,878	17,108,425	20,860,181	4,882,141	6,299,878
Depreciation and amortization	1,365,411	2,972,315	3,810,419	3,948,544	5,765,001	1,199,720	1,576,057
Total operating expenses:	17,379,897	39,564,349	53,123,244	48,993,302	179,668,030	25,506,935	29,197,094
Operating income (loss)	3,132,912	729,151	4,518,361	28,961,781	(88,120,714)	(4,473,070)	(1,030,050)
Interest (income) expense, net	353,031	(29,948)	96,983	(59,780)	(746,339)	(165,306)	(292,212)
Other expense, net	109,325	532,840	605,312	140,921	255,479	24,972	123,372
Income (loss) before income taxes	2,670,556	226,259	3,816,066	28,880,640	(87,629,854)	(4,332,736)	(861,210)
Income tax expense (benefit)	322,543	210,797	1,686,825	11,623,053	(12,271,208)	(1,286,823)	8,969
Net income (loss)	\$ 2,348,013	\$ 15,462	\$ 2,129,241	\$ 17,257,587	\$ (75,358,646)	\$ (3,045,913)	\$ (870,179)
Basic earnings (loss) per share	\$ 0.21	\$ 0.00	\$ 0.11	\$ 0.76	\$ (2.38)	\$ (0.12)	\$ (0.03)
Fully diluted earnings (loss) per share	\$ 0.21	\$ 0.00	\$ 0.11	\$ 0.75	\$ (2.38)	\$ (0.12)	\$ (0.03)
Weighted average common shares outstanding:							
Basic	11,425,212	17,572,636	18,949,636	22,602,033	31,676,399	26,214,505	34,192,786
Diluted	11,425,212	17,572,636	18,949,636	23,191,674	31,676,399	26,214,505	34,192,786

(1) Revenue includes the following amounts:

	Year ended December 31,					Three months ended March 31,	
	2002	2003	2004	2005	2006	2006	2007
Fuel tax credits (VETC)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,810,109	\$ 0	\$ 3,846,197



	Year ended December 31,					Three months ended March 31,		
	2002	2003	2004	2005	2006	2006	2007	
<b>Balance Sheet Data:</b>								
Cash and cash equivalents	\$ 8,041,476	\$ 6,774,456	\$ 1,299,746	\$ 28,763,445	\$ 937,445	\$ 27,034,222	\$ 11,576,014	
Working capital	8,751,689	4,255,035	8,375,627	27,426,766	44,811,284	27,767,589	33,014,024	
Total assets	70,433,146	73,117,214	79,812,007	128,613,650	136,932,636	118,622,087	139,775,231	
Long-term debt, inclusive of current portion	8,929,368	7,161,461	5,921,999	5,100,256	282,396	5,038,640	268,553	
Stockholders' equity	49,146,061	49,950,326	62,063,424	93,489,868	122,915,857	94,401,826	122,023,851	
				Year ended December 31,			Three months ended March 31,	
				2004	2005	2006	2006	2007
<b>Key Operating Data:</b>								
Fueling stations served				147	161	170	165	172
Gasoline gallon equivalents delivered (in millions):								
CNG				30.6	36.1	41.9	9.5	11.1
LNG				15.7	20.7	26.5	6.1	6.7
Total				46.3	56.8	68.4	15.6	17.8

### Adjusted Margin (Non-GAAP)

A portion of our natural gas fuel sales are covered by contracts under which we are obligated to sell fuel to our customers at a fixed price or a variable price subject to a cap. Our policy is to purchase natural gas futures contracts to cover our estimated fuel sales under these contracts to mitigate the risk that natural gas prices may rise above the natural gas component of the price at which we are obligated to sell gas to our customers. However, from time to time, we have sold these underlying futures contracts when we believed natural gas prices were going to fall. When we sold the futures contracts, we were exposed to the economic risk of rising natural gas prices causing our fixed price or price cap sales contracts to be in a reduced margin position or in a loss position, which occurred from time to time. At December 31, 2006, we had sold all such underlying futures contracts. Effective March 2007, we may no longer sell the underlying futures contracts associated with our fixed-price sales contracts without the prior approval of our board of directors and derivative committee.

Our management uses a measure called Adjusted Margin to measure our operating performance and manage our business. Adjusted Margin is defined as operating income (loss), plus (1) depreciation and amortization, (2) selling, general and administrative expenses and (3) derivative (gains) losses, the sum of which is adjusted by a non-GAAP measure which we call "futures contract adjustment," which is described below. Management believes Adjusted Margin provides helpful information for investors about the underlying profitability of our fuel sales activities. Adjusted Margin attempts to approximate the results that would have been reported if our futures contracts would have qualified for hedge accounting under SFAS No. 133 and were held until they matured.

Futures contract adjustment reflects the gain or loss we would have experienced in a respective period on the underlying futures contracts associated with our fixed price and price cap

contracts had those underlying contracts been held and allowed to mature according to their contract terms.

The material limitations of Adjusted Margin are as follows: Adjusted Margin is not a recognized term under GAAP and does not purport to be an alternative to gross margin as an indicator of operating performance or any other GAAP measure. Moreover, because not all companies use identical calculations, this presentation of Adjusted Margin may not be comparable to other similarly-titled measures of other companies. We compensate for these limitations by using Adjusted Margin in conjunction with traditional GAAP operating performance and cash flow measures, and therefore, we do not place undue reliance on this measure.

The table below shows Adjusted Margin and also reconciles these figures to the GAAP measure operating income (loss):

	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006	2007
<b>Operating income (loss)</b>	\$ 4,518,361	\$ 28,961,781	\$ (88,120,714)	\$ (4,473,070)	\$ (1,030,050)
Futures contract adjustment	3,062,468	6,992,251	3,921,022	2,203,080	868,567
Derivative (gains) losses	(10,572,349)	(44,067,744)	78,994,947	282,348	—
Selling, general and administrative	11,112,878	17,108,425	20,860,181	4,882,141	6,299,878
Depreciation and amortization	3,810,419	3,948,544	5,765,001	1,199,720	1,576,057
<b>Adjusted Margin</b>	\$ 11,931,777	\$ 12,943,257	\$ 21,420,437	\$ 4,094,219	\$ 7,714,452

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

*This discussion should be read with our financial statements and related notes included elsewhere in this prospectus. In addition to historical information, this discussion includes forward-looking information that involves risks and uncertainties which could cause actual results to differ from management's expectations. Please read "Risk Factors" in this prospectus for a discussion of some of these risks and uncertainties.*

We provide natural gas solutions for vehicle fleets in the United States and Canada. Our primary business activity is supplying CNG and LNG vehicle fuels to our customers. We also build, operate and maintain fueling stations, and help our customers acquire and finance natural gas vehicles and obtain local, state and federal clean air incentives. Our customers include fleet operators in a variety of markets, such as public transit, refuse hauling, airports, taxis and regional trucking.

**Overview**

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

*Sources of revenue.* We generate the vast majority of our revenue from supplying CNG and LNG to our customers. The balance of our revenue is provided by operating and maintaining natural gas fueling stations, designing and constructing natural gas fueling stations, and financing our customers' natural gas vehicle purchases.

*Key operating data.* In evaluating our operating performance, our management focuses primarily on (1) the amount of CNG and LNG gasoline gallon equivalents delivered and (2) our revenue, net income (loss), and Adjusted Margin. For more information about Adjusted Margin, please read "Selected Historical Consolidated Financial Data—Adjusted Margin (Non-GAAP)" on page 26. The following table, which you should read in conjunction with our financial statements and notes contained elsewhere in this prospectus, presents our key operating data for the years ended December 31, 2004, 2005 and 2006 and for the three months ended March 31, 2006 and 2007:

Gasoline gallon equivalents delivered (in millions)	Year ended December 31, 2004	Year ended December 31, 2005	Year ended December 31, 2006	Three months ended March 31, 2006	Three months ended March 31, 2007
CNG	30.6	36.1	41.9	9.5	11.1
LNG	15.7	20.7	26.5	6.1	6.7
<b>Total</b>	<b>46.3</b>	<b>56.8</b>	<b>68.4</b>	<b>15.6</b>	<b>17.8</b>

**Operating data**

Revenue	\$ 57,641,605	\$ 77,955,083	\$ 91,547,316	\$ 21,033,865	\$ 28,167,044
Net income (loss)	2,129,241	17,257,587	(75,358,646)	(3,045,913)	(870,179)
Adjusted Margin	11,931,777	12,943,257	21,420,437	4,094,219	7,714,452

*Key trends in 2004, 2005, and 2006.* Vehicle fleet demand for natural gas fuels increased significantly during the years ended December 31, 2004, 2005 and 2006. This growth in demand was attributable primarily to the rising prices of gasoline and diesel relative to CNG and LNG during these periods and increasingly stringent environmental regulations affecting vehicle fleets. For more information on these topics, please read "Business—The Market for Vehicle Fuels" beginning on page 53 and "—Background on Clean Air Regulation" beginning on page 72. We capitalized on this growing demand by securing new fleet customers in a variety of markets, including public

transit, refuse hauling, airports, taxis and regional trucking. Sales to previously existing customers also increased during these periods as they expanded their fleets.

The number of fueling stations we served grew from 147 at December 31, 2004 to 172 at March 31, 2007 (a 17.0% increase), and the total annual amount of CNG and LNG gasoline gallon equivalents we delivered increased by 47.7% from 2004 to 2006. The increase in gasoline gallon equivalents delivered, together with higher prices we charged our customers due to higher natural gas prices, contributed to increased revenues during these periods. Our cost of sales also increased during these periods, which was attributable primarily to increased costs related to delivering more CNG and LNG to our customers and the increased price of natural gas.

*Anticipated future trends.* We anticipate that, over the long term, the prices for gasoline and diesel will continue to be higher than the price of natural gas as a vehicle fuel, and more stringent emissions requirements will continue to make traditional gasoline and diesel powered vehicles more expensive for vehicle fleets. We believe there will be significant growth in the consumption of natural gas as a vehicle fuel generally, and our goal is to capitalize on this trend and enhance our leadership position as this market expands. We recently began focusing on the seaports market. We already are building a natural gas fueling station, and plan to build additional natural gas fueling stations that service the Ports of Los Angeles and Long Beach. We also anticipate expanding our sales of CNG and LNG in the other markets in which we operate, including public transit, refuse hauling and airport markets. Consistent with the anticipated growth of our business, we also expect that our operating costs will increase, primarily from the logistics of delivering more CNG and LNG to our customers, as well as from the anticipated expansion of our station network. We also plan to incur significant costs related to the LNG liquefaction plant we are in the initial stages of building in California. Additionally, we intend to increase our sales and marketing team as we seek to expand our existing markets and enter new markets, which will also result in increased costs.

*Sources of liquidity and anticipated capital expenditures.* Our principal sources of liquidity have been cash provided by operations, capital contributions from our stockholders, our cash and cash equivalents and, during the third and fourth quarters of fiscal 2006, a revolving line of credit with Boone Pickens, a director and our largest stockholder. The line of credit was used to fund margin requirements on certain derivative contracts and was terminated in December 2006. We expect to spend our cash primarily on constructing new fueling stations, purchasing new LNG tanker trailers, financing natural gas vehicle purchases by our customers, and for general corporate purposes, including working capital for our expansion. We also are in the initial stages of building an LNG liquefaction plant in California. The cost of building this plant, which we estimate will be approximately \$50 to 55 million, would be financed from the proceeds of this offering. For more information, please read "Liquidity and Capital Resources" below.

*Volatility in operating results related to futures contracts.* Historically, we have purchased futures contracts from time to time to help mitigate our exposure to natural gas price fluctuations in current periods and in future periods. Gains and losses related to our futures activities, which appear in the line item derivative (gains) losses, have materially impacted our results of operations in recent periods. For the years ended December 31, 2004, 2005 and 2006 derivative (gains) losses were \$(10,572,349), \$(44,067,744), and \$78,994,947, respectively. For the three month periods ended March 31, 2006 and 2007, derivative (gains) losses were \$282,348 and \$0, respectively. For this reason and others, we caution investors that our past operating results may not be indicative of future results. For more information, please read "Volatility of Earnings and Cash Flows" and "Risk Management Activities" below.

*Business risks and uncertainties.* Our business and prospects are exposed to numerous risks and uncertainties. For more information, please read "Risk Factors—Risks Related to Our Business and Industry" beginning on page 7.

## **History**

In 1996, Boone Pickens and Andrew Littlefair formed Pickens Fuel Corp. to acquire the natural gas fueling businesses of Mesa Petroleum and Southern California Gas Company. In 2001, Clean Energy Fuels Corp. was formed to acquire the combined businesses of Pickens Fuel Corp. and BCG eFuels, Inc., an operator of natural gas fueling stations in Canada. In 2002, we acquired Blue Energy & Technologies, L.L.C., an owner and operator of natural gas fueling station assets previously owned by the Public Service Company of Colorado and the TXU Gas Company. Since that time, through additional acquisitions and investment in fueling stations, we have continued to expand geographically in the United States and Canada.

## **Operations**

For a general discussion of our operations and the natural gas fueling solutions we offer, please read "Business—Our Solution" on page 60 and "Business—Operations" on page 63.

We generate revenues principally by selling CNG and LNG to our vehicle fleet customers. For the three months ended March 31, 2007, CNG represented 62% and LNG represented 38% of our natural gas sales (on a gasoline gallon equivalent basis). To a lesser extent, we generate revenues by operating and maintaining natural gas fueling stations that are owned either by us or our customers. Substantially all of our operating and maintenance revenues are generated from CNG stations, as owners of LNG stations tend to operate and maintain their own stations. In addition, we generate a small portion of our revenues by designing and constructing fueling stations and selling or leasing those stations to our customers. Substantially all of our station sale and leasing revenues have been generated from CNG stations. In 2006, we also began providing vehicle finance services to our customers.

### *CNG Sales*

We sell CNG through fueling stations located on our customers' properties and through our network of public access fueling stations. At these CNG fueling stations, we procure natural gas from local utilities or brokers under standard, floating-rate arrangements and then compress and dispense it into our customers' vehicles. Our CNG sales are made primarily through contracts with our fleet customers. Under these contracts, pricing is determined primarily on an index-plus basis, which is calculated by adding a margin to the local index or utility price for natural gas. We sell a small amount of CNG under fixed-price contracts and also provide price caps to certain customers on their index-plus pricing arrangement. Effective January 1, 2007, we no longer intend to offer price-cap contracts to our customers, but we will continue to perform our obligations under price-cap contracts we entered into before January 1, 2007. Our fleet customers typically are billed monthly based on the volume of CNG sold at a station. A smaller portion of our CNG sales are on a per fill-up basis at prices we set at the pump based on prevailing market conditions. These customers typically pay using a credit card at the station.

### *LNG Sales*

We sell substantially all of our LNG to fleet customers, who typically own and operate their fueling stations. We also sell a small volume of LNG to customers for non-vehicle use. We procure LNG from third-party producers and also produce LNG at our liquefaction plant in Texas. For LNG that we purchase from third-parties, we typically enter into "take or pay" contracts that require us to purchase minimum volumes of LNG at index-based rates. We deliver LNG via our fleet of 48 tanker

trailers to fueling stations, where it is stored and dispensed in liquid form into vehicles. We sell LNG principally through supply contracts that are priced on either a fixed-price or index-plus basis. We also provided price caps to certain customers on the index component of their index-plus pricing arrangement for certain contracts we entered into on or prior to December 31, 2006. Effective January 1, 2007, we no longer intend to offer price-cap contracts to our customers, but we will continue to perform our obligations under price-cap contracts we entered into before January 1, 2007. Our LNG contracts provide that we charge our customers periodically based on the volume of LNG supplied.

#### *Government Incentives*

From October 1, 2006 through September 30, 2009, we may receive a Volumetric Excise Tax Credit (VETC) of \$0.50 per gasoline gallon equivalent of CNG and \$0.50 per liquid gallon of LNG that we sell as vehicle fuel. Based on the service relationship we have with our customers, either we or our customers are able to claim the credit. We expect the tax credit will continue to factor into the price we charge our customers for CNG and LNG in the future. The legislation that created this tax credit also increased the federal excise taxes on sales of CNG from \$0.061 to \$0.183 per gasoline gallon equivalent and on sales of LNG from \$0.119 to \$0.243 per LNG gallon. These new excise tax rates are approximately the same as those for gasoline and diesel fuel.

The Internal Revenue Service has not issued final guidance concerning VETC as it relates to LNG sales to tax-exempt entities. Consequently, we have not recorded any benefit of VETC related to these sales in our financial statements.

#### *Operation and Maintenance*

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

#### *Station Construction*

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

#### *Vehicle Acquisition and Finance*

In 2006, we commenced offering vehicle finance services for some of our customers' purchases of natural gas vehicles or the conversion of their existing gasoline or diesel powered vehicles to operate on natural gas. We loan to our customers 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 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. As of March 31, 2007, we have not generated significant revenue from vehicle finance activities.

#### **Key Financial and Operating Data**

Our management uses a variety of financial and operational measures to analyze our performance, the most significant of which are natural gas gallons delivered and Adjusted Margin.

### *Natural Gas Gallons Delivered*

We view natural gas gallons delivered as a critical operating measure by which we gauge the performance of our business. We define gallons delivered as CNG and LNG volumes, expressed in gasoline gallon equivalents, that we procure and sell to our customers, plus gasoline gallon equivalents dispensed to customers at stations where we provide O&M services.

### *Adjusted Margin (Non-GAAP)*

Our management uses a measure called Adjusted Margin to measure our operating performance and manage our business. Adjusted Margin is defined as operating income (loss), plus (1) depreciation and amortization, (2) selling, general and administrative expenses and (3) derivative (gains) losses, the sum of which is adjusted by a non-GAAP measure which we call "futures contract adjustment," which is described below. Management believes Adjusted Margin provides helpful information for investors about the underlying profitability of our fuel sales activities. Adjusted Margin attempts to approximate the results that would have been reported if our futures contracts would have qualified for hedge accounting under SFAS No. 133 and were held until they matured.

Futures contract adjustment reflects the gain or loss we would have experienced in a respective period on the underlying futures contracts associated with our fixed price and price cap contracts had those underlying contracts been held and allowed to mature according to their contract terms.

For more information on Adjusted Margin, please read "Selected Historical Consolidated Financial Data—Adjusted Margin (Non-GAAP)" on page 26.

### **Volatility of Earnings and Cash Flows**

Our earnings and cash flows historically have fluctuated significantly from period to period based on our futures activities, as our futures contracts to date have not qualified for hedge accounting under SFAS No. 133. See "Critical Accounting Policies—Derivative Activities" below. We have therefore recorded any changes in the fair market value of these contracts directly in our statements of operations in the line item derivative (gains) losses along with any realized gains or losses generated during the period. For example, we experienced derivative gains of \$33.1 million for the three months ended September 30, 2005 and experienced derivative losses of \$19.9 million, \$0.3 million, \$65.0 million and \$13.7 million for the three months ended December 31, 2005, March 31, 2006, June 30, 2006, September 30, 2006 and December 31, 2006, respectively. We had no derivative gains or losses for the three months ended June 30, 2006 and March 31, 2007. Commencing with the adoption of our revised natural gas hedging policy in February 2007, we plan to structure all subsequent futures contracts as cash flow hedges under SFAS No. 133, but we can not 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.

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

## **Risk Management Activities**

A significant portion of our natural gas fuel sales are covered by contracts to sell LNG or CNG to our customers at a fixed price or a variable index-based price subject to a cap. These contracts expose us to the risk that the price of natural gas may increase above the natural gas cost component included in the price at which we are committed to sell gas to our customers. We account for sales of natural gas under these contracts as described below in "Critical Accounting Policies—Fixed Price and Price Cap Sales Contracts."

### *Risk Management Practices Before February 2007*

Historically, when we entered into a contract to sell natural gas fuel to a customer at a fixed price or a variable price subject to a cap, we generally sought to manage our exposure to natural gas price increases for some or all of the expected contract volumes in the natural gas futures market. We did this by purchasing futures contracts that were designed to cover the difference between the commodity portion of the price at which we were committed to sell natural gas and the price we had to pay for gas at delivery, thereby fixing the cost of natural gas we were paying. We generally purchased futures covering all or a portion of our anticipated volumes in future periods.

From time to time, if we believed natural gas prices would decline in the future, we often elected to terminate futures contracts associated with fixed price or price cap customer contracts by selling the futures contracts and recognizing a gain upon such sales. When we did so, we lost future economic protections provided by the futures contracts.

From 2003 through 2005, we sold futures contracts covering estimated sales volumes over future periods and realized a net gain of approximately \$44.8 million upon the sale of these contracts. In 2006, we disposed of certain futures contracts covering estimated sales volumes over future periods and realized a net loss of \$78.7 million. These futures contracts were transferred to and assumed by Boone Pickens in December 2006. For more information about this transfer and assumption, please read "Certain Relationships and Related Party Transactions—Obligation Transfer and Securities Purchase Agreement with Boone Pickens" on page 96.

Our derivative activities are reflected in the line item derivative (gains) losses in our consolidated statements of operations. Two components make up this line item: (1) realized (gains) losses, and (2) unrealized (gains) losses. Realized (gains) losses represent the actual (gains) losses we realize when we sell or settle a futures contract during a period. Unrealized (gains) losses represent the (gain) or loss we record at the end of each period when we mark to market our open futures contracts at the end of each period. For realized (gains) losses on contracts sold or settled during a period, there is typically a corresponding unrealized loss (gain) on the contracts since the contracts are no longer outstanding at the end of the period and are therefore marked to zero.

We have a derivative committee of our board of directors and have historically conducted our futures contract activity under the advice of BP Capital L.P. (BP Capital), an entity of which Boone Pickens, our largest stockholder and a director, is the principal. Through December 31, 2006, we paid BP Capital a monthly fee of \$10,000 and a commission equal to 20% of our realized gains, net of realized losses, during a calendar year relating to the purchase and sale of natural gas futures contracts. BP Capital remits realized net gains to us, less its applicable commissions, on a monthly basis. We paid fees to BP Capital of \$0.4 million in 2004, \$11.7 million in 2005, and



\$2.4 million in 2006. In March 2007, we amended our agreement with BP Capital to remove the 20% commission on our realized gains and losses during a calendar year.

We historically have purchased our natural gas futures contracts from Sempra Energy Trading Corp. The futures are based on the Henry Hub natural gas price set on the New York Mercantile Exchange. One futures contract for CNG covers approximately 80,000 gasoline gallon equivalents of CNG, and one futures contract for LNG covers approximately 120,000 gallons of LNG. Each contract has historically required a deposit of \$1,000, which is below market due to the fact that Boone Pickens had guaranteed our futures obligations to Sempra. Without this guarantee, which was cancelled March 7, 2007, we estimate the deposit amount rate will be approximately \$5,000 to \$12,000 per contract depending on market conditions. Additionally, without this guaranty, Sempra may terminate our contract. As of December 31, 2006, we had no futures contracts outstanding and no amounts on deposit.

*August 2006 Purchase of Futures Contracts and December 2006 Assumption by Boone Pickens*

On August 2, 2006, we purchased the following futures contracts and made related deposits of \$9.5 million:

<u>Futures settlement year</u>	<u>Volume covered by futures (gasoline gallon equivalents)</u>
2008	161,300,000
2009	201,625,000
2010	201,625,000
2011	201,625,000

In December 2006, Mr. Pickens assumed all of these futures contracts, together with any and all associated liabilities and obligations, in exchange for (1) the issuance to Mr. Pickens of a five-year warrant to purchase up to 15,000,000 shares of our common stock at a purchase price of \$10.00 per share and (2) the assignment to Mr. Pickens of any refunds of margin deposits related to the assumed futures contracts that were made using money borrowed under the line of credit. See "Certain Relationships and Related Party Transactions—Obligation Transfer and Securities Purchase Agreement with Boone Pickens" on page 96. At the time of assumption, these futures contracts had lost \$78.7 million in value. This warrant will be dilutive to net income per share if the fair market value of our common stock exceeds \$10 per share in the future. Assuming the initial public offering price of \$15 per share, this warrant would contribute five million shares to the company's fully-diluted shares outstanding calculation.

*Adoption of Revised Natural Gas Hedging Policy in February 2007*

In an effort to mitigate the volatility of our earnings related to our futures contracts and to reduce our risk related to fixed-price sales contracts, our board of directors revisited our risk management policies and procedures and adopted a revised natural gas hedging policy which restricts our ability to purchase natural gas futures contracts and offer fixed-price sales contracts to our customers. Unless otherwise agreed in advance by the board of directors and the derivative committee, we will conduct our futures activities and offer of fixed-price sales contracts pursuant to the policy as follows:

1. We may purchase futures contracts only to hedge our exposure to variability in expected future cash flows (such variability to be referred to hereafter as Cash Flow Variability) related to fixed-price sales contracts.

2. We will purchase futures contracts in quantities reasonably expected to hedge effectively our exposure to Cash Flow Variability related to each fixed-price sales contract that we enter into after the date of the policy.
  3. We may offer a fixed-price sales contract to a customer only if the following three conditions are met:
    - a. We purchase futures contracts in quantities reasonably expected to hedge effectively our exposure to Cash Flow Variability related to the fixed-price sales contract;
    - b. We reasonably expect we will have funds sufficient: (i) to make the initial margin deposit(s) related to the intended futures contracts; and (ii) to cover estimated margin calls related to these futures contracts; and
    - c. For any contract covering 2.5 million or more gasoline gallon equivalents of CNG or LNG per year (or any contract that, combined with previous contracts that year, would cause the total gasoline gallon equivalents contracted for to exceed 7.5 million gasoline gallon equivalents that year), we consult with the derivative committee regarding the proposed transaction, and the derivative committee approves both the offer of the fixed-price sales contract(s) and the purchase of the associated futures contracts.
  4. When we enter into a fixed-price sales contract according to paragraph 3 above, we will purchase sufficient futures contracts to hedge our estimated exposure to the basis differential between: (a) the price of natural gas at the NYMEX Henry Hub delivery point, and (b) the price of natural gas at the customer's delivery point.
  5. If, during the duration of a fixed-price sales contract (including, without limitation, a contract signed before the adoption of this policy, a contract entered into after the adoption of this policy where futures contracts were not originally purchased to hedge the contract, and a contract that subsequently experiences a significant increase in volume that was not originally contemplated when the original futures contracts were purchased to hedge the contract), we do not have associated futures contracts in place that are sufficient to hedge effectively our estimated exposure to Cash Flow Variability related to that fixed-price sales contract, we may purchase futures contracts in quantities reasonably expected to hedge effectively our exposure to Cash Flow Variability related to that fixed-price sales contract, but only if the following two conditions are met:
    - a. We reasonably expect we will have funds sufficient: (i) to make the initial margin deposit(s) related to the intended futures contracts; and (ii) to cover estimated margin calls related to these futures contracts; and
    - b. For any fixed-price sales contract covering 1.5 million or more gasoline gallon equivalents per year (or any such contract that, combined with previous such contracts that year, would cause the total gasoline equivalents contracted for to exceed 5 million gasoline gallon equivalents that year), we consult with the derivative committee regarding the proposed transaction, and it approves the purchase of the futures contracts.
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6. When we purchase futures contracts in accordance with paragraph 5 above, we may purchase additional futures contracts to hedge our estimated exposure to the basis differential between: (a) the price of natural gas at the NYMEX Henry Hub delivery point, and (b) the price of natural gas at the customer's delivery point.
7. We will not sell or otherwise dispose of a futures contract during the duration of the associated fixed-price sales contract.
8. We will attempt to qualify all futures contracts for hedge accounting as cash flow hedges under SFAS No. 133.

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

### **Economic Factors Impacting our Business**

One key economic factor impacting our business is the price differential between the price of crude oil and the price of natural gas. Because the price of crude oil drives the price of gasoline and diesel, as long as the price of crude oil remains proportionately high relative to the price of natural gas, natural gas should enjoy a cost savings as a vehicle fuel when compared to gasoline and diesel. We also believe the price differential between natural gas fuel and diesel will increase in the future as the Ultra Low Sulfur Diesel (ULSD) rules take effect and the processing and refining costs related to ULSD add to its overall cost.

### **LNG Supply Risk**

One business risk we face is developing the supply of LNG whereby we will have the capacity to expand and grow our business. To address this business risk in the short term, we are in the process of building an LNG liquefaction plant in California. We expect the plant will be scaleable and provide us with up to 90 million additional gallons of LNG per year. We are also assessing other long-term solutions to this issue which may include constructing additional LNG liquefaction plants, attempting to expand the available supply from our existing suppliers, or contracting with new suppliers for the purchase of LNG.

### **Limited Availability of Natural Gas Vehicles**

Another business risk we face is the limited availability of natural gas vehicles. We are currently working with several vehicle conversion suppliers to expand the offering of natural gas vehicles. As a long term solution, we are attempting to encourage several auto manufacturers to reintroduce previously-produced natural gas vehicles or to expand their vehicle offerings with natural gas engines.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses, and disclosures of contingent assets and liabilities as of the date of the financial statements. On a periodic basis, we evaluate our estimates, including those related to revenue

recognition, accounts receivable reserves, notes receivable reserves, inventory reserves, asset retirement obligations, derivative values, income taxes, and the market value of equity instruments granted as stock-based compensation. We use historical experience, market quotes, and other assumptions as the basis for making estimates. Actual results could differ from those estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

#### *Revenue Recognition*

We recognize revenue on our gas sales and for our O&M services in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*, which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred and title and the risks and rewards of ownership have been transferred to the customer or services have been rendered; (3) the price is fixed or determinable; and (4) collectability is reasonably assured. Applying these factors, we typically recognize revenue from the sale of natural gas at the time fuel is dispensed or, in the case of LNG sales agreements, delivered to the customer's storage facility. We recognize revenue from operation and maintenance agreements as we provide the O&M services.

In certain transactions with our customers, we agree to provide multiple products or services, including construction of and either leasing or sale of a station, providing operations and maintenance to the station, and sale of fuel to the customer. We evaluate the separability of revenues for deliverables based on the guidance set forth in EITF No. 00-21, which provides a framework for establishing whether or not a particular arrangement with a customer has one or more deliverables. To the extent we have adequate objective evidence of the values of separate deliverable items under a contract, we allocate the revenue from the contract on a relative fair value basis at the inception of the arrangement. If the arrangement contains a lease, we use the existing evidence of fair value to separate the lease from the other deliverables.

We account for our leasing activities in accordance with SFAS No. 13, *Accounting for Leases*. Our existing station leases are sales-type leases, giving rise to profit at the delivery of the leased station. Unearned revenue is amortized into income over the life of the lease using the effective interest method. For those arrangements, we recognize gas sales and operations and maintenance service revenues as earned from the customer on a volume-delivered basis.

We recognize revenue on fueling station construction projects where we sell the station to the customer using the completed contract method in AICPA Statement of Position 81-1, *Accounting for Performance of Construction Type and Certain Production Type Contracts*.

#### *Derivative Activities*

We account for our derivative instruments, specifically our futures contracts, in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the consolidated balance sheet and the measurement of those instruments at fair value. Our derivatives did not qualify for hedge accounting under SFAS No. 133 for the years ended December 31, 2004, 2005 and 2006. As such, changes in the fair value of the derivatives were recorded directly to our consolidated statements of operations. We determine the fair value of our derivatives at the end of each reporting period based on quoted market prices from the NYMEX.

We record gains or losses realized on our derivative instruments during the period in the line item derivative (gains) losses in our consolidated statements of operations. We also

mark-to-market our open positions at the end of each reporting period with the resulting gain or loss recorded to derivative (gains) losses in our consolidated statements of operations.

#### Fixed Price and Price Cap Sales Contracts

Our contracts to sell CNG and LNG at a fixed price or a variable price subject to a cap are, for accounting purposes, firm commitments. Under U.S. generally accepted accounting principles, or GAAP, we record the actual results of delivering the fuel under the contract as the sale of the gas occurs. When we enter into these fixed price or price cap contracts with our customers, the price is set based on the prevailing index price of natural gas at that time. However, the index price of natural gas constantly changes, and a difference between the fixed price of the natural gas included in the customer's contract price and the corresponding index price of natural gas typically develops after we enter into the sales contract. If at the time we sell natural gas under the contract the prevailing index price for gas exceeds the commodity portion of our contracted sale price, we incur a loss. During the years ended December 31, 2004 and 2005, the price of natural gas generally increased, and during the year ended December 31, 2006, the price of natural gas generally decreased. During these periods, we entered into several contracts to sell LNG or CNG to customers at a fixed price or an index-based price that is subject to a fixed price cap.

The following table summarizes important information regarding our fixed price and price cap supply contracts under which we are required to sell fuel to our customers as of March 31, 2007:

	Estimated volumes(a)	Average price(b)	Contracts duration
CNG fixed price contracts	3,521,671	\$ 1.03	through 12/13
LNG fixed price contracts	26,009,595	\$ 0.37	through 7/09
CNG price cap contracts	6,636,720	\$ 0.86	through 12/09
LNG price cap contracts	12,613,276	\$ 0.57	through 12/08

(a) Estimated volumes are in gasoline gallon equivalents for CNG contracts and are in LNG gallons for LNG contracts and represent the volumes we anticipate delivering over to remaining duration of the contracts.

(b) Average prices are in gasoline gallon equivalents for CNG contracts and are in LNG gallons for LNG contracts. The average prices represent the natural gas commodity component in the customer's contract.

The price of natural gas has generally increased since we entered into these contracts and fixed or capped the price of CNG or LNG that we sell to the customers. If these contracts had a notional amount as defined under GAAP, then the contracts would be considered derivatives and we would record a loss based on estimated future volumes and the estimated excess of current market prices for natural gas above the cost of the natural gas commodity component of our customer's fixed price or price cap. However, because the contracts have no minimum purchase requirements, they are not considered derivatives and any estimated future losses under these contracts cannot be accrued in our financial statements under GAAP and we recognize the actual results of performing under the contract as the fuel is delivered. If we applied a derivative valuation methodology to these contracts using estimated volumes along with other assumptions, including forward pricing curves and discount rates, we estimate our pre-tax net income would have been lower (higher) by the following ranges for the periods indicated:

December 31, 2004	\$ 3,646,338	to \$	4,456,636
December 31, 2005	\$ 15,148,070	to \$	18,514,308
December 31, 2006	\$ (14,267,259)	to \$	(17,437,761)
Three months ended March 31, 2007	\$ 2,526,520	\$	3,087,968

At March 31, 2007, we estimate we will incur between \$9.9 million and \$12.1 million to cover the increased price of natural gas above the inherent price of natural gas embedded in our customer's fixed price and price cap contracts over the duration of the contracts. These estimates were based on natural gas futures prices on March 31, 2007, and these estimates may change based on future natural gas prices and may be significantly higher or lower.

Our volumes under these contracts, in gasoline gallon equivalents, expire as follows:

April 1, 2007 through December 31, 2007	24,222,152
2008	20,787,001
2009	2,852,109
2010	230,000
2011	230,000
2012	230,000
2013	230,000

These amounts are based on estimates involving a high degree of judgment and actual results may vary materially from these estimates. These amounts have not been recorded in our statements of operations as they are non-GAAP.

#### *Income Taxes*

We compute income taxes under the asset and liability method. This method requires the recognition of deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and are reflected in the consolidated financial statements in the period of enactment. We record a valuation allowance against any deferred tax assets when management determines it is more likely than not that the assets will not be realized. When evaluating the need for a valuation analysis, we use estimates involving a high degree of judgment including projected future income and the amounts and estimated timing of the reversal of any deferred tax liabilities.

#### *Stock-Based Compensation*

Effective January 1, 2006, we account for stock options granted using Statement of Financial Accounting Standards No. 123(R) (SFAS No. 123(R)), *Share-Based Payment*, which has replaced SFAS No. 123 and APB 25. Under SFAS No. 123(R), companies are no longer able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25, but are required to account for such transactions using a fair-value method and recognize the expense in the statements of operations. We adopted the provisions of SFAS No. 123(R) using the prospective transition method. Under the prospective transition method, only new awards, or awards that have been modified, repurchased or cancelled after January 1, 2006 are accounted for using the fair value method.

We accounted for awards outstanding as of December 31, 2005 using the accounting principles under SFAS No. 123. Under SFAS No. 123, for options granted before January 1, 2006, the fair value of employee stock options was estimated using the Black-Scholes option pricing model, which requires the use of management's judgment in estimating the inputs used to determine fair value. We elected, under the provisions of SFAS No. 123, to account for employee stock-based compensation under APB 25 during the years ended December 31, 2004 and 2005. In the statements of operations, we recorded no compensation expense in 2004 and 2005 because the fair value of the Company's common stock was equal to the exercise price on the date of grant of the options. Therefore, there was no "intrinsic" value to recognize in the statements of

operations. However, our footnotes disclose the impact on net income in 2004 and 2005 of using the grant date fair value using the Black-Scholes option pricing model.

As of December 31, 2005, there were no unvested stock options. Therefore, the impact of SFAS No. 123(R) has been reflected in the consolidated statements of operations for share-based awards granted in 2006.

#### *Impairment of Goodwill and Long-lived Assets*

We assess our goodwill for impairment at least annually (or more frequently if there is an indicator of impairment) based on Statement of Financial Accounting Standards No. 142 (SFAS No. 142), *Goodwill and Other Intangible Assets*. An initial assessment of impairment is made by comparing the fair value of the operations with goodwill, as determined in accordance with SFAS No. 142, to the book value. If the fair value is less than the book value, an impairment is indicated and we must perform a second test to measure the amount of the impairment. In the second test, we calculate the implied fair value of the goodwill by deducting the fair value of all tangible and intangible net assets of the operations with goodwill from the fair value determined in step one of the assessment. If the carrying value of the goodwill exceeds this calculated implied fair value of the goodwill, we will record an impairment charge. We performed our annual tests of goodwill as of December 31, 2004, 2005 and 2006, and there was no impairment indicated.

#### *Recently Issued Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised December 2004), *Share-Based Payment (SFAS No. 123(R))*. This Statement is a revision of SFAS No. 123. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) is effective as of the beginning of the first interim period or annual reporting period that begins after June 15, 2005. We did not have any unvested stock options outstanding as of December 31, 2005 that needed to be valued under SFAS No. 123(R). We adopted SFAS No. 123(R) on January 1, 2006 for grants after January 1, 2006.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations (FIN 47)*, to clarify the term *conditional asset retirement obligation* as that term is used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. The Interpretation also clarifies when an entity has sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 was effective for us as of December 31, 2005. The adoption of FIN 47 did not have a material impact on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes (FIN 48)* which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect that the adoption of FIN 48 will have a material impact on our financial statements.

In June 2006, the FASB ratified its consensus on EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (EITF No. 06-3)*. The scope of EITF No. 06-3 includes any tax assessed by a governmental authority that is imposed concurrent with or subsequent to a revenue-producing transaction between a seller and a customer and excludes taxes that are assessed on gross receipts or that are an inventoriable cost. For taxes within the scope of this issue that are significant

in amount, the consensus requires the following disclosures: (i) the accounting policy elected for these taxes and (ii) the amount of the taxes reflected gross in the income statement on an interim and annual basis for all periods presented. The disclosure of those taxes can be done on an aggregate basis. The consensus is effective for interim and annual periods beginning after December 15, 2006. We currently present sales taxes and excise taxes on sales to our customers on a net basis in our financial and we plan to continue to present our excise taxes in this manner subsequent to the adoption of EITF No. 06-3.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and all interim periods within those fiscal years. Earlier application is permitted provided that the reporting entity has not yet issued interim or annual financial statements for that fiscal year. We are currently evaluating the impact, if any, that SFAS 157 may have on our financial statements.

### **Improvements in Internal Control over Financial Reporting**

We will need to strengthen our internal controls over financial reporting in order to ensure that we can report financial results accurately and on a timely basis. We have operated as a privately held company and our independent registered public accounting firm has identified certain internal controls over financial reporting that we will need to strengthen so that we can meet our reporting obligations as a public company in a timely and accurate manner. Specifically, we need to automate several of our processes, hire additional personnel with finance and accounting expertise and add additional policies and procedures to bolster our control and disclosure environments. Hiring qualified employees is challenging, and there can be no assurance we will be able to find the people with the skill sets we require in a timely manner. Modifying and changing systems and procedures is also challenging, and there can be no assurance that the systems or procedures will be efficient and effective once they are in place.

As of March 31, 2007, we have completed the implementation of two new billing systems, one for our CNG sales and one for our LNG sales. We have also commenced implementation of a new customer management system that will, among other things, track our station inventory, track our technician's time reporting, prepare and maintain maintenance records on our network of station equipment, and prepare work orders for our technicians based upon manufacturer-recommended maintenance programs. We anticipate completing implementation of this system by June 30, 2007. We plan to implement a new financial reporting package, a fixed asset module for our general ledger system, and a financing package to track our loans to our customers for their vehicle purchases, all of which we anticipate to be implemented by December 31, 2007.

We are in the process of hiring a manager of financial reporting to help us with our internal and external financial reporting function, including our financial reporting as a public company. We anticipate we will hire someone by June 30, 2007.

We anticipate undergoing a complete review of our internal control structure in the third and fourth quarter of 2007. Based on this review, we intend to improve our internal controls where we determine they need enhancement. We expect we will have our entire internal control structure, including any new controls we establish, implemented by June of 2008 in anticipation of our compliance with Section 404 of the Sarbanes-Oxley Act of 2002 by December 31, 2008.



## Results of Operations

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

	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006	2007
<b>Statement of Operations Data:</b>					
<b>Revenue</b>	100.0%	100.0%	100.0%	100%	100%
<b>Operating expenses</b>					
Costs of sales	84.6%	92.4%	80.9%	91.0%	75.7%
Derivative (gains) losses	(18.3)%	(56.5)%	86.3%	1.3%	0.0%
Selling, general and administrative	19.3%	21.9%	22.8%	23.2%	22.4%
Depreciation and amortization	6.6%	5.1%	6.3%	5.7%	5.6%
Total operating expenses	92.2%	62.9%	196.3%	121.2%	103.7%
Operating income (loss)	7.8%	37.1%	(96.3)%	(21.2)%	(3.7)%
Interest (income) expense, net	0.2%	(0.1)%	(0.8)%	(0.8)%	(1.0)%
Other expense, net	1.1%	0.2%	0.3%	0.1%	0.4%
Income (loss) before income taxes	6.6%	37.0%	(95.7)%	(20.5)%	(3.1)%
Income tax expense (benefit)	2.9%	14.9%	(13.4)%	(6.1)%	0.0%
Net income (loss)	3.7%	22.1%	(82.3)%	(14.4)%	(3.1)%

### Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

**Revenue.** Revenue increased by \$7.1 million to \$28.2 million in the three months ended March 31, 2007, from \$21.0 million in the three months ended March 31, 2006. This increase was primarily the result of an increase in the number of CNG and LNG gallons delivered from 15.6 million gasoline gallon equivalents in the first three months of 2006 to 17.8 million gasoline gallon equivalents in the first three months of 2007. One of our new transit customers (Long Island Bus, NY) and one of our new airport customers (Los Angeles International Airport shuttle busses) together accounted for 0.9 million gallons of the increase. The remaining increase in gallons delivered was due to the addition of other smaller new customers and growth from our existing customers. We also recorded \$3.8 million of revenue related to fuel tax credits that began in October 2006. Revenue also increased between periods due to a \$1.8 million increase in station construction revenue between periods. Offsetting these revenue increases was a decrease in the price we charged our customers who pay on an index-plus basis due to decreased natural gas prices between periods. Our effective price per gallon fell to \$1.26 per gallon in the three month period ended March 31, 2007, which represents a \$0.08 per gallon decrease over the three month period ended March 31, 2006.

**Cost of sales.** Cost of sales increased by \$2.2 million to \$21.3 million in the three months ended March 31, 2007, from \$19.1 million in the three months ended March 31, 2006. This increase was primarily the result of an increase in costs related to delivering more CNG and LNG gallons between periods. Offsetting this increase was a decrease in our effective cost per gallon between periods. Our effective cost per gallon decreased to \$1.10 per gallon for the three months ended March 31, 2007, which represents a \$0.12 per gallon decrease over the three months ended

March 31, 2006. Also contributing to the increase in cost of sales between periods is a \$1.8 million increase in costs related to construction activities during the three month period ended March 31, 2007.

*Derivative (gains) losses.* Derivative gains increased by \$0.3 million to \$0.0 million in the three months ended March 31, 2007, from a loss of \$0.3 million in the three months ended March 31, 2006. This increase was primarily the result of the fact that we incurred a loss in the three month period ended March 31, 2006 when we liquidated certain futures contracts and we did not purchase or own any futures contracts during the three month period ended March 31, 2007.

*Selling, general and administrative.* Selling general and administrative expenses increased by \$1.4 million to \$6.3 million in the three months ended March 31, 2007, from \$4.9 million in the three months ended March 31, 2006. The increase was primarily related to an increase in salaries and benefits between periods of \$0.4 million related to the hiring of additional employees and pay raises provided to our existing employees. Our employee headcount increased from 86 at March 31, 2006 to 102 at March 31, 2007. \$0.1 million of the salaries and benefit increase was related to hiring the incremental employees between periods. In addition, our rent expense increased \$0.1 million between periods as we acquired additional office space between periods and our travel and entertainment expenses also increased \$0.1 million between periods, primarily related to increased travel related to our sales team. Our marketing expenses increased \$0.3 million between periods, primarily due to certain advertising we are conducting in the Ports of Los Angeles and Long Beach. Our bad debt expense increased \$0.5 million between periods as we provided a reserve against loans made to a vehicle manufacturer during the three months ended March 31, 2007.

*Depreciation and amortization.* Depreciation and amortization increased by \$0.4 million to \$1.6 million in the three months ended March 31, 2007, from \$1.2 million in the three months ended March 31, 2006. This increase was primarily the result of additional depreciation expense in the three months ended March 31, 2007 related to increased property and equipment balances between periods, primarily related to our station network and our fleet of LNG tanker trailers.

*Interest (income) expense, net.* Interest (income) expense, net, increased by \$0.1 million from \$0.2 million of income in the three months ended March 31, 2006, to \$0.3 million of income for the three months ended March 31, 2007. This increase was primarily the result of a decrease in interest expense in the three months ended March 31, 2007 due to the conversion of \$4 million of convertible notes in April 2006 which eliminated the interest expense on these notes. Interest income for the three months ended March 31, 2007 was essentially the same as the three months ended March 31, 2006.

*Other expense, net.* Other expense, net increased by \$0.1 million from \$25,000 of expense in the three months ended March 31, 2006 to \$123,000 of expense in the three months ended March 31, 2007. The increase was primarily related to the write-off of certain costs related to a station relocation.

#### **Fiscal Year Ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005**

*Revenue.* Revenue increased by \$13.5 million to \$91.5 million in the year ended December 31, 2006, from \$78.0 million in the year ended December 31, 2005. This increase was primarily the result of an increase in the number of CNG and LNG gallons delivered from 56.8 million gasoline gallon equivalents to 68.4 million gasoline gallon equivalents. Included in our new customers for 2006 were two transit customers (Santa Monica Big Blue Bus and Toronto Transit) and two airport customers (Baltimore/Washington International Airport and the Los Angeles International Airport parking shuttle buses), which in the aggregate accounted for 3.0 million gallons

of the increase. The remaining increase in gallons delivered was due to the addition of several other new smaller customers between periods and incremental growth at several of our previously existing customers and stations. 2006 revenue also included \$3.8 million of fuel tax credits related to the sale of alternative fuels which began October 1, 2006. Revenue also improved because of increased prices we charged our customers in 2006. Our effective price per gallon rose to \$1.32 per gallon in 2006, which represents a \$.08 per gallon increase over 2005. Offsetting these increases was a \$5.0 million decrease in station construction revenues between periods.

*Cost of sales.* Cost of sales increased by \$2.0 million to \$74.0 million in the year ended December 31, 2006, from \$72.0 million in the year ended December 31, 2005. This increase was primarily due to the increased number of CNG and LNG gallons delivered in 2006. This increase was offset by a decrease in the price we paid for natural gas in 2006. Our effective cost per gallon decreased to \$1.06 per gallon in 2006, which represents a \$.10 per gallon decrease over 2005. Cost of sales also decreased between periods due to a decrease of \$5.4 million in station construction costs between periods. For more information regarding natural gas prices in 2006 and 2005, please read "Qualitative and Quantitative Disclosures About Market Risk" on page 50.

*Derivative (gains) losses.* Derivative losses were \$79.0 million in the year ended December 31, 2006, as compared to derivative gains of \$44.1 million in the year ended December 31, 2005. This decrease was primarily the result of fewer futures contracts sold in 2006 as opposed to 2005 (and at reduced prices), plus a \$78.7 million loss incurred in 2006 on certain futures contracts that were transferred to and assumed by our majority stockholder, Boone Pickens, in December 2006. Unrealized losses also increased in 2006 by \$7.8 million based on the mark-to-market adjustments of our open positions between periods. We did not have any open futures positions at December 31, 2006.

*Selling, general and administrative.* Selling, general and administrative expenses increased by \$3.8 million to \$20.9 million in the year ended December 31, 2006, from \$17.1 million in the year ended December 31, 2005. This increase was primarily the result of an increase in salaries and benefits between periods of \$2.4 million related to the hiring of additional employees and pay raises provided to our existing employees. Our employee count increased from 84 at December 31, 2005 to 97 at December 31, 2006. \$275,000 of the salaries and benefits increase was related to increased salaries related to hiring an incremental 13 employees during the year. In addition, our travel and entertainment expenses increased by \$372,000 between periods, primarily due to increased travel expenses related to our sales team in 2006. Our legal, accounting and auditing, and software implementation expenses increased by a combined \$1.3 million between periods as we implemented several new software packages, including new CNG and LNG billing systems and our new inventory and repair and maintenance tracking system, and we increased our legal and accounting infrastructure in anticipation of becoming a public company. We also spent an additional \$200,000 in 2006 on maintenance projects for the Pickens Plant. These increases were offset by a \$2.0 million decrease in marketing and policy and promotion expenses between periods.

*Depreciation and amortization.* Depreciation and amortization increased by \$1.9 million to \$5.8 million in the year ended December 31, 2006, from \$3.9 million in the year ended December 31, 2005. This increase was primarily the result of a full-year's depreciation in 2006 on the assets placed in service in 2005, including the Pickens Plant, and the depreciation on the LNG tanker trailers and station assets placed in service during 2006.

*Interest (income) expense, net.* Interest (income) expense, net increased by \$686,000 to \$746,000, in the year ended December 31, 2006 from \$60,000 in the year ended December 31, 2005. This increase was primarily the result of an increase in interest income during 2006 due to higher average cash balances on hand in 2006 associated with additional capital contributions

received in 2006 and the increased interest income earned in 2006 on excess margin deposits made on certain futures contracts. These increases were offset by increased interest expense during 2006 on advances made from a stockholder to fund the excess margin deposits on the associated futures contracts. See "Certain Relationships and Related Party Transactions—Revolving Line of Credit with Boone Pickens" on page 96.

*Other expense, net.* Other expense, net, was \$255,000 in the year ended December 31, 2006, as compared to \$141,000 in the year ended December 31, 2005. The increase is primarily due to recording the expenses associated with closing six CNG stations in Canada during 2006.

#### **Fiscal Year Ended December 31, 2005 Compared to Fiscal Year Ended December 31, 2004**

*Revenue.* Revenue increased by \$20.4 million to \$78.0 million in the year ended December 31, 2005, from \$57.6 million in the year ended December 31, 2004. This increase was primarily the result of an increase in the number of CNG and LNG gallons delivered from 46.3 million gasoline gallon equivalents to 56.8 million gasoline gallon equivalents. Included in our new customers for 2005 were three new transit agencies (Dallas Area Rapid Transit, City of Mesa, and City of Santa Clarita) and two city refuse operators (the City and County of Sacramento) which accounted for 2.7 million gallons of the increase. The remaining increase in gallons delivered was due to the addition of several new customers between periods and incremental growth at several of our previously-existing customers. Revenue also improved because of increased prices we charged our customers who pay on an index-plus basis in 2005 due to rising natural gas prices. Our effective price per gallon rose to \$1.24 per gallon in 2005, which represents a \$0.17 per gallon increase over 2004.

*Cost of sales.* Cost of sales increased by \$23.2 million to \$72.0 million in the year ended December 31, 2005, from \$48.8 million in the year ended December 31, 2004. This increase was primarily due to the increased number of CNG and LNG gallons delivered and the increased price of natural gas in 2005. Our effective cost per gallon rose to \$1.16 per gallon in 2005, which represents a \$0.28 per gallon increase over 2004. This cost increase was offset by a \$1.7 million reduction in construction costs in 2005 compared to 2004.

*Derivative (gains) losses.* Derivative gains increased by \$33.5 million to \$44.1 million in the year ended December 31, 2005, from \$10.6 million in the year ended December 31, 2004. This increase was primarily the result of selling more futures contracts at significant gains in 2005 as opposed to 2004 due to the increase in natural gas prices that occurred in 2005.

*Selling, general and administrative.* Selling, general and administrative increased by \$6.0 million to \$17.1 million in the year ended December 31, 2005, from \$11.1 million in the year ended December 31, 2004. This increase was primarily the result of an increase in sales and marketing expense and an increase in salaries and benefits related to the hiring of additional employees and pay raises provided to our existing employees. Sales and marketing expense increased \$3.4 million and salaries and benefits increased \$0.8 million between periods. Our employee count increased from 71 at December 31, 2004 to 84 at December 31, 2005. \$0.2 million of the salaries and benefits increase was related to increased salaries related to hiring 13 additional employees.

*Depreciation and amortization.* Depreciation and amortization increased by \$0.1 million to \$3.9 million in the year ended December 31, 2005, from \$3.8 million in the year ended December 31, 2004. This increase was primarily the result of the construction of two CNG stations and the purchase of five LNG tanker trailers in 2005, resulting in higher depreciation expense for the year.

*Interest (income) expense, net.* Interest (income) expense, net, decreased by \$0.2 million to \$60,000 of income in the year ended December 31, 2005, from \$97,000 of expense in the year ended December 31, 2004. This increase was primarily the result of an increase in interest income during 2005 due to higher average cash balances on hand in 2005 associated with the sale of futures contracts and additional capital contributions received in 2005. Interest expense for the year ended December 31, 2005 was essentially the same as for the year ended December 31, 2004.

*Other expense, net.* Other expense, net, decreased by \$0.5 million to \$0.1 million in the year ended December 31, 2005, from \$0.6 million in the year ended December 31, 2004. In 2004, we wrote off costs of \$0.3 million related to a proposed acquisition that was abandoned during the year.

## Quarterly Results of Operations

The following table sets forth our quarterly consolidated statements of operations data as a percentage of net revenue for the nine quarters ended March 31, 2007. The information for each quarter is unaudited and we have prepared it on the same basis as the audited consolidated financial statements appearing elsewhere in this prospectus. This information includes all adjustments that management considers necessary for the fair presentation of such data. The quarterly data should be read together with our consolidated financial statements and related notes appearing elsewhere in this prospectus. The results of operations for any one quarter are not necessarily indicative of results for any future period.

	Quarter ended								
	Mar 31, 2005	June 30, 2005	Sept 30, 2005	Dec 31, 2005	Mar 31, 2006	June 30, 2006	Sept 30, 2006	Dec 30, 2006	Mar 31, 2007
	(Unaudited)								
Revenue	\$ 13,794,440	\$ 16,857,397	\$ 22,027,180	\$ 25,276,066	\$ 21,033,865	\$ 21,521,127	\$ 22,245,867	\$ 26,746,457	\$ 28,167,044
Operating expenses:									
Cost of sales	12,223,128	15,122,351	21,039,502	23,619,096	19,142,726	17,552,518	18,237,804	19,114,853	21,321,159
Derivative (gains) losses	(15,030,026)	(15,833,949)	(33,121,997)	19,918,228	282,348	—	64,999,238	13,713,361	—
Selling, general and administrative	3,886,657	4,137,384	4,359,583	4,724,801	4,882,141	4,383,543	5,599,136	5,995,360	6,299,878
Depreciation and amortization	823,382	888,972	1,077,088	1,159,102	1,199,720	1,401,009	1,620,387	1,543,883	1,576,057
Total operating expenses	1,903,141	4,314,758	(6,645,824)	49,421,227	25,506,935	23,337,070	90,456,565	40,367,457	29,197,094
Operating income (loss)	11,891,299	12,542,639	28,673,004	(24,145,161)	(4,473,070)	(1,815,943)	(68,210,698)	(13,621,000)	(1,030,050)
Interest (income) expense, net	18,047	(37,297)	6,630	(47,160)	(165,306)	(245,494)	(408,143)	72,604	(292,212)
Other (income) expense, net	13,927	25,621	5,448	95,925	24,972	(67,038)	53,141	244,404	123,372
Income (loss) before income taxes	11,859,325	12,554,315	28,660,926	(24,193,926)	(4,332,736)	(1,503,411)	(67,855,696)	(13,938,008)	(861,210)
Income tax expense (benefit)	4,772,802	5,052,501	11,534,628	(9,736,878)	(1,286,823)	(446,513)	(26,642,375)	16,104,504	8,969
Net Income (loss)	\$ 7,086,523	\$ 7,501,814	\$ 17,126,298	\$ (14,457,048)	\$ (3,045,913)	\$ (1,056,898)	\$ (41,213,321)	\$ (30,042,512)	\$ (870,179)

	Quarter ended								
	Mar 31, 2005	June 30, 2005	Sept 30, 2005	Dec 31, 2005	Mar 31, 2006	June 30, 2006	Sept 30, 2006	Dec 30, 2006	Mar 31, 2007
	(Unaudited)								
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Operating expenses:									
Cost of sales	88.6%	89.7%	95.5%	93.4%	91.0%	81.6%	82.0%	71.5%	75.7%
Derivative (gains) losses	(109.0)%	(93.9)%	(150.4)%	78.8%	1.3%	0.0%	292.2%	51.3%	0.0%
Selling, general and administrative	28.2%	24.5%	19.8%	18.7%	23.2%	20.4%	25.2%	22.4%	22.4%
Depreciation and amortization	6.0%	5.3%	4.9%	4.6%	5.7%	6.5%	7.3%	5.8%	5.6%
Total operating expenses	13.8%	25.6%	(30.2)%	195.5%	121.2%	108.5%	406.6%	150.9%	103.7%
Operating income (loss)	86.2%	74.4%	130.2%	(95.5)%	(21.2)%	(8.5)%	(306.6)%	(50.9)%	(3.7)%
Interest (income) expense, net	0.1%	(0.2)%	0.0%	(0.2)%	(0.8)%	(1.1)%	(1.8)%	0.3%	(1.0)%
Other (income) expense, net	0.1%	0.2%	0.0%	0.4%	0.1%	(0.3)%	0.2%	0.9%	0.4%
Income (loss) before income taxes	86.0%	74.4%	130.2%	(95.7)%	(20.5)%	(7.1)%	(305.0)%	(52.1)%	(3.1)%
Income tax expense (benefit)	34.6%	30.0%	52.4%	(38.5)%	(6.1)%	(2.1)%	(119.7)%	60.2%	0.0%
Net Income (loss)	51.4%	44.4%	77.8%	(57.2)%	(14.4)%	(5.0)%	(185.3)%	(112.3)%	(3.1)%

## Seasonality and Inflation

To some extent, we experience seasonality in our results of operations. Natural gas vehicle fuel 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, taxes, repairs, maintenance 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.

## Liquidity and Capital Resources

Our principal sources of liquidity have consisted of cash provided by operations, cash and cash equivalents, the issuance of common stock, often in association with the exercise of certain warrants that were callable at our option, and in 2006, a revolving line of credit with Boone Pickens, our majority stockholder. In addition to funding operations, our principal uses of cash have been, and are expected to be, the construction of new fueling stations, the construction of a new LNG liquefaction plant in California, the purchase of new LNG tanker trailers, the financing of natural gas vehicles for our customers, and general corporate purposes including working capital for our expansion.

We financed our operations in the first three months of 2007 primarily through cash provided by operations. At March 31, 2007, we had total cash and cash equivalents of \$11.6 million compared to \$0.9 million at December 31, 2006. Cash provided by operating activities was \$17.6 million for the three months ended March 31, 2007 compared to cash used in operations of \$3.8 million for the three months ended March 31, 2006. The increase in operating cash flow was primarily due to the collection of a \$22.9 million receivable that was generated on December 28, 2006 when we transferred certain futures contracts to Boone Pickens. Also adding to the operating cash flow increase between periods was a \$6.3 million reduction of income tax payments between periods. Offsetting these increases was the collection of \$8.7 million of cash in the first three months of 2006 when we sold certain hedge positions. We did not have any futures contracts outstanding during the first three months of 2007.

We financed our operations in 2006 primarily through cash on hand, borrowing funds from a related party and the issuance of common stock upon the exercise of certain warrants and options. At December 31, 2006, we had total cash and cash equivalents of \$0.9 million compared to \$28.8 million at December 31, 2005. Cash used in operating activities was \$36.6 million for the year ended December 31, 2006, compared to cash provided by operations of \$36.6 million for the year ended December 31, 2005. The decrease in operating cash flow was substantially due to fewer futures contracts sold in 2006 as opposed to 2005. In addition, we made \$22.9 million of margin deposits on certain futures contracts that were not returned to us until January 2007. We also made \$6.3 million of income tax payments during 2006 and no income tax payments during 2005. In 2006, we also loaned \$2.4 million, net of repayments, to our customers to finance certain vehicle purchases and we advanced \$2.6 million to certain manufacturers to fund the costs associated with building or converting certain vehicles.

Cash used in investing activities was \$6.9 million for the three months ended March 31, 2007 compared to \$1.8 million for the three months ended March 31, 2006. The \$5.1 million increase between periods was primarily due to increased purchases of property and equipment and

increased construction in progress activity in the first three months of 2007, including \$4.6 million that we spent on developing our LNG liquefaction plant in California.

Cash used in investing activities was \$12.4 million for the year ended December 31, 2006 compared to \$22.3 million for the year ended December 31, 2005. The change was primarily due to a \$14.8 million decrease between periods related to the purchase of the Pickens Plant in 2005, offset by increased purchases of property and equipment in 2006, which included 15 LNG tanker trailers, several CNG station projects and upgrades, several system and infrastructure upgrades, and certain improvements to our Pickens Plant.

Cash used in financing activities for the three months ended March 31, 2007 was \$0.0 million compared to cash provided by financing activities of \$3.9 million for the three months ended March 31, 2006. The \$3.9 million decrease between periods is attributable to the fact that we sold no shares of common stock in the first three months of 2007, other than an option exercise for 1,250 shares of common stock for proceeds of \$3,700.

Cash provided by financing activities for the year ended December 31, 2006 was \$21.2 million, compared to \$13.2 million for the year ended December 31, 2005. The change is primarily due to an increase in sales of our common stock of \$22.0 million during 2006 compared to \$14.0 million during 2005.

In August 2006, we entered into a \$50 million unsecured revolving line of credit with Boone Pickens, which allowed us to borrow and repay up to \$50 million in principal at any time prior to the maturity of the note on August 31, 2007. We used this line of credit for margin deposits related to our futures contracts. This line of credit was increased to \$100 million in November 2006. In December 2006, Mr. Pickens cancelled all amounts we owed to him under this line of credit (approximately \$69.7 million) and assumed all of our outstanding futures contracts, together with all associated liabilities and obligations (approximately \$78.7 million), in exchange for (1) the issuance to Mr. Pickens of a five-year warrant to purchase up to 15,000,000 shares of our common stock at a purchase price of \$10.00 per share and (2) the assignment to Mr. Pickens of any refunds of margin deposits from Sempra that were made using money borrowed under the line of credit. For accounting purposes, the derivative obligation of \$78.7 million was removed from the Company's balance sheet, and the common stock warrants were recorded as an increase of stockholders' equity. For more information about this cancellation of indebtedness and assumption of liabilities, see "Certain Relationships and Related Party Transactions—Obligation Transfer and Securities Purchase Agreement with Boone Pickens" on page 96. The revolving line of credit was terminated in December 2006.

Our financial position and liquidity are, and will be, influenced by a variety of factors, including our ability to generate cash flows from operations, deposits and margin calls on our futures positions, the level of any outstanding indebtedness and the interest we are obligated to pay on this indebtedness, and our capital expenditure requirements, which consist primarily of station construction, LNG plant construction and the purchase of LNG tanker trailers and equipment.

We intend to fund our principal liquidity requirements through cash and cash equivalents, cash provided by operations and, if necessary, through debt or equity financings. We believe our sources of liquidity will be sufficient to meet the cash requirements of our operations for at least the next twelve months.

## Capital Expenditures

We expect to make capital expenditures, net of grant proceeds, of approximately \$23.7 million in 2007 to construct new natural gas fueling stations, purchase LNG tanker trailers, and for general corporate purposes. We expect increased station construction activity in 2007. Additionally, we have budgeted approximately \$50 to \$55 million over the course of 2007 and 2008 to construct an LNG liquefaction plant in California which we are in the initial stages of building and anticipate will take approximately 18 months to complete. We also anticipate using \$15 to \$20 million from the proceeds of this offering to finance the purchase of natural gas vehicles by our customers.

## Contractual Obligations

The following represents the scheduled maturities of our contractual obligations as of December 31, 2006:

Contractual Obligations:	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital lease obligations <sup>(a)</sup>	\$ 282,396	\$ 57,499	\$ 133,691	\$ 91,206	\$ 0
Operating lease commitments <sup>(b)</sup>	5,928,961	1,303,366	2,361,130	1,349,217	915,248
"Take or Pay" LNG purchase contracts <sup>(c)</sup>	3,230,850	2,279,900	950,950	0	0
Construction contracts <sup>(d)</sup>	6,190,738	6,190,738	0	0	0
Other long-term contract liabilities <sup>(e)(f)</sup>	8,540,308	8,540,308	0	0	0
<b>Total</b>	<b>\$ 24,173,253</b>	<b>\$ 18,371,811</b>	<b>\$ 3,445,771</b>	<b>\$ 1,440,423</b>	<b>\$ 915,248</b>

(a) Consists of obligations under a lease of capital equipment used to finance such equipment. Amounts do not include interest as they are not material.

(b) Consists of various space and ground leases for our offices and fueling stations as well as leases for equipment.

(c) The amounts in the table represent our estimates for our fixed LNG purchase commitments under two "take or pay" contracts.

(d) Consists of our obligations to fund various fueling station construction projects, net of amounts funded through December 31, 2006 and excluding contractual commitments related to station sales contracts.

(e) Consists of our obligations to fund certain vehicles under binding purchase agreements. Subsequent to year end, we paid our additional \$1.7 million related to this commitment.

(f) Subsequent to December 31, 2006, we entered into binding agreements to acquire certain equipment and services related to the construction of our LNG plant in California totalling \$27.7 million, of which \$5.0 has been paid as of April 27, 2007.

## Off-Balance Sheet Arrangements

At March 31, 2007, we had the following off-balance sheet arrangements:

- outstanding standby letters of credit totaling \$0.2 million,
- outstanding surety bonds for construction contracts and general corporate purposes totaling \$4.8 million,
- two take or pay contracts for the purchase of LNG,



- operating leases where we are the lessee,
- capital leases where we are the lessor and owner of the equipment, and
- firm commitments to sell CNG and LNG at fixed prices or index-plus prices subject to a price cap.

We provide standby letters of credit primarily to support facility leases and 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 standby letters of credit or 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.

We have entered into two contracts with two vendors to purchase LNG that require us to purchase minimum volumes from the vendors. One contract expires on July 1, 2007, and the other contract expires in June 2008. The minimum commitments under these two contracts are included in the table set forth in "Take or Pay" LNG Purchase Contracts above.

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 2016. Additionally, in November 2006, we entered into a ground lease for 36 acres in California on which we plan to build an LNG liquefaction plant. The lease is for an initial term of 30 years, beginning on the date that the plant commences operations, and requires annual base rent payments of \$230,000 per year, plus \$130,000 per year for each 30,000,000 gallons of production capacity, 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 for certain other services that the landlord will provide. Our obligations under the lease are contingent on us obtaining the necessary permits and approvals required in the lease related to the construction and operation of the LNG liquefaction plant, which are in process. As the payments are contingent obligations, they are not included in "Operating Lease Commitments" in the "Contractual Obligations" table set forth above.

We are also the lessor in various leases with our customers, whereby our customers lease from us certain stations and equipment that we own. The leases generally qualify as sales-type leases for accounting purposes, which result in our customers, the lessees, reflecting the property and equipment on their balance sheets.

### **Qualitative and Quantitative Disclosures about Market Risk**

*Commodity Risk.* We are subject to market risk with respect to our sales of natural gas, which has historically been subject to volatile market conditions. Our exposure to market risk is heightened when we have a fixed price or price cap sales contract with a customer that is not covered by a futures contract, or when we are otherwise unable to pass through natural gas price increases to customers. Natural gas prices and availability are affected by many factors, including weather conditions, overall economic conditions and foreign and domestic governmental regulation and relations.

Natural gas costs represented 65% of our cost of sales for 2005, 63% of our cost of sales for 2006 and 49% of our cost of sales for the three months ended March 31, 2007. Prices for natural gas over the six-year period from December 31, 1999 through March 31, 2007, based on the NYMEX daily futures data, has ranged from a low of \$1.65 per Mcf to a high of \$19.38 per Mcf, averaging \$5.11 per Mcf during this period. At March 31, 2007, the NYMEX index price of natural gas was \$7.50 per Mcf.

To reduce price risk caused by market fluctuations in natural gas, we may enter into exchange traded natural gas futures contracts. These arrangements also expose us to the risk of financial loss in situations where the other party to the contract defaults on its contract or there is a change in the expected differential between the underlying price in the contract and the actual price of natural gas we pay at the delivery point.

We account for these futures contracts in accordance with *SFAS No.133, Accounting for Derivative Instruments and Hedging Activities*. Under this standard, the accounting for changes in the fair value of a derivative depends upon whether it has been designated in a hedging relationship and, further, on the type of hedging relationship. To qualify for designation in a hedging relationship, specific criteria must be met and appropriate documentation maintained. Our futures contracts did not qualify for hedge accounting under SFAS No. 133 for the years ended December 31, 2004, 2005 and 2006, and changes in the fair value of the derivatives were recorded directly to our consolidated statements of operations at the end of each reporting period.

The fair value of the futures contracts we use is based on quoted prices in active exchange traded or over the counter markets. The fair value of these futures contracts is continually subject to change due to changing market conditions. The net effect of the realized and unrealized gains and losses related to these derivative instruments for the year ended December 31, 2006 was a \$79.0 million decrease to pre-tax income. We did not have any futures contracts outstanding during the three month period ended March 31, 2007. In an effort to mitigate the volatility in our earnings related to futures activities, in February 2007, our board of directors adopted a revised natural gas hedging policy which restricts our ability to purchase natural gas futures contracts and offer fixed-price sales contracts to our customers. We plan to structure prospective futures contracts so that they will be accounted for as cash flow hedges under SFAS No. 133, but we cannot be certain they will qualify. For more information, please read "—Risk Management Activities" above.

We have prepared a sensitivity analysis to estimate our exposure to market risk with respect to our fixed price and price cap sales contracts as of March 31, 2007. Market risk is estimated as the potential loss resulting from a hypothetical 10.0% adverse change in the fair value of natural gas contracts. The results of this analysis, which assumes natural gas prices are in excess of our customer's price cap arrangements, and may differ from actual results, are as follows:

	<b>Hypothetical adverse change in price</b>	<b>Change in annual pre- tax income (in millions)</b>
Fixed price contracts	10.0%	\$ (1.9)
Price cap contracts	10.0%	\$ (1.4)

As of March 31, 2007 we did not have any futures contracts outstanding.

**Overview**

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 CNG and LNG delivered. We offer a comprehensive solution to enable our customers to run their fleets on natural gas, often with limited upfront expense to the customer. We design, build, finance and operate fueling stations and supply our customers with CNG and LNG. We also help them acquire and finance natural gas vehicles and obtain local, state and federal clean air rebates and incentives. CNG and LNG are cheaper than gasoline and diesel, and are well suited for use by vehicle fleets that consume high volumes of fuel, refuel at centralized locations, and are increasingly required to reduce emissions. According to the U.S. Department of Energy, the amount of natural gas consumed in the United States for vehicle use nearly doubled between 2000 and 2005. We believe we are positioned to capture a substantial share of the growth in the use of natural gas vehicle fuels in the United States given our leading market share and the comprehensive solutions we offer.

We sell natural gas vehicle fuels in the form of both CNG and LNG. CNG is generally used in automobiles and other light to medium duty vehicles as an alternative to gasoline. CNG is produced from natural gas that is supplied by local utilities to CNG vehicle fueling stations, where it is compressed and dispensed into vehicles in gaseous form. LNG is generally used in trucks and other medium to heavy-duty vehicles as an alternative to diesel, typically where a vehicle must carry a greater volume of fuel. LNG is natural gas that is super cooled at a liquefaction facility to -162 degrees Celsius (-260 degrees Fahrenheit) until it condenses into a liquid, which takes up about 1/600th of its original volume as a gas. We deliver LNG to fueling stations via our fleet of 48 tanker trailers. At the stations, LNG is stored in above ground containers until dispensed into vehicles in liquid form.

We serve fleet vehicle operators in a variety of markets, including public transit, refuse hauling, airports, taxis and regional trucking. We believe the fleet market will continue to present a high growth opportunity for natural gas vehicle fuels. Some of the largest potential markets are seaports, airports, public transit and refuse hauling. For example, two of the largest seaports in the United States, Los Angeles and Long Beach, together have adopted a plan to mandate the use of alternative fuels for vehicle fleets serving those seaports, and other seaports are also considering alternative fuels. In addition, there is considerable room for growth in our key markets of public transit and refuse hauling, with approximately 15% of public transit vehicles and approximately 1% of refuse haulers currently using natural gas fuels, as stated by INFORM, Inc., a national nonprofit organization focused on environmental concerns (INFORM), and by the American Public Transportation Association.

We generate revenues primarily by selling CNG and LNG, and to a lesser extent by building, operating and maintaining CNG and LNG fueling stations. At March 31, 2007, we served over 200 fleet customers operating over 14,000 natural gas vehicles. We own, operate or supply 172 natural gas fueling stations in Arizona, California, Colorado, Maryland, Massachusetts, New Mexico, New York, Texas, Washington, Georgia, Wyoming and Canada. In 2005, we acquired an LNG liquefaction plant near Houston, Texas, which we renamed the Pickens Plant, capable of producing up to 35 million gallons of LNG per year. We are also in the process of building an LNG liquefaction plant in California. We expect this plant will be operational in 2008, assuming we obtain required permits on a timely basis and assuming we do not experience significant construction delays. We anticipate this plant will initially be capable of producing up to 60 million gallons of LNG per year, and will be expandable to produce up to 90 million gallons of LNG per year.

## **Our History**

In the late 1980s, while serving as the chief executive officer of a successor to Mesa Petroleum Co., a company which he founded, Boone Pickens became convinced that (1) natural gas is a superior vehicle fuel because it is cheaper, cleaner and safer than gasoline and diesel, and (2) almost all natural gas consumed in the United States is produced in the United States and Canada. Over the next decade, Mr. Pickens and Andrew Littlefair, our chief executive officer, pioneered the U.S. market for natural gas as a vehicle fuel. Mr. Pickens and Mr. Littlefair worked to educate the public and government about the economic and environmental benefits of natural gas as a vehicle fuel. They were early leaders of the Natural Gas Vehicle Coalition (today, NGV America), the leading advocate for natural gas vehicles in the United States. Mr. Littlefair is chairman of that organization.

When Mr. Pickens retired from Mesa in 1996, he and Mr. Littlefair formed Pickens Fuel Corp., which acquired the natural gas fueling businesses of Mesa and Southern California Gas Company. In 2001, Pickens Fuel Corp. combined its business with BCG eFuels, Inc. an owner and operator of natural gas fueling stations in Canada. That same year, we formed Clean Energy Fuels Corp. to own the combined operations. For accounting purposes, BCG eFuels, Inc was deemed the acquiring entity and is our predecessor entity. In December 2002, we acquired the former natural gas fueling stations of Public Service Company of Colorado and TXU Corp. Through additional acquisitions and investment in fueling stations, we have continued to expand geographically in the United States and Canada.

## **The Market for Vehicle Fuels**

According to the U.S. Department of Energy's Energy Information Administration, or EIA, the United States consumed an estimated 175 billion gallons of gasoline and diesel in 2006, and demand is expected to grow at an annual rate of 1.4% to 250 billion gallons by 2030. Gasoline and diesel comprise the vast majority of vehicle fuel currently consumed in the United States, while CNG, LNG and other alternative fuels represent less than 3% of this consumption, according to the EIA. Alternative fuels, as defined by the U.S. Department of Energy, include natural gas, ethanol, propane, hydrogen, biodiesel, electricity and methanol.

In recent years, domestic prices for gasoline and diesel fuel have increased significantly, largely as a result of higher crude oil prices in the global market and limited refining capacity. Crude oil prices have been affected by increased demand from developing economies such as China and India, global political issues, weather-related supply disruptions and other factors. Industry analysts believe that crude oil producers will continue to face challenges to find and produce crude oil reserves in quantities sufficient to meet growing global demand, and that the costs of finding crude oil will increase. Some analysts predict that crude oil prices will remain at high levels compared to historical standards. Limited domestic refining capacity is also expected to continue to impact gasoline and diesel prices.

We believe that crude oil, gasoline and diesel prices that are high relative to historical averages, combined with increasingly stringent federal, state and local air quality regulations, have created a favorable market opportunity for alternative vehicle fuels in the United States and Canada. Natural gas as an alternative fuel has been more widely used for many years in other parts of the world such as in Europe and Latin America, based on the number of natural gas vehicles in operation in those regions. The Gas Vehicle Report estimates that there are approximately 150,000 natural gas vehicles in the United States compared to approximately five million worldwide as of December 31, 2006.

We believe that natural gas is an attractive alternative to gasoline and diesel for vehicle fuel in the United States and Canada because it is cheaper, cleaner and safer than gasoline or diesel. In addition, almost all natural gas consumed in the United States and Canada is produced from U.S and Canadian sources. According to the EIA, in 2006 there were approximately 43 billion cubic feet or 300 million gasoline gallon equivalents of natural gas consumed in the United States for vehicle use, which is nearly double the amount consumed in 2000. It is estimated that there are over 750 natural gas fueling stations in the United States, according to the list of available stations provided by the U.S. Department of Energy's Energy Efficiency and Renewable Energy Agency, including stations in 45 states.

Natural gas vehicles use internal combustion engines similar to those used in gasoline or diesel powered engines. A natural gas vehicle uses airtight storage cylinders to hold CNG or LNG, specially designed fuel lines to deliver natural gas to the engine, and an engine tuned to run on natural gas. Natural gas fuels have higher octane content than gasoline or diesel, and the acceleration and other performance characteristics of natural gas vehicles are similar to those of gasoline or diesel powered vehicles of the same weight and engine class. Natural gas vehicles, whether they run on CNG or LNG, are refueled using a hose and nozzle that makes an airtight seal with the vehicle's gas tank. For heavy-duty vehicles, natural gas vehicles operate more quietly than diesel powered vehicles. According to Deere & Company (John Deere), the decibels generated by running one diesel engine equal the decibels generated by running nine natural gas engines.

Almost any current make or model passenger car, truck, bus or other vehicle is capable of being manufactured or modified to run on natural gas. However, in North America only a limited number of models of natural gas vehicles are available. Only Honda offers a factory built natural gas passenger vehicle, a version of its Civic 4-door Sedan called the GX. A limited number of other passenger vehicles and light-duty trucks are available through small volume manufacturers. These manufacturers offer current model vehicles made by others that they have modified to use natural gas and which have been certified to meet federal and state emissions and safety standards. Some GM and Ford models are now certified, including the Ford Crown Victoria, Ford E Van and GM Savanna/Express Van. Modifications involve removing the gasoline storage and fuel delivery system and replacing it with high pressure fuel storage cylinders and fuel delivery lines.

Heavy-duty natural gas vehicles are manufactured by traditional original equipment manufacturers. These manufacturers offer some of their standard model vehicles with natural gas engines and components, which they make or purchase from engine manufacturers. Cummins Engine Co., Inc. and John Deere manufacture natural gas engines for medium and heavy-duty fleet applications, including transit buses, refuse trucks, delivery trucks and street sweepers.

Heavy-duty natural gas vehicles manufactured by traditional original equipment manufacturers include:

*Trucks*

- Autocar
- American LaFrance
- Crane Carrier Company
- Peterbilt

### *Shuttles and Buses*

- Blue Bird (school buses)
- Eldorado National (shuttles and transit buses)
- New Flyer (transit buses)
- North American Bus Industries, Inc. (transit buses)
- Orion Bus Industries (transit buses)
- Thomas Built Buses (school buses)

### *Speciality*

- Allianz Madvac (street sweepers and specialty sweepers and vacuums)
- Tymco (street sweepers)

We believe that the use of natural gas as a vehicle fuel has several key benefits:

*Cheaper* — Through 2003 in the United States, based upon EIA data, average CNG prices have generally been cheaper than average regular unleaded gasoline prices on a gasoline gallon equivalent basis, and LNG prices have generally been comparable to diesel fuel prices on a diesel gallon equivalent basis. Since 2004, CNG and LNG have become increasingly less expensive than gasoline and diesel. For example, in 2006 the average retail CNG price we charged in California, our most significant market, was \$0.67 less per gasoline gallon equivalent than the average California regular unleaded gasoline price of \$2.83 per gallon according to OPIS, and these CNG savings increased to \$0.68 per gallon in the first three months of 2007 and \$0.89 per gallon for the month of March 2007. In addition, CNG and LNG are also cheaper than the three other most widely available alternative fuels, propane, ethanol blends and biodiesel as reported by the U.S. Department of Energy (DOE).

Tax incentives also enhance the cost-effectiveness of CNG and LNG. Beginning in October 2006, and continuing through September 30, 2009, a U.S. federal excise tax credit of \$0.50 per gasoline gallon equivalent of CNG and \$0.50 per liquid gallon of LNG sold for vehicle use is available to sellers of the fuel. A U.S. federal income tax credit is also available to offset 50% to 80% of the incremental cost of purchasing new or converted natural gas vehicles.

We believe that diesel fuel will become more expensive over the next several years as refineries must meet additional stringent federal sulfur diesel standards by 2010. Additionally, 2007 and later diesel engine models must meet 2007 federal heavy-duty engine emission standards as well as more restrictive standards in 2010, which will require significant modification cost.

The chart below shows our average pump prices in California for CNG relative to California retail regular gasoline and diesel prices on a gasoline gallon equivalent basis for the periods indicated. CNG and LNG powered vehicles produce roughly the same miles per gallon as comparable to gasoline or diesel powered vehicles.

**Average California Retail Prices**  
(Price per gasoline gallon equivalent)<sup>(1)</sup>

	Year ended December 31,		Three months ended March 31, 2007
	2005	2006	
California retail gasoline <sup>(2)</sup>	\$ 2.50	\$ 2.83	\$ 2.80
California retail diesel <sup>(2)(3)</sup>	2.46	2.76	2.72
California CNG — Clean Energy	2.15	2.16	2.12
CNG discount to gasoline	(0.35)	(0.67)	(0.68)
CNG discount to diesel	(0.31)	(0.60)	(0.60)

- (1) Industry analysts typically use the gallon equivalent method in an effort to provide a normalized or "apples to apples" comparison of the relative cost of CNG compared to gasoline and diesel. Using this method, the cost of CNG is presented based on the amount of CNG required to generate the same amount of energy, measured in British Thermal Units or BTUs, as a gallon of gasoline.
- (2) Retail gasoline and diesel prices from Oil Price Information Service (OPIS).
- (3) Converted to gasoline gallon equivalents assuming 125,000 MMBTU and 139,000 MMBTU per gallon of gasoline and diesel, respectively.

The following chart shows the estimated incremental cost in California by market of a natural gas vehicle compared to a gasoline or diesel vehicle and the estimated annual fuel cost savings that may be achieved by the natural gas vehicle.

**Representative Annual Per Vehicle Fuel Cost Savings**  
**by Fleet Market for California**  
**Based on Fuel Prices as of March 31, 2007**

Market	Estimated incremental cost (\$) <sup>(1)</sup>	Fuel	Estimated annual fuel usage (gallons) (2)(3)	Cost of fuel CNG or LNG vs. gasoline or diesel (gallons) <sup>(2)(4)</sup>	Estimated annual fuel cost savings
Taxi	\$ 0-\$3,000	CNG or Gasoline	5,000	\$2.40 <sup>(5)</sup> vs. \$3.27 <sup>(5)</sup>	\$ 4,350
Shuttle van	\$7,000	CNG or Gasoline	7,500	\$2.40 <sup>(5)</sup> vs. \$3.27 <sup>(5)</sup>	\$ 6,525
Municipal transit bus (CNG)	\$18,000	CNG or Diesel	16,680	\$1.73 <sup>(6)</sup> vs. \$3.03 <sup>(7)</sup>	\$ 21,684
Refuse truck (CNG)	\$18,000	CNG or Diesel	11,120	\$1.82 <sup>(6)(8)</sup> vs. \$3.43 <sup>(7)</sup>	\$ 17,903
Municipal transit Bus (LNG)	\$18,000	LNG or Diesel	16,680	\$1.77 <sup>(9)</sup> vs. \$3.03 <sup>(7)</sup>	\$ 21,017
Refuse truck (LNG)	\$18,000	LNG or Diesel	11,120	\$2.17 <sup>(8)(9)</sup> vs. \$3.43 <sup>(7)</sup>	\$ 14,011

- (1) Net of federal, state and local government incentives available to offset the incremental cost of acquiring the natural gas vehicle in California. In Southern California, as a result of local incentives, it is possible to convert a taxi without paying any incremental costs.
- (2) CNG and LNG volumes are stated on a gasoline gallon equivalent basis. Industry analysts typically use the gasoline gallon equivalent method in an effort to provide a normalized or "apples to apples" comparison of the relative cost of CNG compared to gasoline and diesel. Using this method, the cost of CNG is presented based on the amount of CNG required to generate the same amount of energy, measure in British Thermal Units, or BTUs, as a gallon of gasoline.
- (3) Average fleet vehicle usage estimated by us based on experience with our customers.

- (4) Fuel prices for municipal transit buses are lower compared to refuse trucks because fuel for municipal buses is not subject to fuel excise taxes.
- (5) CNG retail pricing is based on average Clean Energy California retail station pricing at March 31, 2007. Gasoline retail pricing is based on California average retail gasoline prices at March 31, 2007 as reported by OPIS.
- (6) CNG prices based on average prices paid by Clean Energy's California fleet customers in March 2007.
- (7) Diesel price based on California Air Resources Board reported diesel price in March 2007, adjusted for delivery and applicable taxes.
- (8) Excludes California Board of Equalization taxes of \$0.0875 per GGE on CNG vehicles and \$0.06 per gallon on LNG vehicles as these customers typically buy an annual permit of \$168 per truck over 12,000 GVW that allows them to opt out of this tax.
- (9) LNG prices based on wholesale pricing adjusted for taxes and excluding infrastructure costs, which are typically paid by a third party.

*Cleaner* — Use of CNG and LNG as a vehicle fuel creates less pollution than use of gasoline or diesel, based on data from South Coast Air Quality Management District studies. On-road mobile source emissions reductions are becoming increasingly important because many urban areas have failed to meet federal air quality standards. This failure has led to the need for more stringent governmental air pollution control regulations.

The table below shows examples of emissions reductions for specified natural gas vehicles versus their gasoline or diesel powered counterparts. Comparisons are based on information submitted to the EPA by the manufacturer and reflect vehicles of the same make, model and engine size.

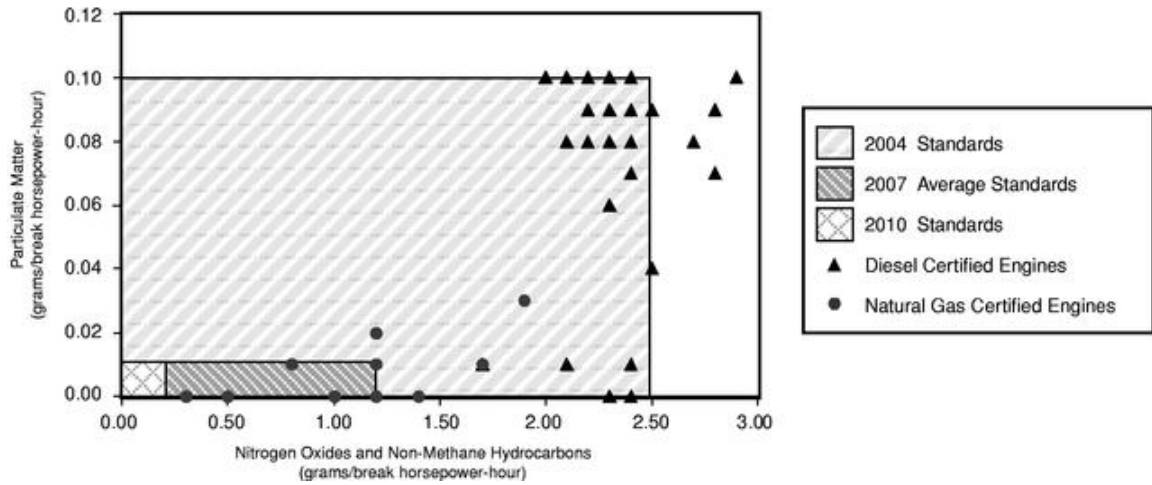
Model	Fuel	Certified maximum grams per mile		
		NOx	CO	PM
2007 Honda Civic	Gasoline	0.040	2.100	0.010
2007 Honda Civic	CNG	0.010	1.050	0.005
<b>Emission Reduction</b>		<b>75%</b>	<b>50%</b>	<b>50%</b>
<b>Model</b>				
2007 Chevrolet Silverado 2500	Gasoline	0.300	4.200	0.060
2007 Chevrolet Silverado 2500	CNG	0.200	4.200	0.020
<b>Emission Reduction</b>		<b>33%</b>	<b>0%</b>	<b>67%</b>

For heavy-duty diesel engines, new federal government emissions requirements are effective in 2007, and more stringent requirements go into effect in 2010. The requirements limit permissible emissions from new vehicle engines and will likely result in increases in the costs of both acquiring and operating diesel vehicles. In order to comply with the 2007 to 2010 standards, we expect 2007 and later engine models to employ significant new emissions control technologies, such as advanced NOx and particulate matter (PM) traps, exhaust gas recirculation systems, and Selective Catalytic Reduction, which are expected to increase the cost of a diesel vehicle manufactured by as much as \$10,000 to \$20,000 per vehicle or more, according to estimates by industry sources. The new standards will also require the use of more expensive, ultra-low sulfur diesel fuels, which are necessary to enable the use of the latest emission control technologies. We expect these additional controls will generally result in lower performance and fuel economy and increase the cost to own and operate diesel vehicles. In addition, current state and local rules in some cases require modifications to reduce emissions from existing diesel vehicles.



By comparison, most natural gas vehicles already meet the 2007 standards. The chart below shows the results of comparison tests, published by the South Coast Air Quality Management District, of a sample of diesel and natural gas engines against the federal emissions standards applicable for 2004, 2007 and 2010. The chart shows that some of the diesel engines that were tested did not meet the 2004 standards and none of them met the 2007 or 2010 standards, while a majority of the natural gas engines that were tested met the 2007 standards. Although none of the natural gas engines met the even more stringent 2010 standards, many existing natural gas engines can do so by using an available catalytic converter with an approximate cost of \$4,000 to \$6,000, and by making relatively minor modifications.

**South Coast Air Quality Management District Study: 2006 On-Road Heavy-Duty Engine Certifications Based on Federal Emissions Standards (as of May 19, 2006)**



In addition to the South Coast Air Quality Management District's study of emissions from diesel and natural gas engines against the 2007 and 2010 standards, the District also compared emissions levels of natural gas and other alternative fuels to those of diesel engines. The results, shown in the chart below, demonstrate that natural gas vehicle fuels produce significantly lower emissions than biodiesel, ethanol blends and diesel technologies. The figures show the percentage reduction in NOx and PM compared to emissions from standard diesel engines.

**Proven Commercially Alternative Fuels and Diesel Technologies**

Technology	NOx reduction	PM reduction
Natural gas	350%	70%
Diesel emulsions	10-15%	50-65%
Biodiesel (B20)	-5%-0%	15-20%
Ethanol blends	2-6%	35-40%
Oxidation catalysts for diesel engines	0-3%	~20%
NOx/PM traps for diesel engines	0-25%	>85%
Low-sulfur diesel	Minimal	~20%

Source: South Coast Air Quality Management District — 2007 Air Quality Management Plan Summit Panel

In September 2006, California Governor Arnold Schwarzenegger signed AB 32 into law, which calls for a cap on greenhouse-gas emissions throughout California and a 25% reduction

statewide. Additionally, in February 2007, the governors of the five Western U.S. States, Oregon, California, Washington, New Mexico and Arizona, announced a regional plan to implement market-based programs within 18 months to reduce global warming pollution.

Transportation accounts for more than 40% of California's annual greenhouse-gas emissions, according to the California Energy Commission. In order to reduce the greenhouse gas impact from California's use of transportation fuels, AB 32 establishes an initial goal of reducing the carbon intensity of California's passenger vehicle fuels by at least 10% by 2020 through the use of low carbon fuels. As set forth in a report by TIAX, LLC, on a full life-cycle ("well to wheels") analysis, natural gas as a vehicle fuel already results in greenhouse-gas reductions of up to 27% for light duty vehicles and up to 21% for medium and heavy-duty vehicles.

Biogas is also a means to reduce greenhouse gas emissions. Biogas is natural gas produced from waste streams such as landfills, animal waste "lagoons" and sewage processing plants, and can reduce greenhouse-gas emissions up to a 100%. According to The American Biogas Alliance, biogas can be liquefied or injected into the pipeline and is compatible with existing natural gas fueling infrastructure. Additionally, according to a 1998 DOE study, biogas available from these sources could offset over ten billion gallons of petroleum fuel per year.

*Safer* — As reported by NGV America, CNG and LNG are safer than gasoline and diesel because they dissipate into the air when spilled or in the event of a vehicle accident. When released, CNG and LNG are also less combustible than gasoline or diesel because they ignite only at relatively higher temperatures. The fuel tanks and systems used in natural gas vehicles are subjected to a number of federally required safety tests, such as fire and gunfire tests, pressure extremes and crash testing, per the U.S. Department of Transportation National Highway Traffic Safety Administration. CNG and LNG are generally stored in above ground tanks, and therefore are not likely to contaminate soil or groundwater.

*Domestic supply* — In 2006, the United States consumed 17.1 million barrels of crude oil per day, of which 7.3 million barrels, or 42%, was supplied from the United States and Canada and 58% was imported from other countries according to the EIA. By comparison, the EIA estimates that 98% of the natural gas consumed in the United States in 2006 was supplied from the United States and Canada, making it less vulnerable to foreign supply disruption. In addition, the EIA estimates that approximately 1% of the estimated 21.3 trillion cubic feet of natural gas consumed in the United States in 2006 was used for vehicle fuel. We believe that a significant increase in use of natural gas as a vehicle fuel would not materially impact the overall demand for natural gas supplies.

Analysts believe that there is a significant worldwide supply of natural gas relative to crude oil. In addition to reserves of natural gas in North America, there are also significant reserves of natural gas in other parts of the world that are increasingly being developed for export as LNG to high-consumption markets such as the United States. According to the 2006 BP Statistical Review of World Energy, on a global basis, the ratio of proven natural gas reserves to 2005 natural gas production was 60% greater than the ratio of proven crude oil reserves to 2005 crude oil production. This analysis suggests significantly greater longer term availability of natural gas than crude oil based on current consumption. Per industry analysts, significant investments are being made in the United States in re-gasification plant capacity to increase the amount of LNG that can be imported into the United States. Over the long run, we believe that expected investments in LNG liquefaction capacity worldwide will strengthen the supply outlook for natural gas.

*Bridge to hydrogen* — With the goal of reducing U.S. dependence on foreign energy sources and lowering vehicle emissions, the federal government has launched several initiatives in the last few years that are dedicated to making practical and cost-effective hydrogen fuel cell vehicles widely available by 2020. The most cost-effective approach to produce hydrogen in the near term is to reform hydrogen from natural gas, according to Hydrogen.gov, the U.S. federal government's source of information on hydrogen fuels; and natural gas fueling stations are being considered by government agencies for use in the production of hydrogen for vehicles. In addition, natural gas vehicle fuel suppliers' expertise in working with fuels at very low temperatures or high pressure will be useful in a hydrogen-based transportation system because hydrogen is dispensed either in super-cooled liquid form (similar to LNG) or compressed gas form (similar to CNG). Even before wide scale hydrogen production for vehicle fuels goes into effect, natural gas fuel suppliers may begin supplying hydrogen/CNG blends or HCNG (20% hydrogen, 80% CNG), which the DOE has found to reduce NOx emissions by an additional 50% versus pure CNG.

## **Our Solution**

We provide a comprehensive solution to fleet operators seeking to use natural gas as a vehicle fuel, and we assist our customers in all aspects of their natural gas fuel operations. We help them evaluate, acquire and finance natural gas vehicles, obtain clean air incentives and build natural gas fueling stations. We then operate, supply and maintain the fueling stations, which are owned either by us or our customers.

*CNG and LNG sales* — For most of our CNG customers, we typically purchase natural gas from the local utility or a broker, and the gas is delivered through the utility's pipeline system to the fueling station where it is compressed and dispensed into our customers' vehicles. We also supply a small amount of CNG to individual retail users through publicly accessible sections of some of our fleet fueling stations and our own infrastructure of publicly accessible stations. For our LNG customers, we purchase or produce LNG and then deliver it to fueling stations via our fleet of 48 tanker trailers, in many cases pursuant to multi-year supply contracts.

We offer a variety of pricing alternatives to help customers manage their long-term fuel costs, including fixed price contracts, index plus contracts, and through December 31, 2006, price cap contracts. For fixed price contracts, a price is set based primarily on the prevailing index price of natural gas at the time we enter into the contract, and we are obligated to sell natural gas to the customer at that price for the duration of the contract. Depending on the location of the customer, we use the following indices to determine prevailing index prices of natural gas, among others: Houston Ship Channel, Rocky Mountain Index and SoCal Border. For price cap sale contracts, the price at which we sell natural gas to our customers fluctuates based on index prices for natural gas, but cannot exceed a specified price cap. The price cap was set based primarily on the prevailing index price of natural gas at the time we entered into the contract. For index plus contracts, the price at which we sell natural gas fluctuates based on index prices and has a built-in margin.

*Plan, design and build* — We work with customers to evaluate the most cost-effective approach to convert their fleets to natural gas. We then design and build their fueling infrastructure, serving as general contractor or supervising qualified third-party contractors. We may either sell or lease the station to our customer, or maintain ownership of the station ourselves. We use our significant expertise as the leading natural gas station developer in the United States, having

designed and built 61 stations in the United States and Canada. This process generally involves the following steps:

- assess fleet needs and operating requirements,
- advise and assist in procuring natural gas vehicles,
- plan, size, design and build natural gas fueling stations, and
- provide fueling and maintenance training.

*Finance vehicle acquisition and obtain incentive funding* — We provide, or help our customers obtain, financing to acquire natural gas vehicles or convert their vehicles to operate on natural gas. In 2006, we began to offer to loan our customers up to 100% of the up-front capital needed to purchase natural gas vehicles or convert existing vehicles to use natural gas. We also use our in-house grant specialists to help secure government grants, tax rebates and related incentives for ourselves and our customers, which can otherwise be a challenging process. Our specialists have secured over \$61 million in federal and state funding for ourselves and our customers since 1998. This expertise is important to our customers, as natural gas vehicle fleet operators have access to an increasing number of grants and other incentives to help defray a significant portion of the incremental costs of purchasing natural gas vehicles. In some cases, we may purchase natural gas vehicles or components of natural gas vehicles in anticipation of customer requirements. As of March 31, 2007, we have not generated significant revenue from these activities.

*Operation and maintenance* — We service and maintain our customers' natural gas fueling stations, allowing them to focus more on operating their fleets. Our maintenance and support systems are designed to ensure that our customers will have the fuel necessary to operate their fleets on schedule every day. We monitor our LNG customers' tank levels remotely from our centralized operations center and use this information to manage customer inventory and schedule deliveries. We also remotely monitor equipment at most of our stations to help ensure it is operating properly. If a problem or potential problem is identified, we can either fix it remotely or send a technician to the site, often before the customer becomes aware of the problem. As of March 31, 2007, we had an operations team of 56, including 34 full-time employees dedicated to performing preventative maintenance and available to respond to service requests in 12 states and in Canada. To date, none of our customers has missed a scheduled vehicle deployment due to lack of natural gas fuels supplied by us.

### **Competitive Strengths**

We believe that our competitive advantages are:

*Comprehensive solution* — We believe the package of services we have developed since our founding ten years ago, including a comprehensive solution for designing, building, operating and maintaining natural gas fueling stations, is highly valued by customers and not easily replicated by competitors. As a first mover, our strategically located fueling stations and supply contracts with anchor customers deter new entrants in many of our markets. We also believe our LNG supply relationships with four production plants in the western United States, our own LNG liquefaction plant in Texas and our planned LNG liquefaction plant in California give us a competitive advantage due to limited LNG supply and high transportation costs.

*Critical mass* — In the United States and Canada, we own, operate or supply 172 natural gas fueling stations and we serve over 200 fleet customers operating over 14,000 natural gas vehicles. We have secured initial large fleet customers that cover our investment in fueling infrastructure in key metropolitan areas, which we believe will enable us to increase economies of scale by incrementally adding new fleet customers and by more effectively using our supply and maintenance infrastructure. We also believe the scale of our fueling operations in important geographies and fleet markets, such as at airports, gives us an advantage over new participants who may seek to enter these markets.

*Established brand* — Our history of providing comprehensive natural gas fueling solutions to vehicle fleets, the presence of our branded natural gas fueling stations in several metropolitan areas and our long and prominent involvement in public clean air initiatives across the United States and Canada encouraging the use of natural gas as a vehicle fuel, have enabled us to establish brand recognition among vehicle fleets in key market segments. Metropolitan areas where our branded natural gas fueling stations are located include Los Angeles, San Diego, San Francisco, Denver, Dallas, Phoenix, Seattle and numerous cities in New York. We intend to leverage this brand recognition as we enter new regions, primarily by emphasizing to new customers the success and prominence of our branded natural gas fueling solutions in other fleet markets, as well as by referring new customers to existing fleet customers and to other natural gas industry participants that are familiar with our brand. Our goal is to continue to be the leading brand in the natural gas vehicle fueling market. We reinforce brand awareness through consistent design of our fueling stations, tanker trailers and other points of contact with our customers, as well as through high standards of service. Familiarity with our brand has led many potential customers to consider us a leading candidate for their natural gas vehicle fuel projects.

*Experienced board and management team* — Since the late 1980s, key members of our management team have been at the forefront of advocating the use of natural gas as a vehicle fuel in the United States. We believe our management team is the most experienced in the natural gas vehicle fuels industry. Our executives have an average of over 10 years experience in this industry, with in-depth knowledge about clean air regulation, natural gas vehicle fuels and the design and operation of natural gas fueling stations. Through our largest stockholder, Boone Pickens, we also have a close relationship with BP Capital, a leading investor in natural gas commodities and futures markets, giving us valuable insight into natural gas supply and strong capabilities in hedging and other strategies to reduce commodity risk. Our board and management team serve in key industry associations and clean air advocacy groups and work to educate industry and government leaders about the use of natural gas as a vehicle fuel. Andrew Littlefair, our CEO, is the chairman of NGV America, the leading advocate for natural gas vehicles in the United States.

## **Business Strategy**

Our goal is to capitalize on the anticipated growth in the consumption of natural gas as a vehicle fuel and to enhance our leadership position as that market expands. To achieve these goals, we are pursuing the following strategies:

*Focus on high-volume fleet customers* — We will continue to target fleet customers such as public transit, refuse haulers and regional trucking companies, as well as vehicle fleets that serve airports and seaports. We believe these are ideal customers because they are high-volume users of vehicle fuel and can be served by a centralized fueling infrastructure. We have recently focused on seaports because they are among the biggest air polluters and many are under increasing regulatory pressure to reduce emissions. In November 2006, two of the nation's largest seaports, the Ports of Los Angeles and Long Beach, adopted the San Pedro Bay Clean Air Action Plan which calls for the retrofit or replacement of approximately 10,600 trucks serving those ports so that they

run on cleaner technology, including the replacement of approximately 5,300 trucks by alternative fueled trucks meeting specified "clean" truck standards. We believe that LNG-powered trucks, which are currently the only alternative fueled trucks meeting these standards, will comprise a substantial portion of the 5,300 replacement vehicles. We are building the first fueling station on-site at the ports to fuel these LNG-powered trucks and have selected other potential fueling station sites for development near the ports. In March 2007, the Port of Long Beach awarded us the right to enter into lease negotiations with the port to provide infrastructure that will service the growing LNG-powered port fleets.

*Capitalize on the cost savings of natural gas* — We will continue to capitalize on the cost advantage of natural gas as a vehicle fuel. We educate fleet operators on the advantages of natural gas fuels, principally cost savings relative to gasoline and diesel, as well as government support to purchase natural gas vehicles and cost per gallon incentives, including new incentives that became effective in 2006, which we believe will accelerate the adoption of natural gas vehicles.

*Leverage first mover advantage* — We plan to continue to capitalize on our initial presence in a number of growing markets for CNG and LNG, such as public transit, refuse hauling and airports, where there is increasing regulatory pressure to reduce emissions and where natural gas vehicles are already used in fleets. We plan to expand our business with existing customers as they continue to replace diesel and gasoline powered vehicles with natural gas vehicles. We intend to use our knowledge and reputation in these markets to win business with new customers.

*Optimize LNG supply advantage* — The supply of LNG in the United States and Canada is limited. We believe that increasing our LNG supply will enable us to increase sales to existing customers and to secure new customers. We use our LNG supply relationships and strategically located LNG production capacity to give us an advantage. In addition to our own LNG liquefaction plant in Texas, we have relationships with four LNG supply plants in the western United States. We also are in the initial stages of building an LNG liquefaction plant in California that would enhance our ability to serve California, Arizona and other western U.S. markets and would help us to optimize the allocation of LNG supply we sell to our customers. In the future, we may also acquire natural gas reserves or rights to natural gas production to supply our LNG plants.

*Expand internationally* — We plan to expand our operations internationally in strategic locations where we believe potential fleet customers are ready to adopt natural gas as a vehicle fuel. For example, in April 2007, we executed a non-binding letter of intent with Energy Gas del Perú SAC (EGP) to form a joint venture in Lima, Peru, pursuant to which we intend to build and operate natural gas fueling infrastructure targeted initially at taxi fleets and transit busses. We expect to sign a definitive agreement with EGP by the third quarter of 2007, and we anticipate investing approximately \$5 million during the first year of the joint venture to develop up to five natural gas fueling stations.

## **Operations**

Our revenue principally comes from selling CNG and LNG, and to a lesser extent from operating and maintaining, as well as designing and building, fueling stations. Each of these is discussed below.

*Natural gas for CNG stations* — We source natural gas for CNG stations from local utilities under standard arrangements which provide that we purchase natural gas at a published rate or negotiated prices. The natural gas is delivered via pipelines owned by local utilities to fueling stations where it is compressed on site. In some cases, we receive special rates from local utilities because of our status as a supplier of CNG for transportation.

*LNG production and purchase* — We source LNG from our own plant as well as through purchases from four suppliers in the western United States. Combining these sources provides important flexibility and helps to create a reliable supply for our LNG customers. In November 2005, we acquired an LNG liquefaction plant near Houston, Texas, which we renamed the Pickens Plant. This plant has the capacity to produce 35 million gallons of LNG per year and also includes tanker trailer loading facilities and an 840,000 gallon storage tank. Additionally, we are in the initial stages of building an LNG liquefaction plant in California. We expect this plant will be operational in 2008, assuming we obtain required permits on a timely basis and assuming we do not experience significant construction delays. We anticipate this plant will initially be capable of producing up to 60 million gallons of LNG per year (with expansion capabilities to produce up to 90 million LNG gallons per year) and will enable us to supply our operations in California and Arizona more economically as our supply source will be closer to our customers' locations. We expect this plant will have tanker trailer loading facilities, similar to the Pickens Plant, and a 1.5 million gallon storage tank.

As of March 31, 2007, we had purchase contracts with our four third-party LNG suppliers in the western United States. For the three months ended March 31, 2007, of the LNG we sold, we purchased 61% from these suppliers and the balance was produced at our Pickens Plant. Two of our LNG supply contracts contain "take or pay" provisions which require that we purchase specified minimum volumes of LNG at index-based prices or pay for the amounts that we do not purchase. If we need additional LNG and it is available from these two suppliers, we generally may purchase it from them, typically at the market price for natural gas plus a liquefaction fee. To date, we have taken and sold the required amounts under these two contracts.

Production of LNG in the United States is fragmented, and it may be difficult for us to replace an LNG supplier or source additional LNG without disruption, at competitive prices and near our current or target customers. For further discussion of this topic and other factors that may disrupt the availability of LNG, please see "Risk Factors — Our ability to supply LNG to new and existing customers is restricted by limited production of LNG and by our ability to source LNG without interruption and near our target markets" on page 9.

We have a fleet of 48 tanker trailers which we use to transfer LNG from our third-party suppliers and our Pickens Plant to individual fueling stations. We generally own the tanker trailers and we contract with third parties to provide tractors and drivers. Each LNG tanker trailer is capable of carrying 10,000 gallons of LNG. To optimize our distribution network, we use an automated tracking system that enables us to monitor the location of a tanker trailer at any time, as well as an automated fueling station tank-monitoring system that enables us to efficiently schedule the refilling of each station, which helps ensure that our customers have sufficient fuel to operate their fleets.

*Operations and maintenance* — Typically, we perform operations and maintenance services for CNG stations, which are either owned by us or our customers. Although we may from time to time operate and maintain LNG stations, LNG stations are most often owned and maintained by our customers and supplied by us. Most of the CNG and LNG stations that we maintain or supply are monitored from our centralized operations center, facilitating increased reliability and safety, as well as lower operating costs. This monitoring helps us to ensure the timely delivery of fuel and to respond rapidly to any technical difficulties that may arise. In addition, we have an automated billing system that enables us to track our customers' usage and bill efficiently.

*Our station network* — As of March 31, 2007, we owned, operated or supplied 172 fueling stations for our customers in Arizona, California, Colorado, Maryland, Massachusetts, New Mexico, New York, Texas, Washington, Georgia, Wyoming and Canada. Of these 172 stations, we owned 116 of the stations, and our customers owned the other 56 stations. The breakdown of the services we perform for these stations is set forth below.

**As of March 31, 2007**

	<b>CNG fueling stations</b>	<b>LNG fueling stations</b>	<b>Total stations</b>
Operated, maintained and supplied by Clean Energy	85	5	90
Supplied by Clean Energy, operated and maintained by customer	2	26	28
Operated and maintained by Clean Energy, supplied by customer	53	1	54
<b>Total</b>	<b>140</b>	<b>32</b>	<b>172</b>

For the month of March 2007, 23 of the stations listed in the table above delivered in excess of 100,000 gasoline gallon equivalents, and 27 stations delivered in excess of 25,000 gasoline gallon equivalents (but less than 100,000 gasoline gallon equivalents). Of the 23 stations delivering greater than 100,000 gasoline gallon equivalents per month, 17 relate to transit customers, four relate to airport locations and two relate to industrial customers. Of the 27 stations delivering greater than 25,000 gasoline gallon equivalents (but less than 100,000 gasoline gallon equivalents), eight relate to refuse customers, six relate to airport locations, five relate to public stations in California, five relate to transit customers, two relate to industrial customers and one relates to a municipal customer. In general, stations delivering higher volumes are more cost effective and perform better financially due to operating efficiencies generated by higher volumes and the spreading of a station's fixed costs over a larger revenue base. With respect to station performance by geographic region, stations located in busy metropolitan areas, particularly near airports, experience higher traffic and deliver higher volumes compared to stations located in areas that are less densely populated.

*Station construction and engineering* — We have built 61 natural gas fueling stations, either serving as general contractor or supervising qualified third-party contractors, for ourselves or our customers. We acquired the additional stations we own that we did not construct through acquisition of assets or businesses. We use a combination of custom designed and off-the-shelf equipment to build fueling stations. Equipment for a CNG station typically consists of dryers, compressors, dispensers and storage tanks (which hold a relatively small buffer amount of fuel). Equipment for an LNG station typically consists of storage tanks that hold 10,000 to 15,000 gallons of LNG, plus related dispensing equipment.

A number of our CNG fueling stations have separate public access areas for retail customers, which have the look, feel and fill rates of a traditional gasoline fueling station. Our CNG dispensers are designed to fuel at five to six gasoline gallon equivalents per minute, which is comparable to a traditional gasoline fueling dispenser. Our LNG dispensers are designed to fuel at 40 diesel gallon equivalents per minute, similar to a diesel fueling dispenser. LNG dispensing requires special training and protective equipment because of the extreme low temperatures of LNG.

### **Sales and Marketing**

We have sales representatives in all of our major operating territories, including Los Angeles, San Francisco, San Diego, Phoenix region, Boston region, New York, Denver, Dallas, Seattle, New Mexico, Toronto and Vancouver region. At March 31, 2007, we had 29 employees in



sales and marketing. As we grow our business and enter new markets over the next several years, we intend to continue expanding our sales and marketing team, primarily by adding specialized sales experts to focus on fleet market opportunities in targeted metropolitan areas where we do not yet have a strong presence. We estimate we may need to hire between 40 and 60 sales and marketing employees in the foreseeable future. We market primarily through our direct sales force, attendance at trade shows and participation in industry conferences and events. Our sales and marketing group works closely with federal, state and local government agencies to educate them on the value of natural gas as a vehicle fuel and to keep abreast of proposed and newly adopted regulations that affect the industry. All of our U.S. sales offices except Denver are located in ozone "nonattainment" areas under the Federal Clean Air Act, where government regulations are more likely to mandate vehicle pollution controls.

## Customers and Key Markets

We currently have over 200 fleet customers operating over 14,000 vehicles, including 3,200 transit buses, 1,200 taxis, 800 shuttles and 800 refuse trucks. We target customers in a variety of markets, such as airports, public transit, refuse, seaports, regional trucking, taxis and government fleets. We do not depend on a single customer or a few customers, the loss of one or more of which would have a material adverse effect on us.

- *Airports* — Many U.S. airports face emissions problems and are under regulatory directives and political pressure to reduce pollution, particularly as part of any expansion plans. Many of these airports already have adopted various strategies to address tailpipe emissions, including rental car and hotel shuttle consolidation. In order to reduce emissions levels further, many airports require or encourage service vehicle operators to switch their fleets to natural gas, including airport delivery fleets, door-to-door and parking shuttles, and taxis. To assist in this effort, airports are contracting with service providers to design, build and operate natural gas fueling stations in strategic locations on their property. Airports we serve include Baltimore-Washington International, Dallas-Ft. Worth International, Love Field (Dallas), Denver International, LaGuardia (New York), Los Angeles International, Oakland International, Phoenix Sky Harbor International, San Francisco International and SeaTac International (Seattle). At these airports, our representative customers include taxi and van fleets, as well as parking and car rental shuttles.
- *Transit agencies* — According to the American Public Transportation Association there are over 80,000 municipal buses operating in the United States. In many areas, increasingly stringent emissions standards have limited the fueling options available to public transit operators. For example, the South Coast Air Quality Management District in California has adopted an Air Toxic Control Plan designed to encourage the use of alternative fuel buses. Eligible buses include hybrid gasoline electric buses (which typically cost \$165,000 more than a traditional gasoline or diesel powered bus according to the Union of Concerned Scientists, an environmental watchdog group) or natural gas powered buses (which typically cost \$35,000 more than a traditional gasoline or diesel powered bus, a significant portion of which can be recaptured through tax credits). Some public transit authorities also allow hybrid diesel electric buses (which typically cost \$200,000 more than a traditional gasoline or diesel powered bus). The cost comparison data in this paragraph are from Hybridcenter.org, a project of the Union of Concerned Scientists. Transit agencies have been early adopters of natural gas vehicles, with almost 15% of all buses in the United States operating on LNG, CNG or CNG blends, according to the American Public Transportation Agency 2006 Public Transportation Factbook. Our representative public transit customers

include Dallas Area Rapid Transit, Santa Monica Big Blue Bus, Boston Metropolitan Transit Development Agency, Ft. Worth Transportation Agency, Metropolitan Transit Development Board of San Diego, Phoenix Transit, Tempe Transit and Foothill Transit (California).

- *Refuse haulers* — According to INFORM, there are nearly 200,000 trucks in the United States, consuming approximately one billion gallons of fuel per year, that haul refuse and recyclables from collection points to landfills and recycling facilities. Many refuse haulers are facing pressure from the municipalities they serve to reduce emissions. We estimate there are fewer than 1,400 natural gas powered refuse hauling vehicles operating in the United States on CNG and LNG. Our representative refuse hauler customers include a portion of the California-based operations of both Waste Management and Republic Services, as well as CR&R and NORCAL Waste Systems, and the cities of Bakersfield, Fresno and Sacramento.
- *Seaports* — Seaports are typically large polluters because of emissions from cargo ships, trains, yard hostlers and trucks. Many seaports must reduce emissions levels in connection with any expansion efforts. A practical solution for reducing port emissions is to require that land-based vehicles accessing the seaport use alternative fuels such as natural gas. Such mandates require conversion to alternative fueling systems for regional trucking fleets that transport containers from the seaport to local distribution centers, as well as the yard hostlers that move containers around the shipyard. In November 2006, two of the nation's largest seaports, the Port of Los Angeles and Port of Long Beach, adopted the San Pedro Bay Clean Air Action Plan (CAAP) which calls for the retrofit or replacement of approximately 10,600 trucks serving those ports so that they run on cleaner burning fuels, including the replacement of approximately 5,300 trucks by alternative fueled trucks meeting specified "clean" truck standards. We believe that LNG-

powered trucks, which are currently the only alternative fueled trucks meeting these standards, will comprise a substantial portion of the 5,300 replacement vehicles. In February 2007, under the CAAP's Heavy-Duty LNG Truck Program, the first request for proposals (RFP) was issued which allocates a total of \$22 million in awards (up to \$144,000 per truck) to help cover the replacement of older diesel-powered trucks with new LNG-powered trucks. Our in-house staff is already in the process of submitting proposals for these funds on behalf of a number of eligible trucking companies, and we have agreed to provide these trucking companies with secure LNG fueling (a requirement under the RFP). The Port of Long Beach also issued an RFP to provide an LNG fueling and maintenance facility for the port. In March 2007, we were awarded a contract from the Port of Long Beach to design, build, operate and maintain infrastructure capable of fueling hundreds of LNG-powered trucks. We are also in the process of building a separate LNG fueling station for the ports, which will be the first station to fuel these trucks on site, and we plan to build a number of other fueling stations near the ports that will service these growing fleets. Additionally, we believe the 100 LNG-powered trucks we have on order are the only vehicles available for purchase which meet the engine parameters under the Heavy-Duty LNG Truck Program.

- *Regional trucking* — According to the EPA, the average tractor-trailer uses over 11,500 gallons of fuel per year. Most of these trucks run on diesel fuel, which is becoming more expensive and less desirable as emissions standards become increasingly more stringent. For regional fleets that can use centralized refueling facilities, LNG is a more cost-effective fuel alternative that enables trucking companies to meet the evolving emissions standards. Our representative regional trucking customers include the Dallas

and Houston distribution centers of Sysco Food Services, a wholesale distributor of food products, and the Houston distribution center of H.E. Butt Grocery Company.

- *Taxis* — According to the Automotive Fleet Factbook, there were approximately 156,000 taxis operating in the United States in 2004. We believe that as of 2005, less than 2% of these vehicles were natural gas vehicles. Because taxi fleets travel many miles and can refuel at a central location, they are excellent candidates to use CNG. Natural gas vehicles allow taxi fleets a convenient way to reduce operating costs. We serve approximately 1,100 taxis in Southern California, the San Francisco Bay Area, New York City, Phoenix, Tucson and Seattle.
- *Government fleets* — According to the Federal Highway Administration, or FHA, in 2005, there were over four million government fleet vehicles in operation in the United States, including those operated by federal, state and municipal entities. In California and Texas, for example, according to the FHA there were over 590,000 and 475,000 government vehicles, respectively. As government regulations on pollution continue to become more stringent, government agencies are evaluating ways to make their fleets cleaner and run more economically. Under the federal Energy Policy Act of 2005, 75% of new light-duty vehicles purchased by federal fleet operators are required to run on alternative fuels. Our representative government fleet customers include the United States Navy (San Diego), the National Park Service (Grand Canyon), California Department of Transportation (Los Angeles and Orange County), State of New York, City of Denver, City and County of Los Angeles, City and County of San Francisco, City and County of Dallas and City of Phoenix.

## **Tax Incentives and Grant Programs**

U.S. federal and state government tax incentives and grant programs are available to help fleet operators reduce the cost of acquiring and operating a natural gas vehicle fleet. Incentives are typically available to offset the cost of acquiring natural gas vehicles or converting vehicles to use natural gas, constructing natural gas fueling stations and selling CNG or LNG. The principal incentive programs available are discussed below.

### *Tax Incentives*

Recent amendments to the federal tax laws created a federal excise tax rebate for sales of CNG and LNG vehicle fuels effective October 1, 2006, and continuing through September 30, 2009, and federal income tax credits for purchases of natural gas vehicles and natural gas fueling equipment effective January 1, 2006. These rebates and credits are key incentives designed to enhance the cost-effectiveness of CNG and LNG as vehicle fuels throughout the United States.

*VETC* — Under the Volumetric Excise Tax Credit for alternative fuels, sellers of CNG or LNG will receive a credit of \$0.50 per gasoline gallon equivalent of CNG and \$0.50 per liquid gallon of LNG sold for vehicle fuel use after September 30, 2006 and before October 1, 2009. Based on the service relationship we have with our customers, either we or our customers are able to claim the credit. During this period, we may offset a portion of the \$0.50 credit against the federal excise tax paid by our customers of \$0.183 per gasoline gallon equivalent of CNG sold or \$0.243 per gallon of LNG sold which was increased to these amounts as part of the same legislation. By comparison, the legislation will not provide any offsetting refund to the federal excise tax of \$0.184 per gallon of gasoline or \$0.244 per gallon of diesel fuel sold, which tax rates the legislation did not change. These tax credits for CNG and LNG will lower the cost of natural gas vehicle fuels to sellers, and the savings can be passed on to the customer if the seller elects to do so.

*Vehicle credits* — Effective January 1, 2006, a federal income tax credit became available to taxpayers for 50% of the incremental cost associated with purchasing a new vehicle that operates only on natural gas or another alternative fuel (as compared to the cost of the same vehicle using a gasoline or diesel fuel motor) or a vehicle converted to that form of alternative fuel. The credit is increased to 80% of the incremental cost if the vehicle is certified as meeting the most stringent applicable emission standard for the vehicle under the Federal Clean Air Act or under California law (other than zero emission standards). The incremental cost upon which the credit can be based is limited to \$5,000 if the vehicle purchased weighs 8,500 pounds or less, \$10,000 if the vehicle purchased weighs more than 8,500 pounds but 14,000 pounds or less, \$25,000 if the vehicle purchased weighs more than 14,000 pounds but 26,000 pounds or less, and \$40,000 if the vehicle purchased weighs more than 26,000 pounds.

For a taxpayer to be eligible for the credit, the vehicle must be acquired by the taxpayer for use or lease predominantly within the United States and not for resale, and the original use of the vehicle must commence with the taxpayer; or the taxpayer must sell the vehicle (which cannot be subject to a lease) to a tax-exempt entity (including the United States, any state and any political subdivision thereof), that places the vehicle into first use and disclose to that entity the amount of the allowable credit. The credit for any year is limited to the taxpayer's regular income tax liability for the year, subject in some cases to certain carryback and carryforward provisions. This federal income tax credit is currently in effect for vehicles purchased before January 1, 2011.

*Equipment credit* — Effective January 1, 2006, a federal income tax credit also became available to taxpayers for 30% of the cost of new equipment used for natural gas vehicle refueling. The credit is available for any equipment, other than equipment that is a structural component of a building, that is used predominantly within the United States for dispensing certain alternative fuels including CNG and LNG as a vehicle fuel or for storing the fuel at the point of fueling.

For a taxpayer to be eligible for the credit, the original use of the equipment must commence with the taxpayer; or the taxpayer must sell the equipment (which cannot be subject to a lease) to a tax-exempt entity (including the United States, any state and any political subdivision thereof), that places the equipment into first use and must disclose to that entity the amount of the allowable credit. The credit is limited to \$30,000 in the case of depreciable equipment, or \$1,000 in the case of equipment that is installed in the personal residence of a taxpayer. The credit for any year is limited to the taxpayer's regular income tax liability for the year, subject in some cases to certain carryback and carryforward provisions. This federal income tax credit is currently in effect for equipment placed in service before January 1, 2010.

#### *Grant Programs*

The following are some of the grant programs available for fleets in several of the states in which we operate. We assist our customers in applying and qualifying for grants under these programs.

- *Mobile Source Air Pollution Reduction Review Committee* — The Mobile Source Air Pollution Reduction Review Committee, or MSRC, is a Southern California program that funds projects that reduce air pollution from motor vehicles within the South Coast Air Quality Management District in Southern California. The South Coast Air Quality Management District is a geographic region defined in state regulations to include all of Los Angeles and Orange Counties, and portions of Riverside and San Bernardino counties. The MSRC uses a portion of the California Department of Motor Vehicles \$4 per vehicle surcharge for the south coast district, estimated to be \$44 million in 2007, to fund a variety of clean air programs, including grants to purchase natural gas vehicles

and fueling station infrastructure. The annual budget of the MSRC is approximately \$12 million to \$14 million. The MSRC has a yearly work program designed to fund projects that reduce air pollution from motor vehicles.

- *California Carl Moyer Program* — The Carl Moyer Memorial Air Quality Standards Attainment Program, or Carl Moyer Program, was initiated in California in 1998 to reduce emissions from heavy-duty, diesel-powered vehicles and other mobile sources. The Carl Moyer Program provides matching grants of approximately \$140 million per year to private companies and public agencies in California to fund efforts to clean up emissions from their heavy-duty engines through retrofitting, repowering or replacing them with newer and cleaner versions. In 2007, \$35 million of this budget was allocated to the South Coast Air Quality Management District. Qualifying projects include those that reduce emissions from heavy-duty on and off-road equipment, such as trucks over 14,000 pounds gross vehicle weight and off-road equipment such as construction equipment and airport ground support equipment.
- *New York Programs* — The New York State Energy Research Development Authority makes funds available to offset the incremental cost of purchasing natural gas vehicles. This agency's programs include funding up to \$8,000 per vehicle for the purchase of natural gas taxicabs and \$2.5 million to offset the incremental cost of light and heavy-duty vehicles. In addition, New York State has an alternative vehicle and infrastructure fuel tax credit and has exempted alternative fuels from sales and use taxes.
- *Texas Emissions Reduction Plan* — The Texas Emissions Reduction Plan is a comprehensive set of clean air incentive programs, including vehicle programs, designed to improve air quality in Texas. The Texas Commission on Environmental Quality administers grants under these programs. The grants are used to help reduce air pollution in Texas ozone "nonattainment" areas and are often targeted towards reducing emissions from diesel equipment. In 2006, \$130 million of these grants were made available to purchase and convert to low emission vehicles. In addition, the Governor of Texas has announced plans to allocate an additional \$183 million to the Texas Emission Reduction Plan.
- *U.S. Department of Energy State Energy Program* — The Department of Energy's State Energy Program provides grants to states to design and carry out their own renewable energy and energy efficiency programs. Total funds available in 2005 for clean air State Energy Programs were \$14.7 million. Funding from these programs goes to state energy offices in all states and U.S. territories, and the projects are managed by state energy offices. We and our customers have used these grants in various states to fund vehicle purchases and construct fueling stations.

## **Financing Activities**

We began providing finance services to our customers in the first quarter of 2006. We offer financing for our customers' purchase of natural gas vehicles or the conversion of their existing gasoline or diesel powered vehicles to operate on natural gas. We may loan customers up to 100% of the purchase price of natural gas vehicles. We may also lease natural gas vehicles in the future. Where appropriate, we apply for and receive state and federal incentives associated with these natural gas vehicle purchases and conversions and pass these benefits through to our customers.

We believe our vehicle financing program provides us with a competitive advantage because it enables us to offer our customers a comprehensive solution that limits the up-front cost

of adopting natural gas as a vehicle fuel. Additionally, we believe that our loans offer pricing and terms that are comparable to those our customers would receive from other vehicle lenders and leasing companies. As of March 31, 2007, we have not generated significant revenue from vehicle acquisition and finance activities. However, we anticipate using \$15 to \$20 million from the proceeds of this offering to finance the purchase of natural gas vehicles by our customers and generate related revenue.

## Competition

The market for vehicular fuels is highly competitive. The biggest competition for CNG, LNG and other alternative fuels is gasoline and diesel, the production, distribution and sale of which are dominated by large integrated oil companies. The vast majority of vehicles in the United States and Canada are powered by gasoline or diesel. There is no assurance that we can compete effectively against other fuels, or that significant competitors will not enter the natural gas fuel market.

Within the United States, we believe our largest competitors for CNG sales are: Trillium USA / Pinnacle CNG, a privately held provider of CNG fuel infrastructure and fueling services, which we believe focuses primarily on transit fleets in California, Arizona and New York; and Hanover Compressor Company, a large publicly-traded international provider of natural gas compressors and related equipment, which we believe focuses its CNG vehicle fuel business primarily on transit fleets in California, Maryland, Massachusetts and Washington D.C. These companies are significant competitors in the market for transit fleets.

Within the U.S. LNG market, we believe our largest competitor is Earth Biofuels, Inc., a public company that distributes LNG in the western United States. We have identified no significant competitors in Canada for CNG or LNG sales.

We own, operate or supply 172 CNG and LNG fueling stations. We operate 140 CNG fueling stations which we estimate is approximately four times the number of CNG fueling stations as our next largest competitor. We further estimate that in 2005 we supplied approximately twice the amount of natural gas for vehicular use as our next largest competitor. In addition, we believe we are the only company in the United States or Canada that provides both CNG and LNG on a significant scale, and we operate in more states and provinces than any of our other competitors.

Potential entrants to the market for natural gas vehicle fuels include the large integrated oil companies, other retail gasoline marketers and natural gas utility companies. The integrated oil companies produce and sell crude oil and natural gas, and they refine crude oil into gasoline and diesel. They and other retail gasoline marketers own and franchise retail stations that sell gasoline and diesel fuel. In international markets, including to a limited extent in Canada, integrated oil companies and other established fueling companies sell CNG at a number of their vehicle fueling stations that sell gasoline and diesel. Natural gas utility companies own and operate the local pipeline infrastructure that supplies natural gas to retail, commercial and industrial customers.

It is possible that any of these competitors, and other competitors who may enter the market in the future, may create product and service offerings that compete with ours. Many of these companies have far greater financial and other resources and name recognition than we have. Entry by these companies into the market for natural gas vehicle fuels may reduce our profit margins, limit our customer base and restrict our expansion opportunities.

Other alternative fuels compete with natural gas in the retail market and may compete in the fleet market in the future. We believe there is room for all providers of alternative fuels in the vehicle fuels market. However, suppliers of ethanol, biodiesel and hydrogen, as well as providers of

hybrid vehicles, may compete with us for fleet customers in our target markets. Many of these companies benefit, as we do, from U.S. state and federal government incentives which allow them to provide fuel more inexpensively than gasoline or diesel.

### **Bridge to Hydrogen—Implementation of CNG/Hydrogen Fueling Station Activities**

We believe natural gas as a vehicle fuel is the best bridge to a hydrogen-based transportation system because natural gas can be used as a delivery mechanism for hydrogen and leverages the same infrastructure and expertise for vehicle fueling. As part of the Canadian Hydrogen Highway initiative, we are participating, together with a coalition of partners, in a program known as the Integrated Waste Hydrogen Utilization Project (IWHUP). The goal of the project is to take hydrogen from a process waste stream that is currently being vented to the atmosphere, purify it, and then transport it to a refueling station for use in vehicles. In furtherance of this program, we leveraged our design and engineering expertise with CNG fueling stations to build an integrated CNG/hydrogen (HCNG) dispenser. This dispenser is capable of providing 100% natural gas, 100% hydrogen or any blended combination of the two fuels with more precise mixing than achieved previously. The station at which this dispenser is located provides CNG daily to approximately 70 buses and HCNG to four buses that are involved in the IWHUP demonstration project. We believe our construction and operation of this modified station demonstrates our ability to leverage existing natural gas infrastructure to introduce hydrogen fuel to customers.

### **Background on Clean Air Regulation**

The Federal Clean Air Act provides a comprehensive framework for air quality regulation in the United States. Many of the federal, state and local air pollution control programs regulating vehicles have their basis in Title I or Title II of the Federal Clean Air Act.

Title II of the Federal Clean Air Act authorizes the U.S. Environmental Protection Agency (EPA) to establish emission standards for vehicles and engines. Diesel-fueled heavy-duty trucks and buses have recently accounted for substantial portions of the nitrogen oxide (NO<sub>x</sub>) and particulate matter emissions from mobile sources, and diesel emissions have received significant attention from environmental groups and state agencies. In 2001, the EPA finalized its Heavy-Duty Highway Rule, also known as the 2007 Highway Rule. The 2007 Highway Rule seeks to limit emissions from diesel-fueled trucks and buses on two fronts: new tailpipe standards requiring significantly reduced NO<sub>x</sub> and particulate matter emissions for new heavy-duty diesel engines, and new standards requiring refiners to produce low sulfur diesel fuels that will enable more extensive use of advanced pollution control technologies on diesel engines.

The 2007 Highway Rule's tailpipe standards, which will apply to new diesel engines, take effect in 2007 and 2010. Specifically, new particulate matter standards take effect in 2007 and new NO<sub>x</sub> standards will be phased-in between 2007 and 2010. The rule's fuel standards call for a shift by U.S. refiners and importers from low sulfur diesel, with a sulfur content of 500 parts per million (ppm), to ultra-low sulfur diesel, with a sulfur content of 15 ppm. The rule, which will effect a transition to ultra-low sulfur diesel between 2006 and 2010, required refiners to begin producing ultra-low sulfur diesel fuels on June 1, 2006.

Title I of the Federal Clean Air Act charges the EPA with establishing uniform National Ambient Air Quality Standards for criteria air pollutants anticipated to endanger public health and welfare. States in turn have the primary responsibility under the Federal Clean Air Act for achieving attainment with these standards. If any area within a state fails to meet these standards for a criteria air pollutant, the state must develop an implementation plan and local agencies must develop air quality management plans for achieving attainment. Many state programs regulating vehicle pollution or mobile sources of pollution are developed as part of a state implementation plan for

achieving attainment of these standards for two criteria pollutants in particular: ozone and particulate matter. Many of the nation's metropolitan areas are in "nonattainment" status for one or both of these criteria air pollutants. As components of their state implementation plans, individual states have also adopted diesel fuel standards intended to reduce NO<sub>x</sub> and particulate matter emissions. Texas and California have both adopted optional low-NO<sub>x</sub> diesel programs. Additionally, many state implementation plans and some quality management plans include vehicle fleet requirements specifying the use of low emission or alternative fuels in government vehicles.

Although the majority of state air pollution control regulations are components of state implementation plans developed pursuant to Title I of the Federal Clean Air Act, states are not precluded from developing their own air pollution control programs under state law. For example, the California Air Resources Board and the South Coast Air Quality Management District have promulgated a series of airborne toxic control measures under California state law, several of which are directed toward reducing emissions from diesel fueled engines.

### **Government Regulation and Environmental Matters**

Certain aspects of our operations are subject to regulation under federal, state and local laws. If we were to violate these laws or if the laws or enforcement proceedings were to change, it could have a material adverse effect on our business, financial condition and results of operations.

Regulations that significantly impact our operations are described below.

- *CNG and LNG stations* — To construct a CNG or LNG fueling station, we must obtain a facility permit from the local fire department and either we or a third-party contractor must be licensed as a general engineering contractor. The installation of each CNG and LNG fueling station must be in accordance with federal, state and local regulations pertaining to station design, environmental health, accidental release prevention, above-ground storage tanks, hazardous waste and hazardous materials. We are also required to register with certain state agencies as a retailer/wholesaler of CNG and LNG.
- *Transfer of LNG* — Federal Safety Standards require each transfer of LNG to be conducted in accordance with specific written safety procedures. These procedures must be located at each place of transfer and must include provisions for personnel to be in constant attendance during all LNG transfer operations.
- *LNG liquefaction plants* — To build and operate LNG liquefaction plants, we must apply for facility permits or licenses to address many factors, including storm water or wastewater discharges, waste handling and air emissions related to production activities or equipment operations. The construction of LNG plants must also be approved by local planning boards and fire departments.
- *Financing* — State agencies generally require the registration of finance lenders. For example, in California, pursuant to the California Finance Lenders Law, one of our subsidiaries is a registered Finance Lender and Broker with the California Department of Corporations.

We believe we are in substantial compliance with environmental laws and regulations and other known regulatory requirements. Compliance with these regulations has not had a material effect on our capital expenditures, earnings or competitive position. It is possible that more stringent environmental laws and regulations may be imposed in the future, such as more rigorous air emission requirements or proposals to make waste materials subject to more stringent and costly



handling, disposal and clean-up requirements. Accordingly, new laws or regulations or amendments to existing laws or regulations might require us to undertake significant capital expenditures, which may have a material adverse effect on our business, consolidated financial condition, results of operations and cash flows.

## **Employees**

As of March 31, 2007, we employed 102 people, of whom 29 were in sales and marketing, 56 were in operations and 17 were in finance and administration. We have not experienced any work stoppages and none of our employees are subject to collective bargaining agreements. We believe that our employee relations are good.

## **Properties**

Our executive offices are located at 3020 Old Ranch Parkway, Suite 200, Seal Beach, CA 90740, where we occupy approximately 21,950 square feet. Our monthly rental payments for these offices are approximately \$54,400. Our office lease expires in December 2010. We believe our existing facilities are adequate for our current needs.

We also lease facilities for our satellite sales and service offices in Boston, Denver, Dallas, Vancouver, Toronto and Phoenix, and our monthly rent payments for such facilities are approximately \$18,500 per month in the aggregate.

In December 2005, we purchased the Pickens Plant located in Willis, Texas, approximately 50 miles north of Houston. We own approximately 34 acres on which the plant is situated, along with approximately 24 acres surrounding the plant.

We are in the initial stages of building an LNG liquefaction plant in California, and have already begun hiring engineers, applying for governmental permits and procuring lead-time parts and equipment for this project. We expect this plant will be operational in 2008, assuming we obtain the required permits on a timely basis and do not experience significant construction delays. In November 2006, we entered into a ground lease for the 36 acres on which the proposed plant will be situated. The lease is for an initial term of 30 years, beginning on the date that the plant commences operations, and requires annual base rent payments of \$230,000 per year, plus \$130,000 per year for each 30,000,000 gallons of production capacity, subject to future adjustment based on consumer price index changes. In addition, we must also pay a royalty to the landlord for each gallon of LNG produced at the facility as well as for certain other services that the landlord will provide.

We lease the land upon which we construct, operate and maintain some of our CNG and LNG fueling stations for our customers. We often own the equipment and fixtures that comprise the CNG fueling stations. The ground leases for our stations typically have a term of 10 years and require payments of a fixed amount or a variable amount based on the number of gallons sold at the site during the period. As of December 31, 2006, we leased the land for 55 stations and for the year ended December 31, 2006 paid a total of approximately \$736,000 in rent under the station ground leases.

## **Legal Proceedings**

We are not involved in any material legal proceedings. From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business.

## MANAGEMENT

### Directors and Executive Officers

Our directors and executive officers and their ages and positions are as follows:

Name	Age	Position
Andrew J. Littlefair	46	President, Chief Executive Officer and Director
Richard R. Wheeler	42	Chief Financial Officer
James N. Harger	48	Senior VP, Marketing and Sales
Mitchell W. Pratt	47	Senior VP, Engineering, Operations and Public Affairs
Warren I. Mitchell	69	Chairman of the Board of Directors
David R. Demers	51	Director
John S. Herrington	67	Director
James C. Miller III	64	Director
Boone Pickens	78	Director
Kenneth M. Socha	60	Director

*Andrew J. Littlefair*, one of our founders, has served as our President, Chief Executive Officer and a director since June 2001. From 1996 to 2001, Mr. Littlefair served as President of Pickens Fuel Corp. From 1987 to 1996, Mr. Littlefair served in various management positions at Mesa, Inc., an energy company of which Boone Pickens was Chief Executive Officer. From 1983 to 1987, Mr. Littlefair served in the Reagan Administration as a presidential aide. Mr. Littlefair is currently Chairman of NGV America, the leading U.S. advocacy group for natural gas vehicles. Mr. Littlefair earned a B.A. from the University of Southern California.

*Richard R. Wheeler* has served as our Chief Financial Officer since February 2003. From November 2001 to January 2003, Mr. Wheeler served as Chief Financial Officer of Blue Energy & Technologies, a privately-held natural gas vehicle fuels company which we acquired in December 2002. From May 2000 to October 2001, Mr. Wheeler served as Executive Vice President and Chief Financial Officer of Encoda Systems, Inc., a privately-held software company. Mr. Wheeler earned a B.S. and an M.B.A. from the University of Colorado, Boulder and is a certified public accountant.

*James N. Harger* has served as our Senior Vice President, Marketing and Sales, since June 2003, and served as our Vice President, Marketing from June 2001 to June 2003. From 1997 to 2001, Mr. Harger served as Vice President, Marketing and Sales of Pickens Fuel Corp. From 1983 to 1997, Mr. Harger served in management positions at Southern California Gas Company, where he assisted in the launch of the natural gas vehicle program in 1992. Mr. Harger earned a B.S. from the University of California, Los Angeles, and an M.B.A. from Pepperdine University.

*Mitchell W. Pratt* has served as our Senior Vice President, Engineering, Operations and Public Affairs, since January 2006, and as our corporate secretary since December 2002. From August 2001 to December 2005, Mr. Pratt served as our Vice President, Business Development. From 1983 to July 2001, Mr. Pratt held various positions in sales and marketing, operations and public affairs at Southern California Gas Company. Mr. Pratt earned a B.S. from the California State University at Northridge and an M.B.A. from the University of California, Irvine.

*Warren I. Mitchell* has served as our Chairman of the Board and a director since May 2005. For over 40 years until his retirement in 2000, Mr. Mitchell worked in various positions at Southern California Gas Company, including as President beginning in 1990 and Chairman beginning in 1996. Mr. Mitchell currently serves on the board of directors of The Energy Coalition, a non-profit organization devoted to education on energy management, and on the board of directors of a

privately-held technology company. Mr. Mitchell earned a B.S. and an M.B.A. from Pepperdine University.

*David R. Demers* has served as a director of our company since June 2001. Mr. Demers has served as the Chief Executive Officer and as a director of Westport Innovations, Inc., a Canadian company publicly traded on the Toronto Stock Exchange that develops engines for gaseous fuels, since the company was formed in March 1995. Mr. Demers serves on the board of directors of Cummins Westport Inc., a joint venture between Westport Innovations Inc. and Cummins Inc., to develop and market alternative fuel engines, Parran Capital Inc., a publicly-traded Canada-based capital pool company, and two privately held technology companies. Mr. Demers earned a B.S.C. and a LL.B. from the University of Saskatchewan.

*John S. Herrington* has served as a director of our company since November 2005. For over a decade, Mr. Herrington has been a self employed businessman and attorney at law. From 1985 to 1989, Mr. Herrington served as the U.S. Secretary of Energy, and from 1983 to 1985, Mr. Herrington served as Assistant to the President for presidential personnel in the Reagan Administration. From 1981 to 1983, Mr. Herrington served as Assistant Secretary of the Navy. Mr. Herrington earned an A.B. from Stanford University and a J.D. and LL.B. from the University of California, Hastings College of the Law.

*James C. Miller III* has served as a director of our company since May 2006. Mr. Miller has served on the board of governors of the United States Postal Service since April 2003, and as its chairman since January 2005. Mr. Miller has served on the boards of directors of the Washington Mutual Investors Fund since October 1992 and the J.P. Morgan Value Opportunities Fund since December 2001. From 1981 to 1985, Mr. Miller was Chairman of the U.S. Federal Trade Commission in the Reagan Administration, and also served as Director of the U.S. Office of Management and Budget from 1985 to 1988. Mr. Miller earned a B.B.A. from the University of Georgia and a Ph.D. from the University of Virginia.

*Boone Pickens* has served as a director of our company since June 2001 and founded Pickens Fuel Corp. in 1996. Mr. Pickens has served as the Chairman and Chief Executive Officer of BP Capital L.P. since he founded the company in 1996, and is also active in management of the BP Capital Equity Fund and BP Capital Commodity Fund, privately-held investment funds. Mr. Pickens also serves on the board of directors of EXCO Resources, Inc., a publicly traded energy company. Mr. Pickens was the founder of Mesa Petroleum, an oil and gas company, and served as its Chief Executive Officer and a director from 1956 to 1996. Mr. Pickens earned a B.S. from Oklahoma State University.

*Kenneth M. Socha* has served as a director of our company since January 2003. Since 1995, Mr. Socha has served as the Senior Managing Director of Perseus, LLC, a merchant bank and private equity fund management company. Before joining Perseus, Mr. Socha practiced corporate and securities law as a partner in the New York office of Dewey Ballantine. Mr. Socha serves on the board of directors of Westport Innovations, Inc., a Canadian company publicly traded on the Toronto Stock Exchange. Mr. Socha earned an A.B. from the University of Notre Dame and a J.D. from Duke University Law School.

#### **Executive Officers**

Our executive officers are appointed by, and serve at the discretion of, our board of directors.

## Board Composition after this Offering

Our board of directors consists of seven members and upon completion of this offering will continue to consist of seven members. Our certificate of incorporation and bylaws provide that the number of directors will be fixed from time to time by resolution of the board. Upon completion of this offering, we will be subject to the rules of the Nasdaq Global Market. We believe that a majority of the members of our board of directors meet the independence requirements under Nasdaq rules.

## Director Independence

Our board of directors has determined that Messrs. Demers, Herrington, Miller and Socha meet the independence requirements under Nasdaq Marketplace Rule 4200(a)(15). Messrs. Littlefair, Pickens and Mitchell do not meet the independence requirements under Nasdaq Marketplace Rule 4200(a)(15) for the following reasons: (1) Mr. Littlefair is our President and Chief Executive Officer; (2) Mr. Pickens was a party to material transactions, relationships and arrangements with our company described in "Certain Relationships and Related Party Transactions" beginning on page 96; and (3) Mr. Mitchell performed consulting services for us from June 2003 until the first quarter of 2006, and we paid him \$97,375 in 2006 for those services.

In the course of determining whether Messrs. Demers, Herrington, Miller and Socha were independent under Nasdaq Marketplace Rule 4200(a)(15), the board of directors considered the following transactions, relationships and arrangements not required to be disclosed in "Certain Relationships and Related Party Transactions":

- With respect to Mr. Demers, the board of directors considered his role as Chief Executive Officer of Westport Innovations, Inc., which beneficially owned 6.2% of our common stock at March 31, 2007. The board of directors also considered the significance of certain transactions between Westport and our company, but believed they did not affect the independence of Mr. Demers because the transactions did not exceed 5% of Westport's or our respective consolidated gross revenues in any of the last three fiscal years.
- With respect to Mr. Socha, the board of directors considered his role as Senior Managing Director of Perseus ENRG Investment, L.L.C., which beneficially owned 19.5% of our common stock at March 31, 2007. The board of directors also considered that Mr. Socha is a director of Westport Innovations, Inc. and that funds managed by Perseus, L.L.C. hold convertible debt and warrants issued by Westport. Additionally, the board of directors considered that Perseus 2000, LLC held a \$500,000 secured promissory note issued by our company that was repaid in May 2006, but believed these transactions did not affect the independence of Mr. Socha because Mr. Socha's interest in the transactions was immaterial and the amount of the secured promissory note did not exceed 5% of Perseus's or our respective consolidated gross revenues in any of the last three fiscal years.
- With respect to Messrs. Herrington and Miller, the board of directors considered that each of Messrs. Herrington and Miller served with Mr. Littlefair in the Reagan Administration.

There are no family relationships between any of our directors and executive officers.

## Board Committees

We have an audit committee, compensation committee, nominating and governance committee and derivative committee. Our board and committees generally meet at least quarterly and we expect the board and committees will meet on a similar schedule after this offering. Each of the board committees will have the composition and responsibilities described below.

*Audit committee.* Our audit committee consists of three directors, David R. Demers, John S. Herrington and James C. Miller III, all of whom our board of directors determined to be independent under SEC Rule 10A-3(b)(1) and Nasdaq Marketplace Rule 4200(a)(15). The chair of the audit committee is Mr. Miller. Mr. Miller qualifies as an audit committee financial expert under the Nasdaq rules and the rules of the SEC. The functions of this committee include:

- selecting and overseeing the engagement of a firm to serve as an independent registered public accounting firm to audit our financial statements,
- helping to ensure the independence of our independent registered public accounting firm,
- discussing the scope and results of the audit with our independent registered public accounting firm,
- developing procedures for employees to anonymously submit concerns about questionable accounting or audit matters,
- meeting with our independent registered public accounting firm and our management to consider the adequacy of our internal accounting controls and audit procedures, and
- approving all audit and non-audit services to be performed by our independent registered public accounting firm.

We believe that the composition of our audit committee meets the criteria for independence under, and the functioning of our audit committee will comply with the applicable requirements of, the Sarbanes-Oxley Act of 2002 and the Nasdaq and SEC rules, including the requirement that the audit committee have at least one qualified financial expert.

*Compensation committee.* Our compensation committee consists of three directors, John S. Herrington, Warren I. Mitchell and Kenneth M. Socha, all of whom our board of directors determined to be independent under Nasdaq Marketplace Rule 4200(a)(15) except Mr. Mitchell. The chair of the compensation committee is Mr. Mitchell. The functions of this committee include:

- determining or recommending to the board of directors the compensation of our executive officers,
- administering our stock and equity incentive plans,
- reviewing and, as it deems appropriate, recommending to our board of directors, policies, practices, and procedures relating to the compensation of our directors, officers, and other managerial employees and the establishment and administration of our employee benefit plans, and

- advising and consulting with our officers regarding managerial personnel and development.

We believe that the composition of our compensation committee meets the criteria for independence under, and the functioning of our nominating and governance committee will comply with the applicable requirements of, the Sarbanes-Oxley Act of 2002 and Nasdaq and SEC rules. In accordance with Nasdaq Marketplace Rule 4350(a)(5), we intend for all members of our compensation committee to be independent, as defined in Nasdaq Marketplace Rule 4200(a)(15), no later than one year after the listing of our shares on the Nasdaq Global Market.

*Nominating and governance committee.* Our nominating and governance committee consists of four directors, David R. Demers, John S. Herrington, Boone Pickens and Kenneth M. Socha, all of whom our board of directors determined to be independent under Nasdaq Marketplace Rule 4200(a)(15) except Mr. Pickens. The chair of the nominating and governance committee is Mr. Herrington. The functions of this committee include:

- establishing standards for service on our board of directors,
- identifying, evaluating and recommending nominees to our board of directors and committees of our board of directors,
- conducting searches for appropriate directors,
- evaluating the performance of our board of directors and of individual directors,
- considering and making recommendations to the board of directors regarding the size and composition of the board and its committees,
- reviewing developments in corporate governance practices, and
- evaluating the adequacy of our corporate governance practices and reporting.

We believe that the composition of our nominating and governance committee meets the criteria for independence under, and the functioning of our nominating and governance committee will comply with the applicable requirements of, the Sarbanes-Oxley Act of 2002 and Nasdaq and SEC rules. In accordance with Nasdaq Marketplace Rule 4350(a)(5), we intend for all members of our nominating and governance committee to be independent, as defined in Nasdaq Marketplace Rule 4200(a)(15), no later than one year after the listing of our shares on the Nasdaq Global Market.

*Derivative Committee.* Our derivative committee consists of three directors, Andrew J. Littlefair, James C. Miller III and Warren I. Mitchell. The chair of the derivative committee is Mr. Littlefair. The functions of this committee include:

- formulating derivative strategy and directing derivative activities,
- engaging and meeting with advisors regarding derivative activities and strategies, and
- making recommendations to the board of directors regarding derivative strategy and activity.

## Code of Ethics

Upon completion of this offering, we will adopt a written code of ethics applicable to our directors, officers and employees in accordance with the rules of Nasdaq and the SEC. Our code of ethics will be designed to deter wrongdoing and to promote:

- honest and ethical conduct,
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and in our other public communications,
- compliance with applicable laws, rules and regulations, including insider trading compliance, and
- accountability for adherence to the code and prompt internal reporting of violations of the code, including illegal or unethical behavior regarding accounting or auditing practices.

The audit committee of our board of directors will review our code of ethics periodically and may propose or adopt additions or amendments as it determines are required or appropriate. Our code of ethics will be posted on our website.

**Overview**

In connection with the initial public offering of our common stock, the Compensation Committee of our board of directors is in the process of developing policies, practices and procedures relating to the compensation of our directors, officers and other managerial employees. The members of our Compensation Committee are John S. Herrington, Warren I. Mitchell and Kenneth M. Socha.

**Compensation Philosophy**

Though our compensation philosophy is evolving at this stage, we believe compensation should include a mix of a competitive base salary and bonus incentives to encourage retention and reward individual responsibility and productivity, equity grants to align the interests of our officers with those of our stockholders, and case-specific compensation plans to accommodate individual circumstances or non-recurring situations. Generally, we believe that overall executive compensation should be targeted near the 50% to 75% range of salaries for executives in similar positions with similar responsibilities at comparable companies. Our Compensation Committee uses its judgment and experience and works closely with our named executive officers to determine the appropriate mix of compensation for each individual.

The Compensation Committee has no formal policy, but does retain the discretion, to adjust or recover awards or payments made to its named executive officers if the relevant performance measures upon which they are based are restated or are otherwise adjusted in a manner that would reduce the size of the initial award or payment.

**Benchmarking**

We do not believe it is appropriate to establish compensation levels primarily based on benchmarking. However, we do believe compensation practices at comparable companies are a useful indicator for us to remain competitive in the marketplace. Therefore, we informally consider competitive market practices with respect to the salaries and total compensation of our named executive officers.

**Elements of Compensation**

Our named executive officers' compensation has three primary components—base compensation or salary, discretionary annual cash bonuses, and equity awards. In addition, we provide our named executive officers with a variety of benefits that are generally available to all salaried employees.

We view the various components of compensation as related but distinct. Although our Compensation Committee reviews each named executive officers' total compensation, we do not believe that significant compensation derived from one component of compensation should negate or reduce compensation from other components. We determine the appropriate level for each compensation component based in part, but not exclusively, on our informal view of internal equity and consistency, and other considerations we deem relevant, such as to reward extraordinary performance and increased responsibility and commitment. Our Compensation Committee has not adopted any formal policies or guidelines for allocating compensation between long-term and short-term compensation, between cash and non-cash compensation, or among different forms of non-cash compensation.



Our annual process of determining overall compensation begins with recommendations made by Mr. Littlefair, our President and Chief Executive Officer, to our Compensation Committee. In making his recommendation, Mr. Littlefair considers a number of factors, including the seniority of the individual, the functional role of the position, the level of the individual's responsibility, the individual's long-term commitment to our company, and the scarcity of individuals with similar skills. Acting with the recommendation from Mr. Littlefair, our Compensation Committee makes the final determination of compensation for our named executive officers. The Compensation Committee determines the compensation of Mr. Littlefair.

#### *Base Salary*

The Compensation Committee approves the base salary of all named executive officers. Base salary is used to recognize the experience, skills, knowledge and responsibilities required of named executive officers, taking into account competitive market compensation paid by other companies for similar positions. Informally, the Compensation Committee believes the base salaries of our named executive officers should be targeted near the 50% to 75% range of salaries for executives in similar positions with similar responsibilities at comparable companies. Base salaries are reviewed annually.

#### *Annual Cash Bonus*

The Compensation Committee approves the bonus of all named executive officers, and pays such bonuses after determining whether specific performance criteria were satisfied. For the current year and prior to our initial public offering, annual bonuses are based on the performance of our company. It is anticipated that actual awards will range between 30% and 100% of our named executive officer's base salary (however, Mr. Littlefair, our CEO, can earn up to 150% of his base salary).

The performance measures for these awards are bifurcated, with 35% of the bonus award based on a targeted number of gasoline gallon equivalents of natural gas we sell in a calendar year and 65% of the bonus award based on the target EBITDA of our company. These performance criteria were chosen by the Compensation Committee due to their close relation to our company's financial and operational improvements, growth and return to our stockholders.

The specific targets to which the performance measure apply are as follows:

<b>Performance Measures:</b>	<b>Weighting</b>	<b>Base Target</b>	<b>Middle Target</b>	<b>Maximum Target</b>
EBITDA (000s)	65%	0	901	3,000
Volume (000s)	35%	78,130	82,130	86,130

For our named executive officers other than Mr. Littlefair, achievement of the base target by our company results in a 30% bonus, achievement of the middle target results in a 60% bonus, and achievement of the maximum target results in a 100% bonus. For Mr. Littlefair the applicable percentages are 30%, 75% and 150%. As we described on pages 31 and 68, we may receive a Volumetric Excise Tax Credit of \$0.50 per gasoline gallon equivalent of CNG and \$0.50 per liquid gallon of LNG that we sell as vehicle fuel to tax-exempt entities. Whether we receive this credit in certain circumstances depends on future guidance to be issued by the Internal Revenue Service. If we are entitled to receive additional credits based on the subsequent guidance issued by the Internal Revenue Service, the above EBITDA targets will be increased by an amount corresponding to the amount of the credit our company anticipates receiving. The intent of this increase is to eliminate the possibility that the credits will enable our named executive officers to more easily attain their EBITDA targets.

### *Equity Compensation*

We believe that long-term performance is achieved through an ownership culture that encourages such performance by our named executive officers through the use of stock and stock-based awards. Our stock compensation plans have been established to provide certain of our employees, including our named executive officers, with incentives to help align those employees' interests with the interests of our stockholders. Our Compensation Committee believes the use of stock and stock-based awards offers the best approach to achieving this goal. We intend to develop and adopt stock ownership requirements or guidelines. Our stock compensation plans have provided the principal method for our named executive officers to acquire equity or equity-linked interests in our company.

We sponsor a 2002 Stock Option Plan (2002 Plan) and a 2006 Equity Incentive Plan (2006 Plan). The 2006 Plan is currently not available for awards. Upon the effectiveness of the registration statement of which this prospectus forms a part, the 2006 Plan will become effective and the 2002 Plan will no longer be available for new awards. For more information about the 2002 Plan and the 2006 Plan, please read "Compensation of Directors and Executive Officers—Stock Incentive Plans" below. The 2002 Plan is and the 2006 Plan will be administered by our board of directors or our Compensation Committee. In the case of awards intended to qualify as "performance-based-compensation" excludable from the deduction limitation under Section 162(m) of the Internal Revenue Code, the administrator of the 2006 Plan will consist of two or more "outside directors" within the meaning of Section 162(m).

### *Change in Control and Severance Payments*

The employment agreements of our named executive officers provide them benefits if their employment is terminated (other than for misconduct), including termination following a change in control. The details and amount of this benefit are set forth in the below table entitled "Termination of Employment and Change in Control Arrangements" and the narrative discussion that follows such table.

### **Tax and Accounting Implications**

#### *Deductibility of Executive Compensation*

In connection with the initial public offering, our Compensation Committee is in the process of reviewing and considering the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not deduct compensation of more than \$1,000,000 that is paid to certain individuals. Our Compensation Committee believes that compensation paid to our named executive officers is generally fully deductible for federal income tax purposes. However, in certain situations, certain of the independent members of our Compensation Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation of our named executive officers.

#### *Nonqualified Deferred Compensation*

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, changing the tax rules applicable to nonqualified deferred compensation arrangements. Although the final regulations have not become effective yet, we believe the company is operating in good faith compliance with the statutory provisions which became effective January 1, 2005.

Effective January 1, 2006, we began accounting for stock-based payments in accordance with the requirements of FASB Statement No. 123(R).

**Conclusion**

Our compensation practices are designed to retain and motivate our named executive officers and to ultimately reward them for outstanding performance.

**Compensation Committee Report**

We, the Compensation Committee of the Board of Directors of Clean Energy Fuels Corp., have reviewed and discussed the Compensation Discussion and Analysis (set forth above) with the management of the company, and, based on such review and discussion, have recommended to the Board of Directors inclusion of the Compensation Discussion and Analysis in this prospectus.

Compensation Committee:

Warren I. Mitchell, Chairman  
John S. Herrington  
Kenneth M. Socha

**COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS**

**Summary Compensation Table**

The table below summarizes the total compensation paid or earned by each of the named executive officers for the fiscal year ended December 31, 2006.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Stock Awards (\$)<sup>(1)</sup></b>	<b>Option Awards (\$)<sup>(2)</sup></b>	<b>All Other Compensation (\$)<sup>(3)</sup></b>	<b>Total (\$)</b>
Andrew J. Littlefair President & Chief Executive Officer	2006	400,000	432,000	—	—	18,630	850,630
Richard R. Wheeler Chief Financial Officer	2006	232,292	231,250	—	—	16,359	479,901
James N. Harger Senior Vice President, Marketing & Sales	2006	225,000	118,125	—	—	24,126	367,251
Mitchell W. Pratt Senior Vice President, Engineering, Operations and Public Affairs	2006	225,000	118,125	—	—	15,001	358,126
Alan P. Basham Former Executive Vice President <sup>(4)</sup>	2006	24,327	—	—	—	353,550	377,877

(1) We have not granted any stock awards to our named executive officers to date.

(2) We granted no option awards to our named executive officers in 2006. Further, all option awards we previously granted to our named executive officers became fully vested in October 2005 in connection with the change in control which occurred when Boone Pickens purchased all of the outstanding shares of our company held by Terasen, Inc. and three other stockholders.

(3) The compensation represented by the amounts for 2006 in this column is detailed in the following table.

<b>Name</b>	<b>Qualified Retirement Plan Employer Match (\$)</b>	<b>Payment of Health and Welfare Insurance Premiums (\$)<sup>(i)</sup></b>	<b>CNG Fuel/ Vehicle (\$)<sup>(ii)</sup></b>	<b>Tax Gross-Ups (\$)<sup>(iii)</sup></b>	<b>Severance Payments (\$)</b>
Andrew J. Littlefair	7,500	2,500	5,221	3,409	—
Richard R. Wheeler	7,500	2,500	3,959	2,400	—
James N. Harger	7,500	2,500	8,168	5,958	—
Mitchell W. Pratt	7,500	2,500	3,025	1,976	—
Alan P. Basham	—	12,000	—	—	341,550 <sup>(iv)</sup>

(i) We pay 80 percent of our employees' insurance premiums associated with the health and welfare programs we sponsor. We pay 100 percent of such premiums for our named executive officers. The amounts in this column are intended to quantify the benefit we provide only to our named executive officers.

(ii) The amounts in this column are attributable to personal use of company-provided natural gas vehicles (each as calculated in accordance with Internal Revenue Service guidelines), the value of which is included as compensation on the W-2 of our named executive officers who receive such benefits. Each of these named executive officers is responsible for paying income tax on such amount.

(iii) The amounts in this column are attributable to the cash payment we provide our named executive officers (a "gross-up" payment) in respect of taxes that are imposed due to their receipt of the benefits in (ii) above. The gross-up payment is intended to make our named executive officers whole for the taxes they must pay due to their receipt of the company-provided natural gas vehicle.

(iv) These amounts represent the monies paid to Alan P. Basham pursuant to the severance agreement entered into in February 2006 between the company and Mr. Basham. This amount is further described below in Potential Payments Upon Termination or Change in Control.

(4) Mr. Basham's employment with our company ended in January 2006.

## Grants of Plan-Based Awards

We did not make any grants of plan-based awards during 2006 to our named executive officers.

## Outstanding Equity Awards at Fiscal Year End

The table below summarizes outstanding equity awards held by our named executive officers at December 31, 2006. All option awards we previously granted to our named executive officers became fully vested in October 2005 in connection with the change of control which occurred when Boone Pickens purchased all of the outstanding shares of our company held by Terasen, Inc. and three other stockholders.

Name	Option Awards						Stock Awards			
	Number of Securities Underlying Unexercised Options- Exercisable (#)	Number of Securities Underlying Options- UnExercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)	
Andrew J. Littlefair	400,000	—	—	2.96	12/12/2012	—	—	—	—	
	60,000	—	—	2.96	06/11/2013	—	—	—	—	
	115,000	—	—	2.96	02/04/2015	—	—	—	—	
	100,000	—	—	2.96	05/05/2015	—	—	—	—	
	60,000	—	—	2.96	05/05/2015	—	—	—	—	
Richard R. Wheeler	125,000	—	—	2.96	06/11/2013	—	—	—	—	
	125,000	—	—	2.96	02/01/2014	—	—	—	—	
	70,000	—	—	2.96	02/04/2015	—	—	—	—	
	55,000	—	—	2.96	05/05/2015	—	—	—	—	
	45,000	—	—	2.96	05/05/2015	—	—	—	—	
James N. Harger	125,000	—	—	2.96	12/12/2012	—	—	—	—	
	50,000	—	—	2.96	06/11/2013	—	—	—	—	
	80,000	—	—	2.96	02/04/2015	—	—	—	—	
	65,000	—	—	2.96	05/05/2015	—	—	—	—	
	55,000	—	—	2.96	05/05/2015	—	—	—	—	
Mitchell W. Pratt	75,000	—	—	2.96	12/12/2012	—	—	—	—	
	30,000	—	—	2.96	06/11/2013	—	—	—	—	
	85,000	—	—	2.96	02/04/2015	—	—	—	—	
	70,000	—	—	2.96	05/05/2015	—	—	—	—	
	25,000	—	—	2.96	05/05/2015	—	—	—	—	
Alan P. Basham	—	—	—	—	—	—	—	—		

## Option Exercises and Stock Vested

With the exception of Alan P. Basham, who exercised his stock options following his termination of employment with our company, none of our named executive officers exercised any stock options during the fiscal year ended December 31, 2006.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Andrew J. Littlefair	—	—	—	—
Richard R. Wheeler	—	—	—	—
James N. Harger	—	—	—	—
Mitchell W. Pratt	—	—	—	—
Alan P. Basham	345,000	379,996	—	—

## Pension Benefits, Nonqualified Defined Contribution and Other Deferred Compensation Plans

We do not have any tax-qualified defined benefit plans or supplemental executive retirement plans that provide for payments or other benefits to our named executive officers in connection with their retirement. We also do not have any non-qualified defined contribution plan or other deferred compensation plans that provide for payments or other benefits to our named executive officers.

## Potential Payments Upon Termination or Change in Control

The tables below reflect the amount of compensation to be paid to each of our named executive officers in the event of their termination of employment. The amount of compensation payable to each of our named executive officers upon voluntary termination, early retirement, involuntary not-for-cause termination, termination following a change of control and in the event of disability or death of our named executive officers is shown below. The amounts shown assume that such termination was effective as of December 31, 2006, and thus includes amounts earned through such time and are estimates of the amounts which would be paid out to our named executive officers upon their termination. The actual amounts to be paid out can only be determined at the time of such named executive officer's separation with our company.

### Payments Made Upon Termination and Retirement

Regardless of the manner in which the employment of a named executive officer is terminated, he is entitled to receive amounts earned during his term of employment. Such amounts include:

- non-equity incentive compensation earned, to the extent vested;
- equity awarded pursuant to our 2002 Stock Option Plan and 2006 Equity Incentive Plan, to the extent vested;
- amounts contributed and vested under our qualified retirement plan; and
- unused vacation pay.

### Payments Made Upon Death or Disability

In the event of the death or disability of a named executive officer, in addition to the benefits listed under the heading "Payments Made Upon Termination and Retirement" above, our named executive officers will receive benefits under our disability plan or payments under our life insurance plan, as appropriate.

*Termination Without Cause or Payments Made Upon a Change in Control*

We have entered into employment agreements with each of our named executive officers, pursuant to which if a named executive officer's employment is terminated without cause or his employment terminates following a change in control, he will generally receive the following amounts:

- a percentage of one year's base salary;
- a percentage of the previous year's non-equity incentive compensation;
- equity awarded pursuant to our 2002 Stock Option Plan and 2006 Equity Incentive Plan, to the extent vested;
- continuation of medical/welfare benefits for a year; and
- unused vacation pay.

*Andrew J. Littlefair*

The following table shows the potential payments upon termination or a change of control of the company for our President and CEO Andrew J. Littlefair. Pursuant to his employment agreement, Mr. Littlefair receives an annual base salary of not less than \$400,000 and a bonus of up to 150% of his base salary; and in March 2007, the board of directors, upon the recommendation of the compensation committee, approved that Mr. Littlefair will receive an annual base salary of \$440,000. If we terminate his employment without cause, or if Mr. Littlefair terminates his employment within one year of a change in control, he is entitled to a payment of 150% of his base salary, 150% of his previous year's bonus and payment of medical and related benefits for one year. If we terminate his employment without cause within one year of an acquisition or similar change in control, he is entitled to a payment of 200% of his base salary, 200% of his previous year's bonus and medical and related benefits for one year. If his employment is terminated for cause, we may repurchase all or a portion of our stock owned by him. If his employment is terminated because of death or disability, we must repurchase all of our stock owned by him.

Benefit and Payments Upon Separation	Voluntary Termination	Involuntary Not For Cause Termination	For Cause Termination	Voluntary Termination within One Year of a Change in Control	Termination Without Cause within One Year of Change-in-Control	Termination Due to Disability	Termination Due to Death
<b>Cash Severance Payment:</b>	\$ 0	\$ 1,308,000	\$ 0	\$ 1,308,000	\$ 1,744,000	\$ 0	\$ 0
<b>Continuation of Medical/Welfare Benefits (present value):</b>	\$ 0	\$ 8,127	\$ 0	\$ 8,127	\$ 8,127	\$ 0	\$ 0
<b>Retirement Benefit (present value):</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total:</b>	\$ 0	\$ 1,316,127	\$ 0	\$ 1,316,127	\$ 1,752,127	\$ 0	\$ 0

*Richard R. Wheeler*

The following table shows the potential payments upon termination or a change of control of the company for our Chief Financial Officer Richard R. Wheeler. Pursuant to his employment agreement, Mr. Wheeler receives an annual base salary not less than \$225,000 and a bonus of up to 70% of his base salary; and in March 2007, the board of directors, upon the recommendation of the compensation committee, approved that Mr. Wheeler will receive an annual base salary of \$275,000 and may receive a bonus of up to 100% of his base salary. If we terminate his employment without cause, or if Mr. Wheeler terminates his employment within one year of a change in control, he is entitled to a payment of 150% of

his base salary, 150% of his previous year's bonus and payment of medical and related benefits for one year. If we terminate his employment without cause within one year of an acquisition or similar change in control, he is entitled to a payment of 200% of his base salary, 200% of his previous year's bonus and medical and related benefits for one year. If his employment is terminated for cause, we may repurchase all or a portion of our stock owned by him. If his employment is terminated because of death or disability, we must repurchase all of our stock owned by him.

Benefit and Payments Upon Separation	Voluntary Termination	Involuntary Not For Cause Termination	For Cause Termination	Voluntary Termination within One Year of a Change in Control	Termination Without Cause within One Year of Change-in-Control	Termination Due to Disability	Termination Due to Death
<b>Cash Severance Payment:</b>	\$ 0	\$ 759,375	\$ 0	\$ 759,375	\$ 1,012,500	\$ 0	\$ 0
<b>Continuation of Medical/Welfare Benefits (present value):</b>	\$ 0	\$ 7,958	\$ 0	\$ 7,958	\$ 7,958	\$ 0	\$ 0
<b>Retirement Benefit (present value):</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total:</b>	\$ 0	\$ 767,333	\$ 0	\$ 767,333	\$ 1,020,458	\$ 0	\$ 0

*James N. Harger*

The following table shows the potential payments upon termination or a change of control of the company for our Senior Vice President, Marketing & Sales James N. Harger. Pursuant to his employment agreement, Mr. Harger receives an annual base salary of not less than \$225,000 and a bonus of up to 70% of his base salary; and in March 2007, the board of directors, upon the recommendation of the compensation committee, approved that Mr. Harger will receive an annual base salary of \$250,000 and may receive a bonus of up to 100% of his base salary. If we terminate his employment without cause, or if Mr. Harger terminates his employment within one year of a change in control, he is entitled to a payment of 100% of his base salary, 100% of his previous year's bonus and payment of medical and related benefits for one year. If we terminate his employment without cause within one year of an acquisition or similar change in control, he is entitled to a payment of 150% of his base salary, 150% of his previous year's bonus and medical and related benefits for one year. If his employment is terminated for cause, we may repurchase all or a portion of our stock owned by him. If his employment is terminated because of death or disability, we must repurchase all of our stock owned by him.

Benefit and Payments Upon Separation	Voluntary Termination	Involuntary Not For Cause Termination	For Cause Termination	Voluntary Termination within One Year of a Change in Control	Termination Without Cause within One Year of Change-in-Control	Termination Due to Disability	Termination Due to Death
<b>Cash Severance Payment:</b>	\$ 0	\$ 368,125	\$ 0	\$ 368,125	\$ 552,188	\$ 0	\$ 0
<b>Continuation of Medical/Welfare Benefits (present value):</b>	\$ 0	\$ 7,793	\$ 0	\$ 7,793	\$ 7,793	\$ 0	\$ 0
<b>Retirement Benefit (present value):</b>	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total:</b>	\$ 0	\$ 375,918	\$ 0	\$ 375,918	\$ 559,981	\$ 0	\$ 0

*Mitchell W. Pratt*

The following table shows the potential payments upon termination or a change of control of the company for our Senior Vice President, Engineering, Operations and Public Affairs Mitchell W. Pratt. Pursuant to his employment agreement, Mr. Pratt receives an annual base salary of not less than \$225,000 and a bonus of up to 70% of his base salary; and in March 2007, the board of directors, upon the recommendation of the compensation committee, approved that Mr. Pratt will receive an annual base salary of \$250,000 and may



receive a bonus of up to 100% of his base salary. If we terminate his employment without cause, or if Mr. Pratt terminates his employment within one year of a change in control, he is entitled to a payment of 100% of his base salary, 100% of his previous year's bonus and payment of medical and related benefits for one year. If we terminate his employment without cause within one year of an acquisition or similar change in control, he is entitled to a payment of 150% of his base salary, 150% of his previous year's bonus and medical and related benefits for one year. If his employment is terminated for cause, we may repurchase all or a portion of our stock owned by him. If his employment is terminated because of death or disability, we must repurchase all of our stock owned by him.

Benefit and Payments Upon Separation	Voluntary Termination	Involuntary Not For Cause Termination	For Cause Termination	Voluntary Termination within One Year of a Change in Control	Termination Without Cause within One Year of Change-in-Control	Termination Due to Disability	Termination Due to Death
Cash Severance Payment:	\$ 0	\$ 368,125	\$ 0	\$ 368,125	\$ 552,188	\$ 0	\$ 0
Continuation of Medical/Welfare Benefits (present value):	\$ 0	\$ 7,793	\$ 0	\$ 7,793	\$ 7,793	\$ 0	\$ 0
Retirement Benefit (present value):	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total:</b>	<b>\$ 0</b>	<b>\$ 375,918</b>	<b>\$ 0</b>	<b>\$ 375,918</b>	<b>\$ 559,981</b>	<b>\$ 0</b>	<b>\$ 0</b>

*Alan P. Basham*

We paid Alan P. Basham \$341,550 upon his termination of employment with our company in February 2006 and incurred \$12,000 of expenses related to maintaining his health and welfare benefits for one year following his termination.

### Director Compensation

We use cash and stock-based incentive compensation to attract and retain qualified candidates to serve on our Board. In setting director compensation, we consider the significant amount of time that our directors expend in fulfilling their duties to our company as well as the skill-level required by our members of the board.

#### *Cash Compensation Paid to Board Members*

For the fiscal year ended December 31, 2006, members of our board who were not employees of the company were entitled to receive an attendance fee for board and committee meetings of \$5,000 per meeting. Our Chairman of the Audit Committee received an additional \$2,500 per meeting. However, the Chairman of our board of directors received a flat rate of \$5,000 per month as consideration for his position, which amount was intended to include his attendance fees. Directors who were our employees received no additional compensation for their services as directors.

#### *Stock-Based Incentive Compensation*

From time to time prior to January 1, 2006, we awarded stock options to directors who were not employees and who were not large stockholders or affiliated with large stockholders. The determination of which directors received awards and the amount of these awards was informal and discretionary. The total amount of such awards is set forth below in footnote (2) to the Director Summary Compensation Table.

## Director Summary Compensation Table

The table below summarizes the compensation we pay to directors who are not employees of our company for the fiscal year ended December 31, 2006.

Name(1)	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
<b>Warren I. Mitchell</b> , Chairman	60,000 <sup>(3)</sup>	—	—	—	—	110,059 <sup>(4)</sup>	170,059
<b>David R. Demers</b>	10,000	—	—	—	—	—	10,000
<b>John S. Herrington</b>	15,000	—	—	—	—	—	15,000
<b>James C. Miller, III</b>	12,500	—	—	—	—	—	12,500
<b>Boone Pickens</b>	10,000	—	—	—	—	—	10,000
<b>Kenneth M. Socha</b>	10,000	—	—	—	—	—	10,000

- (1) Andrew J. Littlefair, our President and Chief Executive Officer, is not included in this table because he is an employee of the company and thus receives no additional compensation for his services as a Director. The compensation received by Mr. Littlefair as an employee of the company is shown in the Summary Compensation Table above.
- (2) We granted no awards to our directors in 2006. All awards we previously granted to our directors were fully vested prior to 2006. As of December 31, 2006, each director has the following number of options fully vested and outstanding: Warren I. Mitchell: 160,000 (exercise price of \$2.96 per share); David R. Demers: 0; John S. Herrington: 20,000 (exercise price of \$2.96 per share); James C. Miller III: 0; Boone Pickens: 0; and Kenneth M. Socha: 0.
- (3) As compensation for serving as Chairman of our board of directors, Warren I. Mitchell receives a flat rate of \$5,000 per month, which amount includes his attendance fees.
- (4) This amount is attributable to two sources. First, \$12,684 is attributable to personal use of a company-provided natural gas vehicle (as calculated in accordance with Internal Revenue Service Guidelines), related natural gas fuel and a home refueling device. Second, \$97,375 is attributable to a consulting agreement entered into at arms-length between Mr. Mitchell and our company in June 2003, which was terminated during the first quarter of 2006. Under the consulting agreement, Mr. Mitchell was to negotiate rate reductions with various public utilities commissions for natural gas used as vehicle fuel in exchange for a 20% commission on such rate reductions for a period of two years. The \$97,375 represents the final payment under the consulting agreement which Mr. Mitchell received during the first quarter of 2006. The payments of \$12,684 and \$97,375 were reported as compensation to Mr. Mitchell on his Form 1099. Mr. Mitchell is responsible for paying the income tax on such amounts.

### Compensation Committee Interlocks and Insider Participation

No member of our compensation committee has at any time been one of our officers or employees. No member of our compensation committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

### IPO Option Grants

Our board of directors approved options to purchase 2,825,500 shares of our common stock to be granted to certain employees, consultants and members of our board of directors. This includes options to purchase 1,575,000 shares of our common stock to be granted to our named executive officers as set forth below. The option grants will be made when the SEC declares effective the registration statement of which this prospectus is a part. The per share option exercise price will be equal to the initial public offering price. One-sixth of the total shares subject to the options will vest when the offering is effective, one-sixth will vest upon the completion of six months

of service following the effective date of the offering, and thereafter, one-third will vest upon the completion of each subsequent year of service until the option is fully vested.

Name	Number of securities underlying options
Andrew J. Littlefair	525,000
Richard R. Wheeler	350,000
James N. Harger	400,000
Mitchell W. Pratt	300,000

## Stock Incentive Plans

### 2002 Stock Option Plan

Our board of directors adopted our 2002 Stock Option Plan, which we refer to as the 2002 Plan, in December 2002. Our stockholders approved the plan and all related amendments. We have reserved a total of 5,750,000 shares of common stock to cover options granted under the plan. As of March 31, 2007, we had outstanding options under the 2002 Plan to purchase an aggregate of 2,376,000 shares of common stock at a weighted average exercise price of \$2.97 per share, 360,750 shares of common stock were issued upon the exercise of options granted under the 2002 Plan, and 3,013,250 shares of common stock were available for future grants.

Upon the closing of this offering, any share reserve available for grants under the 2002 Plan will be cancelled and all new grants will be made under the new 2006 Equity Incentive Plan, or 2006 Plan, described below. If any outstanding option under the 2002 Plan expires or is canceled, the shares allocable to the unexercised portion of that option will be added to the share reserve under the new 2006 Plan and will be available for grant under the 2006 Plan.

*Administration.* The 2002 Plan may be administered by the board of directors or a committee of the board of directors. In the case of options intended to qualify as "performance-based-compensation" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, or the Code, the committee will consist of two or more outside directors within the meaning of Section 162(m) of the Code. The administrator has the authority, in its sole discretion:

- to determine the fair market value of the common stock,
- to select the recipients to whom options may, from time to time, be granted under the 2002 Plan,
- to determine whether and to what extent options are granted under the 2002 Plan, the number of shares that are covered by an option and the terms of the option agreements,
- to determine the terms and conditions of any options, including exercise price, the method of payment of the exercise price, term, vesting and whether the option is a non-statutory stock option or an incentive stock option,
- to reduce the exercise price of any option to the then current fair market value if the fair market value of the optioned stock has declined since the date of grant of that option,
- to delegate to others responsibilities to assist in administering the 2002 Plan, and
- to construe and interpret the terms of the 2002 Plan and option agreements and other documentation related to the 2002 Plan.

*Eligibility.* Options under the 2002 Plan may be granted to any of our employees, directors or consultants or those of our affiliates.

*Options.* With respect to nonstatutory stock options intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code and incentive stock options, the exercise price must be at least equal to the fair market value of our common stock on the date of grant. In addition, the exercise price for any incentive stock option granted to any employee owning more than 10% of our common stock may not be less than 110% of the fair market value of our common stock on the date of grant. The term of any stock option may not exceed ten years, except that with respect to any participant who owns 10% or more of the voting power of all classes of our outstanding capital stock, the term for incentive stock options must not exceed five years.

Unless the administrator determines otherwise, unvested shares typically will be subject to forfeiture or to our right of repurchase, which we may exercise upon the voluntary or involuntary termination of the participant's service with us for any reason, including death or disability.

*Adjustments upon change in control.* The 2002 Plan provides that in the event of a "change in control," our company and the successor corporation, if any, may agree:

- that all options outstanding on the date that immediately precedes the change of control will become immediately exercisable on that date, with the 2002 Plan terminating upon the date of the change of control (with 21 days prior written notice to the optionees),
- to terminate the 2002 Plan and cancel all outstanding options effective as of the date of the change of control, and either (1) provide 21 days prior written notice to optionees so that the optionees can exercise options that are otherwise exercisable at that time, (2) replace such options with comparable options in the successor corporation or parent thereof, or (3) deliver to each optionee the difference between the fair market value of a share on the date of the change of control and the exercise price of the optionee's option, multiplied by the number of shares underlying the option, or
- that the successor corporation or its parent will assume the 2002 Plan and all outstanding options effective as of the date of the change of control.

*Amendment and termination.* The administrator has the authority to amend, suspend or discontinue the 2002 Plan, subject to the approval of the stockholders in the case of certain amendments. No amendment, suspension or discontinuation will impair the rights of any option, unless agreed to by the optionee.

#### *2006 Equity Incentive Plan*

Our 2006 Equity Incentive Plan, which we refer to as the 2006 Plan, was adopted in December 2006 by our board of directors and stockholders and will go into effect when the SEC declares effective the registration statement of which this prospectus is a part. Under the 2006 Plan, 6,390,500 shares of common stock were initially authorized for issuance; and on January 1, 2007, the number of authorized shares under the 2006 Plan was increased by 1,000,000 shares, as described below. Our board of directors has approved initial option grants under the 2006 Plan to purchase 2,825,500 shares of our common stock. These grants will have an exercise price equal to the initial public offering price and will be granted on the date the SEC declares effective the registration statement of which this prospectus is a part. After these initial grants, 2,187,750 shares

of common stock will be available for future grants under the 2006 Plan. The number of shares reserved for issuance under the 2006 Plan will be automatically increased, without the need for further board or stockholder approval, on the first day of each of our fiscal years from 2007 through 2016 by the lesser of 1,000,000 shares, 15% of our outstanding common stock on the last day of the immediately preceding fiscal year, or such lesser number of shares as may be determined by the board of directors.

If any outstanding option under the 2002 Plan expires or is cancelled, the shares allocable to the unexercised portion of that option will be added to the share reserve under the new 2006 Plan and will be available for grant under the 2006 Plan.

*Share limit.* No participant in the 2006 Plan can receive option grants, stock appreciation rights or stock awards for more than 2,000,000 shares total in any calendar year, or for more than 4,000,000 shares total in connection with the participant's initial service.

*Administration.* The 2006 Plan will be administered by our board of directors or the compensation committee of the board. The administrator has the authority, in its sole discretion:

- to select the recipients to whom options, stock awards, stock appreciation rights and cash awards may, from time to time, be granted under the 2006 Plan,
- to determine whether and to what extent options, stock awards, stock appreciation rights and cash awards are granted under the 2006 Plan,
- to determine the number of shares that are covered by options, stock awards, stock appreciation rights grants and the terms of such agreements,
- to determine the terms and conditions of any options, stock awards and stock appreciation rights, including exercise price, the method of payment of the exercise price, term, vesting and whether the option is a non-statutory stock option or an incentive stock option, and
- to construe and interpret the terms of the 2006 Plan and agreements and other documentation related to the 2006 Plan.

*Eligibility.* The 2006 Plan provides for the grant of options to purchase shares of common stock, stock awards, stock appreciation rights and cash awards. ISOs may be granted only to employees. Nonstatutory stock options and other stock-based awards may be granted to employees, non-employee directors, advisors and consultants.

*Vesting.* Under the 2006 Plan, we expect that options (other than the initial option grants) granted to optionees other than outside directors will generally vest over three years, at a rate of 33%, 33%, and 34% per year, respectively, if the optionee is then in service to the company.

*Adjustments upon change in control.* The 2006 Plan provides that in the event of a "change in control," all awards outstanding on the date that immediately precedes the change of control will become immediately exercisable on that date, unless otherwise expressly provided in the award document.

*Amendment and termination.* The plan terminates 10 years after its initial adoption, unless earlier terminated by the board. The board of directors or the compensation committee may amend

or terminate the plan at any time, subject to stockholder approval where required by applicable law. Any amendment or termination may not impair the rights of holders of outstanding awards without their consent.

In addition, as of December 31, 2006, we also had 25,000 shares subject to a special stock option issued outside of the 2002 Stock Option Plan and the 2006 Equity Incentive Plan to a consultant at an exercise price of \$3.86 per share. The option vests in equal increments over three years and accelerates upon the closing of our initial public offering.

#### **Limitation on Liability and Indemnification Matters**

Our certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

- Any breach of their duty of loyalty to our company or our stockholders,
- Acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law,
- Unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law, or
- Any transaction from which the director derived an improper personal benefit.

Our bylaws provide that we are required to indemnify our directors and officers and may indemnify our employees and other agents to the fullest extent permitted by Delaware law. Our bylaws also provide that we will advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity, regardless of whether our bylaws would otherwise permit indemnification. We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by the board of directors. These agreements provide for indemnification for related expenses including attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees regarding which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

Insofar as the provisions of our certificate of incorporation or bylaws provide for indemnification of directors or officers for liabilities arising under the Securities Act, we have been informed that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of transactions since January 1, 2004 to which we have been a party, in which the amount involved exceeds \$120,000 in any fiscal year and in which any of our directors, executive officers or holders of more than five percent of our stock had or will have a direct or indirect material interest. This does not include employment compensation or compensation for board of directors service, which are described elsewhere in this prospectus.

It is our policy that all related party transactions, as defined in Item 404 of Regulation S-K, must be reviewed and approved by our audit committee, in accordance with Nasdaq Marketplace Rule 4350(h). When evaluating such transactions, our audit committee focuses on whether the terms of such transactions are at least as favorable to us as terms we would receive on an arms-length basis from an unaffiliated third party. The policies and procedures for approving related party transactions are set forth in our audit committee charter, which was adopted in September 2006. Beginning in September 2006, all related party transactions were approved in accordance with our audit committee charter. Before September 2006, all related party transactions were approved by our board of directors, with any interested director abstaining from the vote.

### **Relationship with BP Capital L.P.**

Boone Pickens, our largest stockholder and a member of our board of directors, is a principal of BP Capital L.P., a firm which provides us advice in connection with our natural gas acquisitions and derivative activities. Under an advisory agreement, we pay BP Capital \$10,000 a month for energy market advice and a commission equal to 20% of our realized gains net of realized losses during a calendar year relating to the purchase and sale of natural gas futures contracts and other natural gas derivative transactions. BP Capital remits realized net gains to us, less its applicable commissions, on a monthly basis. Losses relating to the purchase and sale of natural gas futures contracts are not used to offset gains in past or future years for purposes of calculating the 20% commission. During 2004, 2005, 2006 and the first three months of 2007, we paid BP Capital approximately \$409,000, \$11.7 million, \$2.4 million and \$30,000, respectively, in commissions and fees related to our natural gas trading activities. BP Capital has no discretion to enter into transactions on our behalf without the consent of our derivative committee. In March 2007, we amended our agreement with BP Capital, L.P. to remove the 20% commission described above.

### **Revolving Line of Credit with Boone Pickens**

In August 2006, we entered into a \$50 million unsecured revolving line of credit with Boone Pickens, which allowed us to borrow and repay up to \$50 million in principal at any time prior to the maturity of the note on August 31, 2007. This line of credit was increased to \$100 million in November 2006. In December 2006, Mr. Pickens cancelled all amounts owing under this line of credit (approximately \$69.7 million) in connection with an obligation transfer and securities purchase agreement. For more information about this agreement, see "—Obligation Transfer and Securities Purchase Agreement with Boone Pickens" below. The line of credit was terminated in December 2006.

### **Obligation Transfer and Securities Purchase Agreement with Boone Pickens**

In December 2006, pursuant to an obligation transfer and securities purchase agreement between us and Boone Pickens, Mr. Pickens cancelled all amounts owed under our line of credit with Mr. Pickens (approximately \$69.7 million), and assumed all of our outstanding futures contracts, together with all associated liabilities and obligations (approximately \$78.7 million), in exchange for (1) the issuance to Mr. Pickens of a five-year warrant to purchase up to 15,000,000

shares of our common stock at a purchase price of \$10.00 per share and (2) the assignment to Mr. Pickens of any refunds of margin deposits from Sempra Energy Trading Corp. (Sempra) that were made using money borrowed under the line of credit. At the time of assumption, we had made payments totaling \$83.1 million to Sempra to satisfy excess margin calls related to the contracts assumed by Mr. Pickens. Per the terms of the agreement, we received our initial margin deposits related to such contracts (approximately \$9.5 million), as well as excess margin deposits related to such contracts that were funded by us (approximately \$13.4 million), and Mr. Pickens received all margin deposits related to such contracts that were funded using the line of credit (approximately \$69.7 million).

#### **Guarantee by Boone Pickens**

In March 2006, Boone Pickens gave Sempra a personal guarantee covering all of our obligations to Sempra relating to our natural gas derivative activities. During 2004, 2005 and 2006, we purchased all of our futures contracts from Sempra. We did not pay Mr. Pickens any consideration for this guarantee. Mr. Pickens' guarantee, while in place, only covered our payment obligations to Sempra. The guarantee did not protect us against losses from derivative activities, and in the event Mr. Pickens was required to make a payment on the guarantee, we were obligated to reimburse Mr. Pickens for his payment. Mr. Pickens cancelled his guarantee with Sempra effective March 7, 2007.

#### **Registration Rights Agreement**

We are party to a registration rights agreement with Boone Pickens, Perseus ENRG Investment, L.L.C., Westport Innovations, Inc. and Alan P. Basham. Under this agreement, these stockholders are entitled to registration rights with respect to their shares of our common stock. For additional information, see "Description of Capital Stock — Registration Rights."

The registration rights agreement was amended in May 2007 to grant registration rights to (1) Madeleine Pickens, a 5% stockholder and wife of Boone Pickens, (2) certain stockholders who purchased or otherwise received shares from Boone Pickens, and (3) certain stockholders who are employees and directors of the company, including James N. Harger, John S. Herrington, Andrew J. Littlefair, Warren I. Mitchell, Mitchell W. Pratt and Richard R. Wheeler. These registration rights are effective only with respect to this offering. For additional information, see "Description of Capital Stock—Registration Rights."

#### **Indemnification Agreements**

We entered into an indemnification agreement with each of our directors and certain officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

#### **Sales of Common Stock**

The following table summarizes sales by us of our common stock since January 1, 2004 to our executive officers, directors and holders of more than 5% of our common stock, other than



pursuant to compensatory arrangements. For a more detailed description of ownership, see "Principal and Selling Stockholders."

Name	Date of issuance	Number of shares	Purchase price per share
Perseus 2000, L.L.C.	June 2004	519,804(1)	\$2.96
Boone Pickens and related family trust	June 2004	341,732(1)	\$2.96
Alan P. Basham	June 2004	2,121(1)	\$2.96
Perseus 2000 Expansion, L.L.C.	September 2004	482,238(1)	\$2.96
Boone Pickens and related family trust	September 2004	316,868(1)	\$2.96
Alan P. Basham	September 2004	1,980(1)	\$2.96
Perseus ENRG Investment, L.L.C.	May 2005	337,838(2)	\$2.96
Boone Pickens and related family trust	May 2005	2,027,027(2)	\$2.96
Perseus ENRG Investment, L.L.C.	November 2005	337,838(2)	\$2.96
Boone Pickens	November 2005	2,027,027(2)	\$2.96
Perseus ENRG Investment, L.L.C.	February 2006	1,013,513(2)	\$2.96
Boone Pickens	April 2006	6,081,081(2)	\$2.96
Boone Pickens and related family trust	April 2006	1,179,953(3)	\$3.41

- (1) These shares were purchased upon the exercise of warrants issued in connection with Subscription Agreements dated February 19, 2002, as amended, except for the shares purchased by Perseus 2000, L.L.C. and Perseus 2000 Expansion, L.L.C., which were acquired upon the exercise of a warrant issued in December 2002 in connection with our acquisition of Blue Energy & Technologies, L.L.C.
- (2) These shares were purchased pursuant to Equity Option Agreements dated April 8, 2005 between us and these investors. Under the Equity Option Agreements, Mr. Pickens and his affiliates agreed to purchase up to \$30,000,000 of shares of common stock and Perseus ENRG Investment, L.L.C. agreed to purchase up to \$5,000,000 of shares of common stock, in each case only pursuant to capital calls approved by our board of directors.
- (3) These shares were purchased upon the conversion of secured convertible promissory notes issued in connection with our acquisition of Pickens Fuel Corp. in June 2001. The shares were issued at a conversion rate specified in the secured promissory notes (\$3.41 per share).

#### Secured Promissory Note with Perseus 2000, LLC

In July 2002, Blue Energy & Technologies, L.L.C. executed a secured promissory note in favor of Perseus 2000, LLC in the original principal amount of \$500,000. Kenneth M. Socha, a director of our company, is a Senior Managing Director at Perseus. In December 2002, we assumed this note in connection with our acquisition of Blue Energy. The note bore interest at 12.5% and was secured by substantially all of the assets of Blue Energy, other than six LNG tanker trailers that served as collateral for a separate note. In 2004, the note was amended to extend the demand date to any time after January 1, 2006. We repaid this note in full in July 2006.

## PRINCIPAL AND SELLING STOCKHOLDERS

The following table presents information concerning the beneficial ownership of the shares of our common stock as of March 31, 2007, by:

- each person we know to be the beneficial owner of 5% of more of our outstanding shares of common stock,
- each of our named executive officers,
- all of our current executive officers and directors as a group, and
- each selling stockholder.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Clean Energy Fuels Corp., 3020 Old Ranch Parkway, Suite 200, Seal Beach, CA 90740.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below: (1) have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws; and (2) are not broker-dealers or affiliates of broker-dealers.

Applicable percentage ownership is based on 34,193,411 shares of common stock outstanding on March 31, 2007. For purposes of the table below, we have assumed that: (1) 44,449,555 shares of common stock will be outstanding upon completion of this offering assuming no exercise of the underwriters' over-allotment option; and (2) 44,476,236 shares of common stock will be outstanding upon completion of this offering assuming the exercise of the underwriters' over-allotment option in full. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed as outstanding shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of March 31, 2007. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

	Shares Beneficially Owned Before This Offering		Number of Shares to Be Sold in Offering	Shares Beneficially Owned After This Offering (Assuming No Exercise of Over-Allotment Option)		Maximum Number of Shares to Be Sold in Over-Allotment	Shares Beneficially Owned After This Offering (Assuming Exercise of Over-Allotment Option in Full)	
	Number	%		Number	%		Number	%
<b>5% or Greater Stockholders:</b>								
Perseus ENRG Investment, L.L.C. <sup>(1)</sup> 2099 Pennsylvania Ave., NW Washington, D.C. 20006	6,657,142	19.5%	2,274,069	4,383,073	9.9%	584,342	3,798,731	8.5%
Madeleine Pickens <sup>(2)</sup> <sup>(14)</sup>	3,000,000	8.8%	1,000,000	2,000,000	4.5%	0	2,000,000	4.5%
Westport Innovations, Inc. <sup>(3)</sup> 1750 W. 75th Street, 2nd Floor Vancouver, BC Canada V6P 6G2	2,109,346	6.2%	720,549	1,388,797	3.1%	185,151	1,203,646	2.7%
<b>Directors and Named Executive Officers:</b>								
Boone Pickens <sup>(4)</sup>	40,042,653	81.4%	4,857,861	30,290,522	51.0%	1,185,823	29,104,699	49.0%
Andrew J. Littlefair <sup>(5)</sup>	1,586,064	4.5%	462,961	1,123,103	2.5%	59,291	1,063,812	2.4%
James N. Harger <sup>(6)</sup>	749,106	2.2%	177,029	572,077	1.3%	79,055	493,022	1.1%
Richard R. Wheeler <sup>(7)</sup>	420,000	1.2%	135,406	284,594	*	0	284,594	*
Mitchell W. Pratt <sup>(8)</sup>	340,000	*	91,884	248,116	*	21,740	226,376	*
John S. Herrington <sup>(9)</sup>	270,000	*	6,448	263,552	*	98,819	164,733	*
Warren I. Mitchell <sup>(10)</sup>	260,000	*	51,583	208,417	*	39,527	168,890	*
David R. Demers <sup>(3)</sup>	0	*	0	0	*	0	0	*
James C. Miller III	0	*	0	0	*	0	0	*
Kenneth M. Socha <sup>(1)</sup>	0	*	0	0	*	0	0	*
Alan P. Basham <sup>(11)</sup>	368,520	1.1%	125,886	242,634	*	32,347	210,287	*
All current officers and directors as a group (10 persons) <sup>(12)</sup>	42,047,653	82.1%	5,783,172	32,990,381	53.8%	1,484,255	31,506,126	51.4%
<b>Additional Selling Stockholders:</b>								
Glen David Aasheim <sup>(2)</sup>	16,500	*	0	16,500	*	1,976	14,524	*
Ronald D. Bassett <sup>(2)</sup>	100,000	*	0	100,000	*	39,527	60,473	*
G. Michael Boswell IRA-FCC Custodian <sup>(2)</sup>	50,000	*	0	50,000	*	19,764	30,236	*
Brian Bradshaw <sup>(2)</sup>	50,000	*	0	50,000	*	19,764	30,236	*
Drew A. Campbell <sup>(2)</sup>	25,000	*	0	25,000	*	9,882	15,118	*
Marti J. Carlin <sup>(2)</sup>	25,000	*	0	25,000	*	9,882	15,118	*
Denise Delile <sup>(2)</sup>	2,000	*	0	2,000	*	791	1,209	*
Denis C.K. Ding <sup>(2)</sup> <sup>(13)</sup>	85,000	*	24,180	60,820	*	3,953	56,867	*
Eugene Frenkel <sup>(2)</sup>	50,000	*	0	50,000	*	19,764	30,236	*
Sally Geymuller <sup>(2)</sup>	25,000	*	0	25,000	*	9,882	15,118	*
Peter J. Grace <sup>(13)</sup>	75,000	*	24,180	50,820	*	0	50,820	*
Dick Grant <sup>(2)</sup>	25,000	*	0	25,000	*	9,882	15,118	*
Barbara A. Johnson <sup>(13)</sup>	8,000	*	8,000	0	*	0	0	*
M&R Ventures LLC <sup>(2)</sup>	1,000,000	2.9%	0	1,000,000	2.2%	395,274	604,726	1.4%
Chad M. Lindholm <sup>(2)</sup>	2,500	*	0	2,500	*	988	1,512	*
David W. Meaney <sup>(2)</sup>	5,000	*	0	5,000	*	1,976	3,024	*
Eric Oberg <sup>(2)</sup>	100,000	*	0	100,000	*	39,527	60,473	*
Stephen R. Perkins <sup>(2)</sup>	25,000	*	0	25,000	*	9,882	15,118	*
Joseph B. Powers <sup>(2)</sup> <sup>(13)</sup>	112,500	*	35,464	77,036	*	988	76,048	*
Bretta Price <sup>(2)</sup>	500	*	0	500	*	198	302	*
Mark J. Riley <sup>(2)</sup>	1,000	*	0	1,000	*	395	605	*
Michael Ross <sup>(2)</sup>	50,000	*	0	50,000	*	19,764	30,236	*

Jack E. Rosser <sup>(2)</sup>	25,000	*	0	25,000	*	9,882	15,118	*
Robert L. Stillwell <sup>(2)</sup>	100,000	*	0	100,000	*	39,527	60,473	*
Alex Szewczyk <sup>(2)</sup>	100,000	*	0	100,000	*	39,527	60,473	*
Danny Tillett <sup>(2)</sup>	25,000	*	0	25,000	*	9,882	15,118	*
Catherine M. Weaver <sup>(13)</sup>	4,500	*	4,500	0	*	0	0	*
Jon N. Whisler <sup>(2)</sup>	2,600	*	0	2,600	*	1,028	1,572	*
	<b>Total:</b>		<b>10,000,000</b>	<b>Total:</b>		<b>3,000,000</b>		

\* Represents less than 1%.

- (1) Perseus ENRG Investment, L.L.C. is ultimately controlled by, Perseus, L.L.C., a Delaware limited liability company. An investment committee of Perseus, L.L.C., consisting of three members, including the Senior Managing Director of Perseus, LLC, Kenneth M. Socha, possesses voting and investment control over the shares held by Perseus ENRG Investment, L.L.C. As more than two natural persons possess voting and investment control over these shares, no natural person is deemed to beneficially own these shares individually.
- (2) The shares beneficially owned by the selling stockholder were purchased from Boone Pickens in February 2006 pursuant to a Stock Purchase and Buy-Sell Agreement. These shares are subject to Mr. Pickens' voting control pursuant to that agreement, which voting control will expire upon the closing of this offering.
- (3) Represents shares held by Westport Innovations, Inc. Mr. Demers is the Chief Executive Officer and a member of the board of directors of Westport Innovations, Inc. and possesses voting and investment control over the shares held by Westport Innovations, Inc. Mr. Demers may be deemed to be the beneficial owner of such shares, but disclaims beneficial ownership except to the extent of his pecuniary interest therein.
- (4) Beneficial ownership includes: (a) before the closing of this offering, 6,894,270 shares (including shares held by Madeleine Pickens, the wife of Mr. Pickens, and certain of our named executive officers and directors) over which Mr. Pickens transferred ownership but possesses voting control pursuant to an agreement among Mr. Pickens and the holders of such shares, which voting control will expire upon the closing of this offering; (b) following the closing of this offering, and including any exercise of the over-allotment option, 2,000,000 shares held by Madeleine Pickens; (c) 1,000,000 shares held by Boone Pickens Interests Ltd. over which Mr. Pickens possesses voting and investment control; and (d) 15,000,000 shares subject to warrants exercisable within 60 days of March 31, 2007.
- (5) Beneficial ownership includes 735,000 shares subject to options exercisable within 60 days of March 31, 2007. Mr. Pickens possesses voting control over 851,064 shares held by Mr. Littlefair, which voting control will expire upon the closing of this offering.
- (6) Beneficial ownership includes 375,000 shares subject to options exercisable within 60 days of March 31, 2007. Mr. Pickens possesses voting control over 374,106 shares held by Mr. Harger, which voting control will expire upon the closing of this offering.
- (7) Beneficial ownership includes 420,000 shares subject to options exercisable within 60 days of March 31, 2007.
- (8) Beneficial ownership includes 285,000 shares subject to options exercisable within 60 days of March 31, 2007. Mr. Pickens possesses voting control over 55,000 shares held by Mr. Pratt, which voting control will expire upon the closing of this offering.
- (9) Beneficial ownership includes (i) 250,000 shares held by the J&L Herrington 2002 Family Trust, over which Mr. Herrington possesses investment control, and (ii) 20,000 shares subject to options exercisable within 60 days of March 31, 2007. Mr. Pickens possesses voting control over 250,000 shares held by the J&L Herrington 2002 Family Trust, which voting control will expire upon the closing of this offering.
- (10) Beneficial ownership includes 160,000 shares subject to options exercisable within 60 days of March 31, 2007. Mr. Pickens possesses voting control over 100,000 shares held by Mr. Mitchell, which voting control will expire upon the closing of this offering.
- (11) Mr. Basham acquired the shares beneficially owned by him upon the exercise of stock options, upon the exercise of warrants issued in connection with a February 2002 capital raise, and in connection with our acquisition of BCC eFuels, Inc. in June 2001. Mr. Basham's employment with our company ended in January 2006.
- (12) Beneficial ownership includes 16,995,000 shares subject to options and warrants exercisable within 60 days of March 31, 2007. The aggregate number of shares of common stock beneficially owned by all current officers and directors excludes the shares beneficially owned by Alan P. Basham.
- (13) The shares beneficially owned by the selling stockholder are subject to options exercisable within 60 days of March 31, 2007.
- (14) Madeleine Pickens is the wife of Boone Pickens.

## DESCRIPTION OF CAPITAL STOCK

### General

The following is a summary of the rights of our common stock and preferred stock and related provisions of our certificate of incorporation and bylaws. Our authorized capital stock consists of 99,000,000 shares of common stock, par value \$0.0001 per share, and 1,000,000 shares of preferred stock, par value \$0.0001 per share.

As of March 31, 2007, there were 34,193,441 shares of common stock outstanding held by 44 stockholders of record. As of March 31, 2007, no shares of preferred stock were outstanding.

### Common Stock

#### *Dividend Rights*

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available at the times and in the amounts that our board of directors may determine from time to time.

#### *Voting Rights*

Each holder of common stock is entitled to one vote for each share of common stock held on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our certificate of incorporation.

#### *No Preemptive, Conversion or Redemption Rights*

Our common stock is not entitled to preemptive rights and is not subject to conversion or redemption.

#### *Right to Receive Liquidation Distributions*

Upon our liquidation, dissolution or winding-up, the holders of common stock are entitled to share in all assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock.

### Preferred Stock

Our board of directors is authorized, subject to limitations imposed by Delaware law and Nasdaq rules, to issue up to a total of 1,000,000 shares of preferred stock in one or more series, without further stockholder approval. Our board of directors will be authorized to establish from time to time the number of shares to be included in each series, and to fix the rights, preferences and privileges of the shares of each wholly unissued series and any of its qualifications, limitations or restrictions. Our board of directors is authorized to increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by the stockholders.

The board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and might harm the market

price of our common stock and the voting and other rights of the holders of common stock. We have no current plans to issue any shares of preferred stock.

### **Options and Warrants to Purchase Common Stock**

At March 31, 2007, we had 2,401,000 shares of common stock subject to options we have issued to our directors, officers, employees and consultants. For more information about these options, please read "Stock Incentive Plans" on page 92. At March 31, 2007, we also had 15,000,000 shares of common stock subject to an outstanding warrant held by Boone Pickens, our majority stockholder. For more information about this warrant, please read "Certain Relationships and Related Party Transactions—Obligations Transfer and Securities Purchases Agreement with Boone Pickens" on page 96.

### **Registration Rights**

Not including the shares held by Madeleine Pickens, Company Designees and Pickens Transferees (described in the following paragraph), the holders of 27,283,391 outstanding shares of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act. These registration rights, which also cover shares of common stock issuable upon the exercise of any warrants held by any such holder (including the warrant to purchase 15,000,000 shares held by Mr. Pickens) or any other shares of common stock issued to any of such holders by us, are contained in a registration rights agreement and are described below. The registration rights agreement expires on December 31, 2012 or, with respect to an individual holder, when such holder is able to sell all of its shares pursuant to Rule 144(k) under the Securities Act immediately without any volume limitation and without any additional unreasonable expense.

The registration rights agreement was amended in May 2007 to grant registration rights (1) to Madeleine Pickens, wife of Boone Pickens, (2) to certain stockholders who are employees and directors of the company, whom we refer to as the Company Designees, and (3) to certain stockholders who purchased or otherwise received shares from Boone Pickens, whom we refer to as the Pickens Transferees. These registration rights are effective only with respect to this offering and expire upon the consummation of this offering. Under the amendment, assuming the selling stockholders are permitted to sell 10,000,000 shares in the initial closing of this offering and 3,000,000 shares pursuant to the underwriters' over-allotment option, (1) Madeleine Pickens may sell up to 1,000,000 shares in the initial closing of this offering, (2) the Company Designees may sell up to 1,021,634 shares in the initial closing of this offering, and (3) the Pickens Transferees may sell up to 2,198,160 shares of common stock in the over-allotment closing of this offering, in each case subject to pro rata cutback if the size of the offering is reduced (except generally for Madeleine Pickens and two Company Designees holding a total of 12,500 shares).

#### *Piggyback Registration Rights*

If we register any shares of common stock under the Securities Act in connection with a public offering, the stockholders with piggyback registration rights have the right to include in the registration shares of common stock held by them or which they can obtain upon the exercise or conversion of another security, subject to specified exceptions. The underwriters of any offering have the right to limit the number of shares registered by these stockholders due to marketing reasons. If the total amount of shares of common stock these stockholders wish to include exceeds the total amount of shares which the underwriters determine the stockholders may sell in the offering, the reduced number of shares included in the registration will be apportioned pro rata among the stockholders according to the total amount of shares sought to be included by each

stockholder in the offering. We must pay certain expenses, other than underwriting discounts and commissions, incurred in connection with these piggyback registration rights.

#### *Form S-3 Registration Rights*

If we are eligible to file a registration statement on Form S-3, Boone Pickens, Westport Innovations, Inc. and Perseus ENRG Investment, L.L.C., each of which we refer to as a demand registrant, may request that we register their shares of common stock for resale on a Form S-3 registration statement, provided that the total price of the shares to be offered is at least \$500,000. A demand registrant may only require that we file one Form S-3 registration statement in any 12-month period, and no demand registrant may require us to file a Form S-3 registration statement if we have already effected three registrations on Form S-3 at the request of that demand registrant. We may postpone the filing of a Form S-3 registration statement for up to 60 days once in any 12-month period if our board of directors determines in good faith that the filing would be seriously detrimental to our stockholders or us. We also have the right to cause the demand registrants not to make any sales under an effective Form S-3 registration statement for a period of 60 days in one 12-month period, except that we may not impose this restriction within the one year period following any exercise of our right to defer the filing or delay the effectiveness of a Form S-3 registration statement. We must pay all expenses, other than underwriting discounts and commissions, associated with any registrations on Form S-3, except that we are not obligated to pay for more than three demand registrations made by Perseus ENRG Investment, L.L.C.

#### **Anti-Takeover Effects of Delaware Law and our Certificate of Incorporation and Bylaws**

Certain provisions of Delaware law, our certificate of incorporation and our bylaws contain provisions that could have the effect of delaying, deferring or discouraging another party from acquiring control of us. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquiror outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

#### *Delaware Law*

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, those provisions prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- the transaction is approved by the board before the date the interested stockholder attained that status,
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, or
- on or after the date the business combination is approved by the board and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include the following:

- any merger or consolidation involving the corporation and the interested stockholder,
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder,
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder,
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder, or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

A Delaware corporation may opt out of this provision either with an express provision in its original certificate of incorporation or in an amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out, and do not currently intend to opt out, of this provision. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

#### *Charter and Bylaws*

In addition, some provisions of our certificate of incorporation and bylaws may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might deem to be in the stockholder's best interest. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- *Authorized but unissued shares.* The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to certain limitations imposed by Nasdaq. These additional shares may be used for a variety of corporate purposes, such as for acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.
- *Special meetings of stockholders.* Special meetings of stockholders may only be called by our board of directors or our chief executive officer.
- *Amendment to bylaws.* Our board of directors is authorized to make, alter or repeal our bylaws without further stockholder approval.
- *Advance notice of director nominations and matters to be acted upon at meetings.* Our bylaws contains advance notice requirements for nominations for directors to our board of directors and for proposing matters that can be acted upon by stockholders at stockholder meetings.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is U.S. Stock Transfer Corporation.

#### **Listing**

We expect to apply to list our common stock on the Nasdaq Global Market.



## SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Sales of our common stock in the public market after the offering, or the perception that those sales may occur, could cause the prevailing market price to decrease or to be lower than it might be in the absence of those sales or perceptions.

Following the completion of this offering, we will have 44,449,555 shares of common stock outstanding assuming no exercise of the over-allotment option by the underwriters and no exercise of outstanding options (other than options that may be exercised by selling stockholders for shares to be sold in this offering). Of these shares, all of the shares sold in this offering will be freely tradable without restrictions or further registration under the Securities Act, unless one of our existing affiliates, as that term is defined in Rule 144 under the Securities Act, purchases such shares.

The remaining shares of common stock held by existing stockholders are restricted shares as that term is defined in Rule 144 under the Securities Act. We issued and sold the restricted shares in private transactions in reliance upon exemptions from registration under the Securities Act. Restricted shares may be sold in the public market only if they are registered under the Securities Act or if they qualify for an exemption from registration, such as the exemptions provided under Rules 144 or 701 under the Securities Act, which are summarized below.

The number of shares that will be available for sale in the public market 180 days after the date of this prospectus under the provisions of Rule 144 and Rule 701 under the Securities Act will be 24,449,525 shares, subject to volume and other restrictions, as applicable.

### Lock-Up Agreements

Stockholders who own 34,189,161 shares of our common stock are subject to lock-up restrictions in favor of the underwriters. In addition, our company has entered into a lock-up agreement with the underwriters. As of the date of this prospectus, holders of stock representing 4,250 shares are not subject to lock up agreements. The lock-up agreements provide that, subject to limited exceptions, neither we nor any of our directors or executive officers nor any of those stockholders who have signed lock-ups may dispose of or hedge any shares of common stock or securities convertible into or exchangeable for shares of common stock. These restrictions will be in effect for a period of 180 days after the date of this prospectus, and may be extended under certain circumstances. At any time and without notice, the underwriters may release all or some of the securities from these lock-up agreements. See "Plan of Distribution" for additional detail on the lock-up agreements.

### Rule 144

In general, under Rule 144, a person who owns shares that were acquired from us or one of our affiliates at least one year prior to the proposed sale is entitled to sell upon expiration of the selling restrictions described above, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 445,000 shares immediately after this offering, or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us. Rule 144 also provides that our affiliates who sell shares of our common stock that are not restricted shares must

nonetheless comply with the same restrictions applicable to restricted shares with the exception of the holding period requirement.

#### **Rule 144(k)**

Under Rule 144(k), a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation, or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of this offering.

#### **Rule 701**

In general, under Rule 701, any of our employees, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement in a transaction that was completed in reliance on Rule 701 and complied with the requirements of Rule 701, is eligible, subject to the terms of the lock-up agreements, to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, without having to comply with the holding period and notice requirements of Rule 144 and, in the case of non-affiliates, without having to comply with the public information, volume limitation or notice filing provisions of Rule 144.

#### **Form S-8 Registration Statement**

Shortly after the effectiveness of this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering shares of common stock reserved for issuance under our stock option and equity incentive plans. Upon the filing of the Form S-8, shares of common stock issued upon the exercise of options under our equity incentive plans will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates and subject to the lock-up agreements described above.

#### **Registration Rights**

Not including the shares held by Madeleine Pickens, Company Designees and Pickens Transferees (described in the following paragraph), the holders of 27,283,391 outstanding shares of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act. These registration rights, which also cover shares of common stock issuable upon the exercise of any warrants held by any such holder (including the warrant to purchase 15,000,000 shares held by Mr. Pickens) or any other shares of common stock issued to any of such holders by us, are contained in a registration rights agreement and are described in "Description of Capital Stock." The registration rights agreement expires on December 31, 2012 or, with respect to an individual holder, when such holder receives an opinion of counsel that such holder is able to sell all of its shares pursuant to Rule 144(k) under the Securities Act immediately without any volume limitation and without any additional unreasonable expense.

The registration rights agreement was amended in May 2007 to grant registration rights (1) to Madeleine Pickens, wife of Boone Pickens, (2) to certain stockholders who are employees and directors of the company, whom we refer to as the Company Designees, and (3) to certain stockholders who purchased or otherwise received shares from Boone Pickens, whom we refer to as the Pickens Transferees. These registration rights are effective only with respect to this offering and expire upon the consummation of this offering. Under the amendment, assuming the selling stockholders are permitted to sell 10,000,000 shares in the initial closing of this offering and 3,000,000 shares pursuant to the underwriters' over-allotment option, (1) Madeleine Pickens may sell up to 1,000,000 shares in the initial closing of this offering, (2) the Company Designees may sell up to 1,021,634 shares in the initial closing of this offering, and (3) the Pickens Transferees may sell up to 2,198,160 shares of common stock in the over-allotment closing of this offering, in each case subject to pro rata cutback if the size of the offering is reduced (except generally for Madeleine Pickens and two Company Designees holding a total of 12,500 shares).

## PLAN OF DISTRIBUTION

In accordance with the terms of the underwriting agreement among W.R. Hambrecht + Co., LLC, Simmons & Company International, Susquehanna Financial Group, NBF Securities USA Corp., the selling stockholders and us, the underwriters named below have agreed to purchase from the selling stockholders and us that number of shares of common stock set forth opposite the underwriter's name below at the public offering price less the underwriting discount described on the cover page of this prospectus.

Underwriter	Number of shares
WR Hambrecht + Co	
Simmons & Company International	
Susquehanna Financial Group, LLP	
NBF Securities (USA) Corp.	
<b>Total:</b>	<b>20,000,000</b>

The underwriting agreement provides that the obligations of the underwriters are subject to various conditions, including the absence of any material adverse change in our business, and the receipt of certificates, opinions and letters from us and counsel. Subject to those conditions, the underwriters are committed to purchase all of the shares of our common stock offered by this prospectus if any of the shares are purchased.

### Commissions and Discounts

The underwriters propose to offer the shares of our common stock directly to the public at the offering price set forth on the cover page of this prospectus, as this price is determined by the OpenIPO process described below, and to certain dealers at this price less a concession not in excess of \$ \_\_\_\_\_ per share. The underwriters may allow, and dealers may reallow, a concession not to exceed \$ \_\_\_\_\_ per share on sales to other dealers. Any dealers that participate in the distribution of our common stock may be deemed to be underwriters within the meaning of the Securities Act, and any discount, commission or concession received by them and any provided by the sale of the shares by them may be deemed to be underwriting discounts and commissions under the Securities Act. After completion of the initial public offering of the shares, to the extent that the underwriters are left with shares for which successful bidders have failed to pay, the underwriters may sell those shares at a different price and with different selling terms.

The following table shows the per share and total underwriting discount to be paid to the underwriters by us in connection with this offering. The underwriting discount has been determined through negotiations between us and the underwriters, and has been calculated as a percentage of the offering price. These amounts are shown assuming both no exercise and full exercise of the over-allotment option.

	Per share	No exercise	Full exercise
Initial public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$	\$

We estimate that the costs of this offering, exclusive of the underwriting discount, will be approximately \$4.2 million. These fees and expenses are payable entirely by us. An electronic

prospectus is available on the website maintained by WR Hambrecht + Co and may also be made available on websites maintained by selected dealers and selling group members participating in this offering.

### **The OpenIPO Auction Process**

The distribution method being used in this offering is known as the OpenIPO auction, which differs from methods traditionally used in underwritten public offerings. In particular, as described under the captions "Determination of Initial Public Offering Price" and "Allocation of Shares" below, the public offering price and the allocation of shares are determined by an auction conducted by the underwriters and other factors as described below. All qualified individual and institutional investors may place bids in an OpenIPO auction and investors submitting valid bids have an equal opportunity to receive an allocation of shares.

The following describes how the underwriters and some selected dealers conduct the auction process and confirm bids from prospective investors:

#### *Prior to Effectiveness of the Registration Statement*

Before the registration statement relating to this offering becomes effective, but after a preliminary prospectus is available, the auction will open and the underwriters and participating dealers will solicit bids from prospective investors through individual meetings, the Internet, by telephone and facsimile. The bids specify the number of shares of our common stock the potential investor proposes to purchase and the price the potential investor is willing to pay for the shares. These bids may be above or below the price range set forth on the cover page of the preliminary prospectus. The minimum size of any bid is 100 shares. Bidders may submit multiple bids in the auction.

The shares offered by this prospectus may not be sold, nor may offers to buy be accepted, prior to the time that the registration statement filed with the SEC becomes effective. A bid received by the underwriters or a dealer involves no obligation or commitment of any kind prior to the notice of acceptance being sent, which will occur after effectiveness of the registration statement and closing of the auction. Bids can be modified at any time prior to the closing of the auction.

Potential investors may contact the underwriter or dealer through which they submitted their bid to discuss general auction trends or to consult on bidding strategy. The current clearing price is at all times kept confidential and will not be disclosed during the OpenIPO auction to any bidder. However, the underwriters or participating dealers may discuss general auction trends with potential investors. General auction trends may include a general description of the bidding trends or the anticipated timing of the offering. In all cases, any oral information provided with respect to general auction trends by any underwriter or dealer is subject to change. Any general auction trend information that is provided orally by an underwriter or participating dealer is necessarily accurate only as of the time of inquiry and may change significantly prior to the auction closing. Therefore, bidders should not assume that any particular bid will receive an allocation of shares in the auction based on any auction trend information provided to them orally by any underwriter or participating dealer.

Approximately two business days prior to the registration statement being declared effective, prospective investors will receive, by e-mail, telephone or facsimile, a notice indicating the proposed effective date. Potential investors may at any time expressly request that all, or any specific, communications between them and the underwriters and participating dealers be made by specific means of communication, including e-mail, telephone and facsimile. The underwriters and participating dealers will contact the potential investors in the manner they request.

### *Effectiveness of the Registration Statement*

After the registration statement relating to this offering has become effective, potential investors who have submitted bids to the underwriters or a dealer will be contacted by e-mail, telephone or facsimile. Potential investors will be advised that the registration statement has been declared effective and that the auction may close in as little as one hour following effectiveness. Bids will continue to be accepted in the time period after the registration statement is declared effective but before the auction closes. Bidders may also withdraw their bids in the time period following effectiveness but before the notice of acceptance of their bid is sent.

### *Reconfirmation of Bids*

The underwriters will require that bidders reconfirm the bids that they have submitted in the offering if any of the following events occur:

- More than 15 business days have elapsed since the bidder submitted its bid in the offering;
- There is a material change in the prospectus that requires that we or the underwriters convey the material change to bidders in the offering and file an amended registration statement.

If a reconfirmation of bids is required, the underwriters will send an electronic notice (or communicate in an alternative manner as requested by a bidder) to everyone who has submitted a bid notifying them that they must reconfirm their bids by contacting the underwriters or participating dealers with which they have their brokerage accounts. Bidders will have a minimum of four hours to reconfirm their bids from the time the notice requesting reconfirmation is sent. Bidders will have the ability to modify or reconfirm their bids at any time until the auction closes. If bidders do not reconfirm their bids before the auction is closed (which will be no sooner than four hours after the request for reconfirmation is sent), we and the underwriters will disregard their bids in the auction, and they will be deemed to have been withdrawn. If appropriate, the underwriters may include the request for reconfirmation in a notice of effectiveness of the registration statement.

### *Changes in the Price Range or Offering Size Before the Auction is Closed*

Based on the auction demand, we and the underwriters may elect to change the price range or the number of shares being sold in the offering either before or after the SEC declares the registration statement effective. If we and the underwriters elect to change the price range or the offering size after effectiveness of the registration statement, the underwriters will keep the auction open for at least one hour after notifying bidders of the new auction terms. If the change in price range or offering size is not otherwise material to this offering, we and the underwriters or participating dealers will:

- Provide notice on the WR Hambrecht + Co OpenIPO website of the revised price range or number of shares to be sold in this offering, as the case may be;
- If appropriate, issue a press release announcing the revised price range or number of shares to be sold in this offering, as the case may be; and
- Send an electronic notice (or communicate in an alternative manner as requested by a bidder) to everyone who has submitted a bid notifying them of the revised price range or number of shares to be sold in this offering, as the case may be.

In these situations, the underwriters could accept an investor's bid after the SEC declares the registration statement effective without requiring a bidder to reconfirm. The underwriters may also decide at any time to require potential investors to reconfirm their bids, and if they fail to do so, their unconfirmed bids will be invalid.

In the event that the changes to the price range or the offering size constitute material changes, alone or in the aggregate, to the previously provided disclosure, we will reconfirm all bids that have been submitted in the auction after notifying bidders of the new auction terms. In the event that there is a material change to the price range or the offering size after effectiveness of the registration statement, we will file a post-effective amendment to the registration statement containing the new auction terms prior to accepting any offers.

#### *Changes in the Price Range or Offering Size After the Auction is Closed and Pricing Outside the Price Range*

If we determine after the auction is closed that the initial public offering price will be above or below the stated price range in the auction but that it will not result in any material change to the previously provided disclosure, the underwriters may accept all successful bids without reconfirmation. Similarly, if after effectiveness of the registration statement and the auction is closed the number of shares sold in the offering is increased or decreased in a manner that is not otherwise material to this offering, the underwriters may accept all successful bids without reconfirmation. In this situation the underwriters and participating dealers will communicate the final price and size of the offering in the notice of acceptance that is sent to successful bidders.

If we determine, after the auction is closed, that the initial public offering price will be outside of the price range or we elect to change the size of the offering, and the public offering price and/or change in the offering size, alone or in the aggregate, constitute a material change to the previously provided disclosure, then we may convey the final price and offering size to all bidders in the auction, file a post-effective amendment to the registration statement with the final price and offering size, reconfirm all bids and accept offers after the post-effective amendment has been declared effective by the SEC. In the alternative, we may re-open the auction pursuant to the following procedures:

- WR Hambrecht + Co will provide notice on the WR Hambrecht + Co OpenIPO website that the auction has re-opened with a revised price range or offering size, as the case may be;
- We and the underwriters and participating dealers will issue a press release announcing the new auction terms;
- The underwriters and participating dealers will send an electronic notice (or communicate in an alternative manner as requested by a bidder) to everyone who has submitted a bid notifying them that the auction has re-opened with a revised price range or offering size, as the case may be;
- The underwriters and participating dealers will reconfirm all bids in the auction; and
- We will file a post-effective amendment to the registration statement containing the new auction terms and have the post-effective amendment declared effective prior to the acceptance of any offers.

The auction will close and a public offering price will be determined after the registration statement becomes effective at a time agreed to by us and WR Hambrecht + Co, which we anticipate will be after the close of trading on the Nasdaq Global Market on the same day on which the registration statement is declared effective. The auction may close in as little as one hour following effectiveness of the registration statement. However, the date and time at which the auction will close and a public offering price will be determined cannot currently be predicted and will be determined by us and WR Hambrecht + Co based on general market conditions during the period after the registration statement is declared effective. If we are unable to close the auction, determine a public offering price and file a final prospectus with the SEC within 15 days after the registration statement is initially declared effective, we will be required to file with the SEC and have declared effective a post-effective amendment to the registration statement before the auction may be closed and before any bids may be accepted.

Once a potential investor submits a bid, the bid remains valid unless subsequently withdrawn by the potential investor. Potential investors are able to withdraw their bids at any time before the notice of acceptance is sent by notifying the underwriters or a participating dealer through which they submitted their bid. The auction website will not permit modification or cancellation of bids after the auction closes. Therefore, if a potential investor that bid through the Internet wishes to cancel a bid after the auction closes the investor may have to contact WR Hambrecht + Co (or the participating dealer through which the investor submitted the bid) by telephone, facsimile or e-mail (or as specified by the underwriter or participating dealer through which the bidder submitted the bid).

Following the closing of the auction, the underwriters determine the highest price at which all of the shares offered, including shares that may be purchased by the underwriters to cover any over-allotments, may be sold to potential investors. This price, which is called the "clearing price," is determined based on the results of all valid bids at the time the auction is closed. The clearing price is not necessarily the public offering price, which is set as described in "Determination of Public Offering Price" below. The public offering price determines the allocation of shares to potential investors, with all valid bids submitted at or above the public offering price receiving a pro rata portion of the shares bid for.

You will have the ability to withdraw your bid at any time until the notice of acceptance is sent. The underwriters will accept successful bids by sending notice of acceptance after the auction closes and a public offering price has been determined, and bidders who submitted successful bids will be obligated to purchase the shares allocated to them regardless of (1) whether such bidders are aware that the registration statement has been declared effective and that the auction has closed or (2) whether they are aware that the notice of acceptance of that bid has been sent. The underwriters will not cancel or reject a valid bid after the notices of acceptance have been sent.

Once the auction closes and a clearing price is set as described below, the underwriters or a participating dealer accepts the bids that are at or above the public offering price but may allocate to a prospective investor fewer shares than the number included in the investor's bid, as described in "Allocation of Shares" below.

#### **Determination of Initial Public Offering Price**

The public offering price for this offering is ultimately determined by negotiation between the underwriters and us after the auction closes and does not necessarily bear any direct relationship to our assets, current earnings or book value or to any other established criteria of value, although these factors are considered in establishing the initial public offering price. Prior to

this offering, there has been no public market for our common stock. The principal factor in establishing the public offering price is the clearing price resulting from the auction, although other factors are considered as described below. The clearing price is used by the underwriters and us as the principal benchmark, among other considerations described below, in determining the public offering price for the stock that will be sold in this offering.

The clearing price is the highest price at which all of the shares offered, including the shares that may be purchased by the underwriters to cover any over-allotments, may be sold to potential investors, based on the valid bids at the time the auction is closed. The shares subject to the underwriters' over-allotment option, to the extent that the underwriters over-allot shares in the offering, are used to calculate the clearing price whether or not the option is actually exercised. If the underwriters over-allot shares in excess of the number of shares subject to the over-allotment option the shares in excess of the over-allotment option will not be used to calculate the clearing price. Based on the auction results, we may elect to change the number of shares sold in the offering. Depending on the public offering price and the amount of the increase or decrease, an increase or decrease in the number of shares to be sold in the offering could affect the clearing price and result in either more or less dilution to potential investors in this offering.

Depending on the outcome of negotiations between the underwriters and us, the public offering price may be lower, but will not be higher, than the clearing price. The bids received in the auction and the resulting clearing price are the principal factors used to determine the public offering price of the stock that will be sold in this offering. The public offering price may be lower than the clearing price depending on a number of additional factors, including general market trends or conditions, the underwriters' assessment of our management, operating results, capital structure and business potential and the demand and price of similar securities of comparable companies. The underwriters and we may also agree to a public offering price that is lower than the clearing price in order to facilitate a wider distribution of the stock to be sold in this offering. For example, we and the underwriters may elect to lower the public offering price to include certain institutional or retail bidders in this offering. We and the underwriters may also lower the public offering price to create a more stable post-offering trading price for our shares.

The public offering price always determines the allocation of shares to potential investors. Therefore, if the public offering price is below the clearing price, all valid bids that are at or above the public offering price receive a pro rata portion of the shares bid for. If sufficient bids are not received, or if we do not consider the clearing price to be adequate, or if we and the underwriters are not able to reach agreement on the public offering price, then we and the underwriters will either postpone or cancel this offering. Alternatively, we may file with the SEC a post-effective amendment to the registration statement in order to conduct a new auction.

The following simplified example illustrates how the public offering price is determined through the auction process:

Company X offers to sell 1,500 shares in its public offering through the auction process. The underwriters, on behalf of Company X, receive five bids to purchase, all of which are kept confidential until the auction closes.

The first bid is to pay \$10.00 per share for 1,000 shares. The second bid is to pay \$9.00 per share for 100 shares. The third bid is to pay \$8.00 per share for 900 shares. The fourth bid is to pay \$7.00 per share for 400 shares. The fifth bid is to pay \$6.00 per share for 800 shares.

Assuming that none of these bids are withdrawn or modified before the auction closes, and assuming that no additional bids are received, the clearing price used to determine the public



offering price would be \$8.00 per share, which is the highest price at which all 1,500 shares offered may be sold to potential investors who have submitted valid bids. However, the shares may be sold at a price below \$8.00 per share based on negotiations between Company X and the underwriters.

If the public offering price is the same as the \$8.00 per share clearing price, the underwriters would accept bids at or above \$8.00 per share. Because 2,000 shares were bid for at or above the clearing price, each of the three potential investors who bid \$8.00 per share or more would receive approximately 75% (1,500 divided by 2,000) of the shares for which bids were made. The two potential investors whose bids were below \$8.00 per share would not receive any shares in this example.

If the public offering price is \$7.00 per share, the underwriters would accept bids that were made at or above \$7.00 per share. No bids made at a price of less than \$7.00 per share would be accepted. The four potential investors with the highest bids would receive a pro rata portion of the 1,500 shares offered, based on the 2,400 shares they requested, or 62.5% (1,500 divided by 2,400) of the shares for which bids were made. The potential investor with the lowest bid would not receive any shares in this example.

As described in "Allocation of Shares" below, because bids that are reduced on a pro rata basis may be rounded down to round lots, a potential investor may be allocated less than the pro rata percentage of the shares bid for. Thus, if the pro rata percentage was 75%, the potential investor who bids for 200 shares may receive a pro rata allocation of 100 shares (50% of the shares bid for), rather than receiving a pro rata allocation of 150 shares (75% of the shares bid for).

The following table illustrates the example described above, after rounding down any bids to the nearest round lot in accordance with the allocation rules described below, and assuming that the initial public offering price is set at \$8.00 per share. The table also assumes that these bids are the final bids, and that they reflect any modifications that have been made to reflect any prior changes to the offering range, and to avoid the issuance of fractional shares.

#### Initial Public Offering of Company X

Bid Information			Auction Results			
Shares Requested	Cumulative Shares Requested	Bid Price	Shares Allocated	Approximate Allocated Requested Shares	Clearing Price	Amount Raised
1,000	1,000	\$ 10.00	700	75.0%	\$ 8.00	\$ 5,600
100	1,100	\$ 9.00	100	75.0%	\$ 8.00	\$ 800
Clearing Price	900	\$ 8.00	700	75.0%	\$ 8.00	\$ 5,600
	400	\$ 7.00	0	0%	—	—
	800	\$ 6.00	0	0%	—	—
Total			1,500			\$ 12,000

#### Allocation of Shares

Bidders receiving a pro rata portion of the shares they bid for generally receive an allocation of shares on a round-lot basis, rounded to multiples of 100 or 1,000 shares, depending on the size of the bid. No bids are rounded to a round lot higher than the original bid size. Because bids may be rounded down to round lots in multiples of 100 or 1,000 shares, some bidders may receive allocations of shares that reflect a greater percentage decrease in their original bid than the

average pro rata decrease. Thus, for example, if a bidder has confirmed a bid for 200 shares, and there is an average pro rata decrease of all bids of 30%, the bidder may receive an allocation of 100 shares (a 50% decrease from 200 shares) rather than receiving an allocation of 140 shares (a 30% decrease from 200 shares). In addition, some bidders may receive allocations of shares that reflect a lesser percentage decrease in their original bid than the average pro rata decrease. For example, if a bidder has submitted a bid for 100 shares, and there is an average pro rata decrease of all bids of 30%, the bidder may receive an allocation of all 100 shares to avoid having the bid rounded down to zero.

Generally the allocation of shares in this offering will be determined in the following manner, continuing the first example above:

- Any bid with a price below the public offering price is allocated no shares.
- The pro rata percentage is determined by dividing the number of shares offered (including the over-allotment option, if exercised) by the total number of shares bid at or above the public offering price. In our example, if there are 2,000 shares bid for at or above the public offering price, and 1,500 shares offered in the offering, then the pro rata percentage is 75%.
- All of the successful bids are then multiplied by the pro rata percentage to determine the allocations before rounding. For example, the three winning bids for 1,000 shares (Bid 1), 100 shares (Bid 2) and 900 shares (Bid 3) would initially be allocated 750 shares, 75 shares and 675 shares, respectively, based on the pro rata percentage.
- The bids are then rounded down to the nearest 100 share round lot, so the bids would be rounded to 700, 0 and 600 shares respectively. This creates a stub of 200 unallocated shares.
- The 200 stub shares are then allocated to the bids. Continuing the example above, because Bid 2 for 100 shares was rounded down to 0 shares, 100 of the stub shares would be allocated to Bid 2. If there were not sufficient stub shares to allocate at least 100 shares to Bid 2, Bid 2 would not receive any shares in the offering. After allocation of these shares, 100 unallocated stub shares would remain.
- Because Bid 3 for 900 shares was reduced, as a result of rounding, by more total shares than Bid 1 for 1,000 shares, Bid 3 would then be allocated the remaining 100 stub shares up to the nearest 100 round lot (from 600 shares to 700 shares).

If there are not sufficient remaining stub shares to enable a bid to be rounded up to a round lot of 100 shares the remaining unallocated stub shares would be allocated to smaller orders that are below their bid amounts. The table below illustrates the allocations in the example above.

#### Initial Public Offering of Company X

	Initial Bid	Pro-rata Allocation (75% of Initial Bid)	Initial Rounding	Allocation of Stub Shares	Final Allocation
Bid 1	1,000	750	700	0	700
Bid 2	100	75	0	100	100
Bid 3	900	675	600	100	700
Total	2,000	1,500	1,300	200	1,500

#### Requirements for Valid Bids

To participate in an OpenIPO offering, all bidders must have an account with WR Hambrecht + Co or one of the other underwriters or participating dealers. Valid bids are those that meet the requirements, including eligibility, account status and size, established by the underwriters or participating dealers. In order to open a brokerage account with WR Hambrecht + Co, a potential investor must deposit \$2,000 in its account. This brokerage account will be a general account subject to WR Hambrecht + Co's customary rules, and will not be limited to this offering. Bidders will be required to have sufficient funds in their account to pay for the shares they are allocated in the auction at the closing of the offering, which is generally on the fourth business day following the pricing of the offering. The underwriters reserve the right, in their sole discretion, to reject or reduce any bids that they deem manipulative or disruptive or not creditworthy in order to facilitate the orderly completion of the offering. For example, in previous transactions for other issuers in which the auction process was used, the underwriters have rejected or reduced bids when the underwriters, in their sole discretion, deemed the bids not creditworthy or had reason to question the bidder's intent or means to fund its bid. In the absence of other information, the underwriters or participating dealer may assess a bidder's creditworthiness based solely on the bidder's history with the underwriters or participating dealer. The underwriters have also rejected or reduced bids that they deemed, in their sole discretion, to be potentially manipulative or disruptive or because the bidder had a history of securities law violations or alleged securities law violations. Suitability and eligibility standards of participating dealers may vary. As a result of these varying requirements, a bidder may have its bid rejected by the underwriters or a participating dealer while another bidder's identical bid is accepted.

#### The Closing of the Auction and Allocation of Shares

The auction will close on a date and at a time estimated and publicly disclosed in advance by the underwriters on the websites of WR Hambrecht + Co at [www.wrhambrecht.com](http://www.wrhambrecht.com) and [www.openipo.com](http://www.openipo.com). The auction may close in as little as one hour following effectiveness of the registration statement. The shares offered by this prospectus, or 23,000,000 shares if the underwriters' over-allotment option is exercised in full, will be purchased from us and from the selling stockholders by the underwriters and sold through the underwriters and participating dealers to investors who have submitted valid bids at or higher than the public offering price.

The underwriters or a participating dealer will notify successful bidders by sending a notice of acceptance by e-mail, telephone, facsimile or mail (according to any preference indicated by a bidder) informing bidders that the auction has closed and that their bids have been accepted. The

notice will indicate the price and number of shares that have been allocated to the successful bidder. Other bidders will be notified that their bids have not been accepted.

Each participating dealer has agreed with the underwriters to sell the shares it purchases from the underwriters in accordance with the auction process described above, unless the underwriters otherwise consent. The underwriters do not intend to consent to the sale of any shares in this offering outside of the auction process. The underwriters reserve the right, in their sole discretion, to reject or reduce any bids that they deem manipulative or disruptive in order to facilitate the orderly completion of this offering, and reserve the right, in exceptional circumstances, to alter this method of allocation as it deems necessary to ensure a fair and orderly distribution of the shares of our common stock. For example, large orders may be reduced to ensure a public distribution and bids may be rejected or reduced by the underwriters or participating dealers based on eligibility or creditworthiness criteria. Once the underwriters have closed the auction and accepted a bid, the allocation of shares sold in this offering will be made according to the process described in "Allocation of Shares" above, and no shares sold in this offering will be allocated on a preferential basis or outside of the allocation rules to any institutional or retail bidders. In addition, the underwriters or the participating dealers may reject or reduce a bid by a prospective investor who has engaged in practices that could have a manipulative, disruptive or otherwise adverse effect on this offering.

Some dealers participating in the selling group may submit firm bids that reflect indications of interest that they have received from their customers. In these cases, the dealer submitting the bid is treated as the bidder for the purposes of determining the clearing price and allocation of shares.

Price and volume volatility in the market for our common stock may result from the somewhat unique nature of the proposed plan of distribution. Price and volume volatility in the market for our common stock after the completion of this offering may adversely affect the market price of our common stock.

### **Over-Allotment Option**

The selling stockholders have granted the underwriters the right to purchase up to \_\_\_\_\_ additional shares at the public offering price set forth on the front page of this prospectus less the underwriting discount within 30 days after the date of this prospectus to cover any over-allotments. To the extent that the underwriters exercise this option, they will have a firm commitment to purchase the additional shares and the selling stockholders will be obligated to sell the additional shares to the underwriters. The underwriters may exercise the option only to cover over-allotments made in connection with the sale of shares offered.

### **Lock-Up Agreements**

We have agreed not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock for a period of 180 days after the date of this prospectus without the prior written consent of WR Hambrecht + Co, other than the shares of common stock or options to acquire common stock issued under our equity incentive plans. Notwithstanding the foregoing, if (a) during the last 17 days of the 180-day period after the date of this prospectus, we issue an earnings release or publicly announce material news or if a material event relating to us occurs or (b) prior to the expiration of the 180-day period after the date of this prospectus, we announce that we will release earnings during the 16-day period beginning on the last day of the 180-day period, the above restrictions will continue to apply

until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The holders of nearly 100% of our outstanding common stock prior to this offering, including each of our directors and executive officers, have agreed not to (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for shares of our common stock or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock for a period of 180 days after the date of this prospectus without the prior written consent of WR Hambrecht + Co, other than (a) transfers or distributions of shares of our common stock acquired from the underwriters in this offering; (b) transfers or distributions of shares of our common stock acquired in open market transactions after the completion of this offering; (c) transfers of shares of common stock or any security convertible into our common stock as a bona fide gift or gifts; (d) transfers to any trust for the direct or indirect benefit of the persons bound by the foregoing terms or the immediate family of the persons bound by the foregoing terms; or (e) distributions of shares of our common stock or any security convertible into our common stock to the partners, members or stockholders of the persons bound by the foregoing terms, provided that in the case of any transfer or distribution described in (c) through (e) above, the transferees, donees or distributees agree to be bound by the foregoing terms and the transferor, donor or distributor would not be required to, or voluntarily, file a report under Section 16(a) of the Exchange Act. These restrictions will remain in effect beyond the 180-day period under the same circumstances described in the immediately preceding paragraph.

There are no specific criteria that WR Hambrecht + Co requires for an early release of shares subject to lock-up agreements. The release of any lock-up will be on a case-by-case basis. Factors in deciding whether to release shares may include the length of time before the lock-up expires, the number of shares involved, the reason for release, including financial hardship, market conditions and the trading price of the common stock. WR Hambrecht + Co has no present intention or understanding, implicit or explicit, to release any of the shares subject to the lock-up agreements prior to the expiration of the 180-day period.

### **Short Sales, Stabilizing Transactions and Penalty Bids**

In connection with this offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Any short sales made by the underwriters would be made at the public offering price. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares from the selling stockholders in this offering. The underwriters may close out any covered short position by either exercising the option to purchase additional shares or purchasing shares in the open market. As described above, the number of shares that may be sold pursuant to the underwriters' over-allotment option is included in the calculation of the clearing price. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. "Naked" short sales are any sales in excess of such option. To the extent that the underwriters engage in any naked short sales, the naked short position would not be included in the calculation of the clearing price. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that

there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market for the purpose of pegging, fixing or maintaining the price of the common stock.

The underwriters may also impose a penalty bid. This occurs when a particular dealer or underwriter repays to the underwriters a portion of the underwriting discount or selling concession received by it because the underwriters have repurchased shares sold by or for the account of the dealer or underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, the underwriters may discontinue them at any time. These transactions may be effected on the Nasdaq Global Market, in the over-the-counter market or otherwise.

WR Hambrecht + Co currently intends to act as a market maker for the common stock following this offering. However, it is not obligated to do so and may discontinue any market making at any time.

## **Indemnity**

The underwriting agreement provides that we and the underwriters have agreed to indemnify each other against specified liabilities, including liabilities under the Securities Act, and contribute to payments that each other may be required to make relating to these liabilities.

## **Foreign Jurisdictions**

*United Kingdom.* Each of the placement agents has represented and agreed that:

- it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of Section 102B of the Financial Services and Markets Act 2000 (as amended), or the FSMA, except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by us of a prospectus pursuant to Section 85(1) of the FSMA;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any shares in circumstances in which Section 21 of the FSMA does not apply to us; and
- it has complied with, and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

*European Economic Area.* In relation to each Member State of the European economic area which has implemented the prospectus directive, each a Relevant Member State, an offer to the public of any shares which are the subject of the offering contemplated by this prospectus, may not be made in that Relevant Member State other than the offers contemplated in this prospectus in that relevant member state once this prospectus has been approved by the competent authority in that relevant member state and published and passported in accordance with the prospectus

directive as implemented in that Relevant Member State except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the prospectus directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- By the placement agents to fewer than 100 natural or legal persons (other than qualified investors as defined in the prospectus directive) subject to obtaining the prior consent of the lead placement agent; or
- in any other circumstances falling within article 3(2) of the prospective directive,

provided that no such offer of shares shall result in a requirement for the publication by us or any placement agent of a prospectus pursuant to article 3 of the prospectus directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in that member state by any measure implementing the prospectus directive in that member state and the expression "prospectus directive" means directive 2003/71/ec and includes any relevant implementing measure in each Relevant Member State.

*Switzerland.* This prospectus does not constitute an issue prospectus pursuant to Art 652a of the Swiss code of obligations. The shares will not be listed on the SWX Swiss Exchange and, therefore, the prospectus may not comply with the disclosure standards of the listing rules of the SWX Swiss exchange.

Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe the shares with a view to distribution. The investors will be individually approached by the placement agents from time to time.

This prospectus is personal to each offeree and does not constitute an offer to any person. The prospectus may only be used by those persons to whom it has been handed out in connection with the offer described therein and may neither directly nor indirectly be distributed or made available to other persons without express consent of the issuer. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in Switzerland.

## **LEGAL MATTERS**

The validity of the securities offered under this prospectus will be passed upon for us by Sheppard, Mullin, Richter & Hampton LLP, San Diego, California. Certain legal matters in connection with this offering will be passed upon for the underwriters by Baker Botts L.L.P., Houston, Texas.

## EXPERTS

The financial statements and financial statement schedule of Clean Energy Fuels Corp. and subsidiaries as of December 31, 2005 and 2006, and for each of the years in the three-year period ended December 31, 2006, have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the financial statements and financial statement schedule as of and for the year ended December 31, 2006, refers to the adoption of the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information about us and the common stock offered hereby, reference is made to the registration statement and the exhibits and schedules filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits and schedules filed therewith may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, Room 1580, N.E., Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from such offices upon the payment of the fees prescribed by the SEC. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains an Internet web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is <http://www.sec.gov>.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection and copying at the public reference room and web site of the SEC referred to above.



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## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders Clean Energy Fuels Corp.:

We have audited the accompanying consolidated balance sheets of Clean Energy Fuels Corp. and subsidiaries ("the Company"), as of December 31, 2005 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clean Energy Fuels Corp. and subsidiaries as of December 31, 2005 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1 and 5 to the consolidated financial statements, effective January 1, 2006, the Company adopted the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

/s/ KPMG, LLP  
Los Angeles, California  
March 23, 2007

**Clean Energy Fuels Corp. and Subsidiaries**

**Consolidated Balance Sheets**

as of December 31,

	2005	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 28,763,445	\$ 937,445
Accounts receivable, net of allowance for doubtful accounts of \$446,812 and \$352,050 as of December 31, 2005 and 2006, respectively	12,464,006	10,997,328
Other receivables	2,636,391	37,818,905
Inventory, net	1,947,908	2,558,689
Derivative assets	8,956,599	—
Prepaid expenses and other current assets	1,724,615	4,862,335
	56,492,964	57,174,702
Land, property and equipment, net	48,005,204	54,888,739
Capital lease receivables	2,061,500	1,412,500
Notes receivable and other long term assets	1,060,923	2,499,106
Goodwill and other intangible assets	20,993,059	20,957,589
	\$ 128,613,650	\$ 136,932,636
	\$ 128,613,650	\$ 136,932,636
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of long term debt and capital lease obligations	\$ 4,817,860	\$ 57,499
Accounts payable	9,560,274	6,697,363
Accrued liabilities	4,491,919	5,023,051
Income taxes payable	6,761,739	—
Deferred tax liabilities	2,810,578	—
Deferred revenue	623,828	585,505
	29,066,198	12,363,418
Long term debt and capital lease obligations, less current portion	282,396	224,897
Deferred tax liabilities	4,210,416	—
Other long term liabilities	1,564,772	1,428,464
	35,123,782	14,016,779
	35,123,782	14,016,779
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value. Authorized 1,000,000 shares; issued and outstanding no shares	—	—
Common stock, \$0.0001 par value. Authorized 99,000,000 shares; issued and outstanding 25,558,114 shares and 34,192,161 shares at December 31, 2005 and 2006, respectively	2,556	3,419
Additional paid-in capital	74,755,049	179,536,766
Retained earnings (accumulated deficit)	17,308,520	(58,050,126)
Accumulated other comprehensive income	1,423,743	1,425,798
	93,489,868	122,915,857
	\$ 128,613,650	\$ 136,932,636
	\$ 128,613,650	\$ 136,932,636

See accompanying notes to consolidated financial statements.

**Clean Energy Fuels Corp. and Subsidiaries**

**Consolidated Statements of Operations**

**Years ended December 31,**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
Revenue	\$ 57,641,605	\$ 77,955,083	\$ 91,547,316
Operating expenses:			
Cost of sales	48,772,296	72,004,077	74,047,901
Derivative (gains) losses	(10,572,349)	(44,067,744)	78,994,947
Selling, general and administrative	11,112,878	17,108,425	20,860,181
Depreciation and amortization	3,810,419	3,948,544	5,765,001
<b>Total operating expenses</b>	<b>53,123,244</b>	<b>48,993,302</b>	<b>179,668,030</b>
Operating income (loss)	4,518,361	28,961,781	(88,120,714)
Interest (income) expense, net	96,983	(59,780)	(746,339)
Other expense, net	605,312	140,921	255,479
Income (loss) before income taxes	3,816,066	28,880,640	(87,629,854)
Income tax expense (benefit)	1,686,825	11,623,053	(12,271,208)
<b>Net income (loss)</b>	<b>\$ 2,129,241</b>	<b>\$ 17,257,587</b>	<b>\$ (75,358,646)</b>
Earnings (loss) per share			
Basic	\$ 0.11	\$ 0.76	\$ (2.38)
Diluted	\$ 0.11	\$ 0.75	\$ (2.38)
Weighted average common shares outstanding			
Basic	18,949,636	22,602,033	31,676,399
Diluted	18,949,636	23,191,674	31,676,399

See accompanying notes to consolidated financial statements.

**Clean Energy Fuels Corp. and Subsidiaries**

**Consolidated Statements of Stockholders' Equity and**

**Comprehensive Income (Loss)**

	Common stock		Additional paid-in capital	Retained Earnings (Accumulated deficit)	Accumulated other comprehensive income	Total stockholders' equity	Total comprehensive income (loss)
	Shares	Amount					
Balance, December 31, 2003	17,572,636	\$ 1,757	\$ 51,118,834	\$ (2,078,308)	\$ 908,043	\$ 49,950,326	\$
Issuance of common stock upon exercise of warrants	3,255,748	326	9,636,688	—	—	9,637,014	346,843
Foreign currency translation adjustment	—	—	—	—	346,843	346,843	346,843
Net income	—	—	—	2,129,241	—	2,129,241	2,129,241
Balance, December 31, 2004	20,828,384	2,083	60,755,522	50,933	1,254,886	62,063,424	2,476,084
Issuance of common stock upon exercise of warrants	4,729,730	473	13,999,527	—	—	14,000,000	168,857
Foreign currency translation adjustment	—	—	—	—	168,857	168,857	168,857
Net income	—	—	—	17,257,587	—	17,257,587	17,257,587
Balance, December 31, 2005	25,558,114	2,556	74,755,049	17,308,520	1,423,743	93,489,868	17,426,444
Issuance of common stock upon exercise of warrants	7,094,594	709	20,999,288	—	—	20,999,997	—
Issuance of common stock upon exercise of options	359,500	36	994,676	—	—	994,712	—
Conversion of debt	1,179,953	118	4,022,522	—	—	4,022,640	—
Assumption of derivative contract obligations by shareholder and issuance of warrant	—	—	78,712,599	—	—	78,712,599	—
Stock-based compensation	—	—	52,632	—	—	52,632	—
Foreign currency translation adjustment	—	—	—	—	2,055	2,055	2,055
Net loss	—	—	—	(75,358,646)	—	(75,358,646)	(75,358,646)
Balance, December 31, 2006	34,192,161	\$ 3,419	\$ 179,536,766	\$ (58,050,126)	\$ 1,425,798	\$ 122,915,857	\$ (75,356,591)

See accompanying notes to consolidated financial statements.

**Clean Energy Fuels Corp. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**Years ended December 31, 2004, 2005 and 2006**

	2004	2005	2006
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 2,129,241	\$ 17,257,587	\$ (75,358,646)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,810,419	3,948,544	5,765,001
Provision for doubtful accounts	165,079	385,721	230,486
Unrealized (gain) loss on futures contracts	(9,414,673)	1,233,110	8,956,599
Loss on disposal of assets	160,675	112,073	362,653
Deferred income taxes	1,679,795	4,861,314	(7,020,994)
Non-cash derivative contract loss	—	—	78,712,599
Stock option expense	—	—	52,632
Changes in operating assets and liabilities:			
Accounts and other receivables	(3,473,383)	(5,641,577)	(35,273,741)
Inventory	(465,553)	(581,079)	(610,781)
Capital lease receivables	399,000	899,000	649,000
Margin deposits on futures contracts	(1,051,000)	1,709,900	196,600
Prepaid expenses and other assets	571,870	(489,108)	(3,330,320)
Accounts payable	1,096,751	3,296,782	(3,433,773)
Income taxes payable	—	6,761,739	(6,761,739)
Accrued expenses and other	(3,566,288)	2,852,376	253,001
Net cash provided by (used in) operating activities	\$ (7,958,067)	\$ 36,606,382	\$ (36,611,423)
<b>Cash flows from investing activities:</b>			
Purchase of LNG plant and related assets	\$ —	\$ (14,758,029)	\$ —
Purchases of property and equipment	(6,314,195)	(7,562,911)	(12,414,066)
Restricted cash	400,000	—	—
Net cash used in investing activities	\$ (5,914,195)	\$ (22,320,940)	\$ (12,414,066)
<b>Cash flows from financing activities:</b>			
Borrowings under line of credit	\$ —	\$ —	\$ 69,500,000
Repayment of notes payable, line of credit, and capital lease obligations	(1,239,462)	(821,743)	(70,295,220)
Proceeds from issuance of common stock	9,637,014	14,000,000	21,994,709
Net cash provided by financing activities	8,397,552	13,178,257	\$ 21,199,489
Net increase (decrease) in cash	(5,474,710)	27,463,699	(27,826,000)
Cash, beginning of year	6,774,456	1,299,746	28,763,445
Cash, end of year	\$ 1,299,746	\$ 28,763,445	\$ 937,445
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes paid	\$ 1,353	\$ 1,353	\$ 6,318,954
Interest paid	485,354	457,431	1,414,908

See accompanying notes to consolidated financial statements.

**(1) Summary of Significant Accounting Policies****(a) The Company**

Clean Energy Fuels Corp., together with its wholly owned subsidiaries (hereinafter collectively referred to as Clean Energy or the Company), is engaged in the business of providing natural gas fueling solutions to its customers in the United States and Canada. Clean Energy was incorporated in April 2001. In June 2001, the Company acquired certain assets and interests of Pickens Fuel Corp. (a private company owned by Boone Pickens) and BCG eFuels, Inc. (owned by Terasen, Inc. (Terasen) (formerly BC Gas, Inc.)), and Westport Innovations, Inc. (Westport Innovations) of Vancouver, British Columbia. For accounting purposes, BCG eFuels, Inc. was deemed the acquiring entity in the formation of the Company and was accounted for on a carryover cost basis. On December 31, 2002, the Company acquired all the outstanding membership interests of Blue Energy & Technologies, L.L.C. (Blue Energy).

Clean Energy has a broad customer base in a variety of markets, including public transit, refuse, airports, and regional trucking. Clean Energy operates or supplies 170 fueling locations, principally in California, Texas, Colorado, Maryland, New York, New Mexico, Washington, Massachusetts, Wyoming and Arizona within the United States, and in British Columbia and Ontario within Canada. The Company also generates revenue through operation and maintenance agreements with certain customers, through building and selling or leasing natural gas fueling stations to its customers, and through financing its customers' vehicle purchases.

**(b) Principles of Consolidation**

The consolidated financial statements include the financial statements of Clean Energy and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

**(c) Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(d) Foreign Currency Translation**

The Company follows the principles of Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation*, using the local currency as the functional currency of its foreign subsidiary. Accordingly, all assets and liabilities outside the United States are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Income and expense items are translated at the weighted average exchange rates prevailing during the period. Net foreign currency translation adjustments are recorded as accumulated other comprehensive income in stockholders' equity. The Company realized net foreign currency transaction exchange gains of

\$28,443, \$18,287 and \$26,540 in 2004, 2005 and 2006, respectively. The functional currency for the Company's subsidiary in Canada is the Canadian dollar.

The accompanying consolidated balance sheets include total assets of the Canadian subsidiary of \$6,596,418 and \$6,135,314, respectively, expressed in U.S. dollars as of December 31, 2005 and 2006. Sales made by the Canadian subsidiary totaled \$1,996,457, \$2,673,221 and \$2,550,066, respectively, in U.S. dollars for the years ended December 31, 2004, 2005 and 2006.

**(e) 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.

**(f) Inventories**

Parts inventories, which consist of spare parts for service of fueling locations, are stated at the lower of cost or market on a first-in, first-out basis. Management's estimate of market includes a provision for obsolete, slow moving, and unsaleable inventory based upon inventory on hand and forecasted demand. The Company also has LNG inventory related to its LNG liquefaction plant which it values at the lower of cost or market on a first-in, first-out basis.

**(g) Research and Development and Advertising**

Research and development costs related to the design, development, and testing of new products, applications, and technologies are charged to expense as incurred. No research and development costs were incurred during the years ended December 31, 2004, 2005 and 2006.

Advertising costs are expensed as incurred. Advertising costs amounted to approximately \$136,000, \$334,000 and \$560,000 for the years ended December 31, 2004, 2005 and 2006, respectively.

**(h) Property and Equipment**

Property and equipment are recorded at cost. Depreciation and amortization are recognized over the estimated useful lives of the assets using the straight-line method. The estimated useful lives of depreciable assets are 20 years for LNG liquefaction plant assets, ten years for station equipment and LNG trailers, and three to seven years for all other depreciable assets. Leasehold improvements are amortized over the shorter of their estimated useful lives or lease terms. Periodically, the Company receives grant funding to assist in the financing of natural gas fueling station construction. The Company records the grant proceeds as a reduction of the cost of the respective asset. Total grant proceeds received were approximately \$928,000, \$185,000 and \$775,000 for the years ended December 31, 2004, 2005 and 2006, respectively.



**(i) Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

**(j) Goodwill and Intangible Assets**

Goodwill represents the excess of costs incurred over the fair value of the net assets of acquired businesses. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

**(k) Asset Retirement Obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which the liability is incurred or becomes reasonably estimable and if there is a legal obligation to restore or remediate the property at the end of a lease term. All of the Company's fueling and storage equipment is located above-ground. The liability amounts are based upon future retirement cost estimates and incorporate many assumptions such as the costs to restore the property, future inflation rates, and the adjusted risk free rate of interest. When the liability is initially recorded, the Company capitalizes the cost by increasing the related property and equipment balances. Over time, the liability is increased and expense is recognized for the change in present value, and the initial capitalized cost is depreciated over the useful life of the asset.

The following table summarizes the activity of the asset retirement obligation, of which \$96,192 and \$89,080 is included in other long-term liabilities, with the remaining current portion included in accrued liabilities, at December 31, 2005 and 2006, respectively:

	2005	2006
Beginning balance	\$ 151,612	\$ 158,418
Liabilities incurred	1,616	6,760
Liabilities settled	—	(600)
Accretion expense	5,190	5,434
Ending balance	\$ 158,418	\$ 170,012

**(l) Stock-Based Compensation**

During 2004 and 2005, the Company accounted for stock-based compensation arrangements in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123 requires disclosure of the fair value method of accounting for stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period which is usually the vesting period. The Company elected, under the provisions of SFAS No. 123, to account for employee stock-based transactions in the statements of operations under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in 2004 and 2005.

Pursuant to the guidance in APB Opinion No. 25, compensation expense is only recognized in the statement of operations to the extent the exercise price of the stock option is less than the fair value of the Company's common stock on the date of grant, i.e. the "intrinsic value" of the stock option. The Company recorded no compensation expense in the statements of operations for stock option grants during 2004 and 2005 because the fair value of the Company's common stock was equal to the exercise price on the date of grant of the options. Therefore, there was no "intrinsic" value to recognize in the statements of operations. However, the Company is required to disclose the impact of using the grant date fair value using the Black-Scholes option pricing model, which requires the use of management's judgement in estimating the inputs used to determine fair value.

The per share weighted average fair value of stock options granted during 2004 and 2005 was \$0.75 and \$0.79, respectively, on the date of grant using the fair-value-method defined in SFAS No. 123 with the following assumptions:

	<u>2004</u>	<u>2005</u>
Weighted average risk free interest rate	4.0%	5.0%
Expected lives	3 years	3 years
Dividend yield	None	None

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2004	2005
Net income as reported	\$ 2,129,241	\$ 17,257,587
Assumed stock compensation cost, net of tax	(172,871)	(881,212)
<b>Pro forma net income</b>	<b>\$ 1,956,370</b>	<b>\$ 16,376,375</b>
<b>Earnings Per Share</b>		
Basic — as reported	\$ 0.11	\$ 0.76
Basic — pro forma	\$ 0.10	\$ 0.72
<b>Diluted Earnings Per Share</b>		
Diluted — as reported	\$ 0.11	\$ 0.75
Diluted — pro forma	\$ 0.10	\$ 0.71

Effective January 1, 2006, the Company adopted FASB Statement No. 123(R), *Share-Based Payment* (SFAS No. 123(R)). This statement replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. SFAS No. 123(R) was adopted using the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior years' financial statements have not been restated. For stock-based awards granted after January 1, 2006, the Company recognizes compensation expense based on estimated grant-date fair value using the Black-Scholes option-pricing model.

In 2006, the Company granted 25,000 options at \$3.86 per share to a consultant and recorded approximately \$53,000 of expense during the period under the provisions of SFAS No. 123(R). The Company did not recognize any tax benefit related to this expense. The options have a term of ten years and vest over a three-year period, but shall immediately vest upon the Company completing an initial public offering of its common stock. The fair value of the option award was estimated on the grant date using the Black-Scholes option-pricing model using an expected dividend yield of 0%, expected volatility of 60%, an expected life of 2 years, and a risk-free interest rate of 4.8%. The volatility amount was estimated based on several comparable companies. The expected life was based on the Company's estimate of when the individual will exercise the option, and the risk free rate was based on the U.S. Treasury yield curve at the time of grant. No other expense was recorded in 2006 under the provisions of SFAS No. 123(R) as all the Company's previously issued options vested in 2005.

**(m) Revenue Recognition**

Revenue from the sale of natural gas and from operations and maintenance agreements is recognized in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*, which is typically at the time fuel is dispensed or when the operations and maintenance services are provided.

In certain transactions with its customers, the Company agrees to provide multiple products or services, including construction of and either leasing or sale of a station, providing operations and maintenance to the station, and sale of fuel to the customer. The Company evaluates the separability of revenues for deliverables based on the guidance set forth in EITF No. 00-21, which provides a framework for establishing whether or not a particular arrangement with a customer has one or more deliverables. To the extent the Company has adequate objective evidence of the values of separate deliverable items under a contract, it allocates the revenue from the contract on a relative fair value basis at the inception of the arrangement. If the arrangement contains a lease, the Company uses the existing evidence of fair value to separate the lease from the other deliverables.

The Company accounts for its leasing activities in accordance with SFAS No. 13, *Accounting for Leases*. The Company's existing station leases are sales-type leases, giving rise to profit at the delivery of the leased station. Unearned revenue is amortized into income over the life of the lease using the effective interest method. For these arrangements, it recognizes gas sales and operations and maintenance service revenues as earned from the customer on a volume-delivered basis.

The Company has evaluated the relative fair values of the deliverables for the two stations that it has sold during 2005 and the one station that it sold during 2006 and concluded that there is not sufficient objective evidence to separate those deliverables. The Company is recognizing profit on the sale of those stations over the respective lives of the operations and maintenance contracts.

Revenue on construction contracts has been recognized using the completed contract method in accordance with AICPA Statement of Position 81-1, *Accounting for Performance of Construction Type and Certain Production Type Contracts*.

**(n) Income Taxes**

The Company computes income taxes under the asset and liability method. This method requires the recognition of deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The impact on deferred taxes of changes in tax rates and laws, if any, is applied to the years during which temporary differences are expected to be settled and is reflected in the consolidated financial statements in the period of enactment. The Company records a valuation allowance against its deferred tax assets when management determines it is more likely than not that the assets will not be realized.

**(o) Concentration of Credit Risk**

Credit is extended to all customers based on financial condition, and collateral is generally not required. Concentrations of credit risk with respect to trade receivables are limited because of the large number of customers comprising the Company's customer base and dispersion across many different industries and geographies.

The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified. While such credit losses have historically been within the Company's expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past.

**(p) Derivative Financial Instruments and Long Term Sales Commitments**

The Company, in an effort to manage its natural gas commodity price risk exposures, utilizes derivative financial instruments. The Company, from time to time, enters into natural gas futures contracts that are over-the-counter swap transactions that convert its index-based gas supply arrangements to fixed-price arrangements. The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the consolidated balance sheet and the measurement of those instruments at fair value. The Company's derivative instruments did not qualify for hedge accounting under SFAS No. 133 for the years ended December 31, 2004, 2005 and 2006. As such, changes in the fair value of the derivatives were recorded directly to the consolidated statements of operations.

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

As part of determining the fixed price or price cap in the contracts, the Company works with its customers to determine their future usage over the contract term. However, the Company's customers do not agree to purchase a minimum amount of volume or guarantee their volume of purchases. Rather, the Company agrees to sell its customers volumes on an "as needed" basis, also known as a "requirements contract". The volume required under these contracts varies each month, and is not subject to any minimum commitments. For U.S. generally accepted accounting purposes, there is not a "notional amount", which is one of the required conditions for a transaction to be a derivative pursuant to the guidance in SFAS No. 133.

The Company's agreements to fix the price or cap the price of LNG or CNG that it sells to its customers are, for accounting purposes, firm commitments, and U.S. generally accepted accounting principles do not require or allow the Company to record a loss until the delivery of the gas and corresponding sale of the product occurs. When the Company enters into these fixed price or price cap contracts with its customers, the price is set based on the prevailing index price of natural gas at that time. However, the index price of natural gas constantly changes, and a difference between the fixed price of the natural gas included in the customer's contract and the corresponding index price of gas typically develops after the Company enters into the contract. During the years ended December 31, 2004 and 2005, the price of natural gas generally increased, and during the year ended December 31, 2006, the price of natural gas generally decreased. During these time periods, the Company entered into several contracts to sell LNG or CNG to customers at a fixed price or an index-based price that is subject to a fixed price cap. The Company has also from time to time entered into natural gas futures contracts to offset

economically the adverse impact of the rising natural gas prices. From an accounting perspective, during the periods of rising natural gas prices, when the Company conducted the majority of its hedging activities, the Company's futures contracts were generally marked-to-market through the recognition of a derivative asset and a corresponding derivative (gain) in its statements of operations. However, because the Company's contracts to sell LNG or CNG to its customers at fixed prices or an index-based price that is subject to a fixed price cap are not derivatives for purposes of U.S. generally accepted accounting principles, a liability or a corresponding loss has not been recognized in the Company's statements of operations for the increased market price of natural gas above the cost of natural gas included in the Company's sales price to its customers under these contracts. As a result, the Company's statements of operations do not reflect its firm commitments to deliver LNG or CNG at prices that are below, and in some cases, substantially below, the prevailing market price of natural gas (and therefore LNG or CNG).

**(q) LNG Transportation Costs**

The Company records the costs incurred to transport LNG to its customers in the line item cost of sales in the accompanying statements of operations.

**(2) Acquisitions**

**(a) LNG Plant Purchase**

On November 28, 2005, the Company purchased an LNG liquefaction plant, which it renamed the Pickens Plant, including the inventory located in the storage tank at the plant, five LNG trailers, and certain station equipment for approximately \$14,800,000. The Company accounted for the acquisition as an asset purchase in which the Company allocated the entire purchase price to the assets acquired based on their respective fair values.

**(b) Blue Energy & Technologies, L.L.C.**

On December 31, 2002, the Company acquired all of the outstanding membership interests of Blue Energy in exchange for 3,733,790 shares of the Company's common stock valued at \$11,052,018. Also as part of the consideration, the Company issued two warrants to Perseus 2000, LLC: one requiring the holder to purchase a total of 1,689,189 shares of the Company's common stock at an exercise price of \$2.96 per share at the Company's option (Warrant A), and one to purchase a total of 580,107 shares of the Company's common stock at an exercise price of \$5.00 per share, vesting only upon the holder completing a financing arrangement as described in the warrant (Warrant B). Warrant A was exercised in full before its date of expiration and Warrant B was cancelled because the vesting conditions could not be met. The Company accounted for the acquisition as a purchase in which the Company allocated the purchase price to the individual assets acquired and liabilities assumed based upon their respective fair values, with the unallocated residual amount of \$8,530,046 being accounted for as goodwill. Accordingly, the results of operations of Blue Energy have been included in the Company's consolidated financial statements since January 1, 2003.

### (3) Land, Property and Equipment

Land, property and equipment at December 31, 2005 and 2006 are summarized as follows:

	2005	2006
Land	\$ 471,553	\$ 472,616
LNG liquefaction plant	12,059,730	12,898,178
Station equipment	34,180,930	36,913,552
LNG trailers	4,650,899	8,253,415
Other equipment	3,545,591	6,144,553
Construction in progress	5,184,326	7,304,612
	60,093,029	71,986,926
Less accumulated depreciation	(12,087,825)	(17,098,187)
	\$ 48,005,204	\$ 54,888,739

### (4) Accrued Liabilities

Accrued liabilities at December 31, 2005 and 2006 consisted of the following:

	2005	2006
Salaries and wages	\$ 1,141,443	\$ 1,286,196
Accrued gas purchases	1,515,490	1,566,847
Other	1,834,986	2,170,008
	\$ 4,491,919	\$ 5,023,051

### (5) Stockholders' Equity

#### (a) Authorized Shares

The Company's certificate of incorporation authorizes the issuance of two classes of capital stock designated as common stock and preferred stock, each having \$0.0001 par value per share. As of December 31, 2006, the Company was authorized to issue 100,000,000 shares, of which 99,000,000 shares are designated common stock and 1,000,000 shares are designated preferred stock.

#### Dividend Provisions

The Company did not declare nor pay any dividends during the years ended December 31, 2004, 2005 or 2006.

#### Voting Rights

Each holder of common stock has the right to one vote per share owned on matters presented for stockholder action.

**(b) Stock Option Plan**

In December 2002, the Company adopted its 2002 Stock Option Plan (2002 Plan). The board of directors determines eligibility, vesting schedules, and exercise prices for options granted under the 2002 Plan. Options generally have a term of ten years. As of December 31, 2006, the Company had 5,390,500 shares reserved for issuance under the 2002 Plan.

Under the 2002 Plan, eligible persons may be issued options for services rendered to the Company. Under the 2002 Plan, the purchase price per share for each option granted shall not be less than 100% of the fair market value of the Company's common stock on the date of such option grant; provided, however, that the purchase price per share of common stock issued to a 10% stockholder shall not be less than 110% of such fair market value on the date of such option grant. Options generally vest over three to five year periods. Option activity for 2004, 2005, and 2006 was as follows:

	<u>Options</u>	<u>Weighted average exercise price</u>
Balance, December 31, 2003	1,300,475	
Options granted	125,000	\$ 2.96
Options forfeited	(3,000)	2.96
<hr/>		
Balance, December 31, 2004	1,422,475	
Options granted	1,340,275	2.96
Options forfeited	(25,000)	2.96
<hr/>		
Balance, December 31, 2005	2,737,750	
Options exercised	(359,500)	2.77
Options granted	25,000	3.86
Options forfeited	(1,000)	2.96
<hr/>		
Balance, December 31, 2006	2,402,250	

All options granted in 2004, 2005 and 2006 were pursuant to the 2002 Plan, except for a special stock option for 25,000 shares of common stock granted to a consultant in May 2006.

All of the Company's unvested options issued prior to October 2005 vested in October 2005 when the Company experienced a change in control in accordance with the 2002 Plan. Consequently, 2,377,250 of the Company's outstanding options are exercisable as of December 31, 2006. At December 31, 2006, the weighted average remaining contractual life for stock options outstanding was 6.9 years. The Company plans to issue new shares to its employees upon the employee's exercise of their options.



## Notes to Consolidated Financial Statements (Continued)

**(5) Stockholders' Equity (Continued)**

In July 2006, the Company's board of directors approved a contingent grant of options to purchase 2,666,500 shares of the Company's common stock. These options will be granted on the date the Company completes its initial public offering of common stock. The options will have an exercise price equal to the initial public offering price. If the Company does not complete its initial public offering of common stock by December 31, 2007, then the Company's authority to make these grants will expire.

In December 2006, the Company adopted its 2006 Equity Incentive Plan (2006 Plan). The 2006 Plan will go into effect when the SEC declares effective the registration statement for the Company's initial public offering of common stock. Under the 2006 Plan, 6,390,500 shares of common stock were initially authorized for issuance, and on January 1, 2007, this number was automatically increased by 1,000,000 shares in accordance with the terms of the 2006 Plan. The 2002 Plan will be unavailable for new awards upon the 2006 Plan going into effect. If any outstanding option under the 2002 Plan expires or is cancelled, the shares allocable to the unexercised portion of that option will be added to the share reserve under the new 2006 Plan and will be available for grant under the 2006 Plan. The Company expects that it will have 2,346,750 shares available for awards under the 2006 Plan immediately following the closing of its initial public offering, after taking into account (1) 2,666,500 shares of common stock issuable upon the exercise of options to be granted under the 2006 Plan at the closing of the Company's initial public offering, and (2) 2,377,250 shares of common stock issuable upon the exercise of options granted under the 2002 Plan, which are available for issuance under the 2006 Plan only to the extent they expire or are cancelled.

**(c) Exercise of Warrants; Equity Option Agreements**

On June 30, 2004, the Company's stockholders exercised 1,689,189 warrants for cash consideration of \$4,999,999. On September 30, 2004, the Company's stockholders exercised 1,566,559 warrants for cash consideration of \$4,637,015.

On April 8, 2005, the Company entered into equity option agreements with two stockholders under which the stockholders, at the Company's option (expiring February 28, 2007), became obligated to purchase up to an aggregate of 11,824,324 shares of the Company's common stock at an exercise price of \$2.96 per share. On each of May 31, 2005 and November 29, 2005, the Company exercised its option and required the stockholders to purchase an aggregate of 2,364,865 shares for proceeds of approximately \$7 million. On January 31, 2006, the Company exercised its option and required the stockholders to purchase the remaining 7,094,594 shares outstanding under the equity option agreements for proceeds of approximately \$21 million.

On December 28, 2006, the Company issued to its majority stockholder a five-year warrant to purchase 15,000,000 shares of the Company's common stock at an exercise price of \$10.00 per share. See note 10.

**(6) Income Taxes**

The components of income (loss) before income taxes are as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
U.S.	\$ 4,162,496	\$ 28,560,579	\$ (87,228,883)
Foreign	(346,430)	320,061	(400,971)
	<u>\$ 3,816,066</u>	<u>\$ 28,880,640</u>	<u>\$ (87,629,854)</u>

The provision (benefit) for income taxes consists of the following:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Current:</b>			
State	\$ 7,030	\$ 1,194,398	\$ (109,284)
Federal	—	5,567,341	(5,140,930)
Total current	<u>7,030</u>	<u>6,761,739</u>	<u>(5,250,214)</u>
<b>Deferred:</b>			
State	497,650	987,368	(6,338,146)
Federal	1,298,054	3,773,470	(21,818,295)
Foreign	(115,909)	100,476	(102,941)
Change in valuation allowance	—	—	21,238,388
Total deferred	<u>1,679,795</u>	<u>4,861,314</u>	<u>(7,020,994)</u>
Total	<u>\$ 1,686,825</u>	<u>\$ 11,623,053</u>	<u>\$ (12,271,208)</u>

Income tax expense (benefit) for the years ended December 31, 2004, 2005 and 2006 differs from the "expected" amount computed using the federal income tax rate of 34% as a result of the following:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Computed expected tax expense (benefit)	\$ 1,297,462	\$ 9,819,418	\$ (29,794,150)
State and local taxes, net of federal benefit	333,089	1,439,966	(4,255,304)
Nondeductible expenses	202,592	362,214	507,438
Other	(146,318)	1,455	32,420
Change in valuation allowance	—	—	21,238,388
Total tax expense (benefit)	<u>\$ 1,686,825</u>	<u>\$ 11,623,053</u>	<u>\$ (12,271,208)</u>

Deferred tax assets and liabilities result from differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax effect of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	2004	2005	2006
<b>Deferred tax assets:</b>			
Accrued expenses	\$ 786,802	\$ 1,522,177	\$ 566,870
Sales-type leases	747,704	497,732	491,352
Alternative minimum tax and general business credits	—	—	773,183
Net operating loss carryforwards	6,358,818	1,175,442	26,302,430
<b>Total deferred tax assets</b>	<b>7,893,324</b>	<b>3,195,351</b>	<b>28,133,835</b>
Less valuation allowance	—	—	(21,238,388)
<b>Net deferred tax assets</b>	<b>7,893,324</b>	<b>3,195,351</b>	<b>6,895,447</b>
<b>Deferred tax liabilities:</b>			
Derivative financial instruments	(3,967,887)	(3,497,625)	—
Depreciation and amortization — domestic	(5,313,582)	(5,823,891)	(6,476,492)
Depreciation and amortization — foreign	(771,535)	(894,829)	(418,955)
<b>Total deferred tax liabilities</b>	<b>(10,053,004)</b>	<b>(10,216,345)</b>	<b>(6,895,447)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>\$ (2,159,680)</b>	<b>\$ (7,020,994)</b>	<b>\$ —</b>

At December 31, 2006, the Company had federal and state net operating loss carryforwards of approximately \$63,598,000 and \$78,423,000, respectively. The Company's federal net operating loss carryforward will expire beginning in 2026. The Company is in the process of carrying back approximately \$14,572,000 of net operating losses to prior periods and expects to receive an income tax refund of approximately \$4,435,000. The Company also has a foreign net operating loss carryforward of approximately \$2,638,000 at December 31, 2006, which will expire beginning in 2008.

During 2005, the Company experienced a change in control when Boone Pickens acquired all shares of common stock held by Terasen and other minority stockholders. Consequently, in accordance with Internal Revenue Code Section 382, the annual utilization of net operating loss carryforwards and credits existing prior to the change in control of the Company may be limited.

In assessing the realizability of the net deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. At December 31, 2004 and 2005, management deemed it more likely than not that the assets would be utilized and did not record a valuation allowance during these years. In 2006, the Company provided a valuation allowance of \$21,238,388 to reduce the net deferred tax assets due to uncertainty surrounding the realizability of these assets. The net change in the valuation allowance for the years ended December 31, 2004, 2005 and 2006 was \$0, \$0, and \$(21,238,388), respectively.

## (7) Commitments and Contingencies

### Environmental Matters

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

### Litigation, Claims and Contingencies

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

### Operating Lease Commitments

The Company leases facilities and certain equipment under noncancelable operating leases expiring at various dates through 2016. The following schedule represents the future minimum lease obligations for all noncancelable operating leases as of December 31, 2006:

Fiscal year:		
2007	\$	1,303,366
2008		1,261,415
2009		1,099,715
2010		1,011,451
2011		337,766
Thereafter		915,248
Total future minimum lease payments	\$	5,928,961

In November 2006, the Company entered into a ground lease for 36 acres in California on which the Company plans to build an LNG liquefaction plant. The lease is for a term of 30 years, beginning on the date that the plant commences operations, and requires annual base rent payments of \$230,000 per year, plus \$130,000 per year for each 30,000,000 gallons of production capacity, subject to future adjustment based on consumer price index changes. The Company must also pay a royalty to the landlord for each gallon of LNG produced at the facility as well as for certain other services that the landlord will provide. The Company's obligations under the ground lease are contingent on the Company obtaining the necessary permits and approvals required in the lease related to the construction and operation of the LNG liquefaction plant. The Company is in the process of applying for the necessary permits and approvals. Subsequent to year-end, the Company made \$25.1 million of commitments to purchase long-load-time equipment for the plant.

Rent expense totaled \$936,358, \$1,060,496 and \$1,183,061 for the years ended December 31, 2004, 2005 and 2006, respectively.

### Take or Pay LNG Supply Contracts

The Company has entered into two LNG supply contracts at market prices that contain minimum take or pay provisions covering 20,500,000 gallons per year over the term of the contracts. Both contracts contain fixed amounts the Company must pay for any shortfall below its minimum volume requirements, and one of the contracts contains a variable amount that is based on the price of natural gas at the beginning and end of the month where a shortfall occurs. One contract expires in June 2007 and the other expires in June 2008. For the years ended December 31, 2004, 2005 and 2006, the Company purchased approximately \$7,746,000, \$12,215,000 and \$12,790,928, respectively, under the contracts. At December 31, 2006, the fixed commitments under these contracts totaled approximately \$2,280,000 and \$951,000 in 2007 and 2008, respectively.

### (8) Long-Term Debt

Long-term debt at December 31, 2005 consisted of the following:

	2005
Boone Pickens convertible promissory note	\$ 3,200,000
Pickens Grandchildren's Trust convertible promissory note	800,000
TXU Gas Company note	—
Perseus 2000, LLC secured promissory note	500,000
LNG Trailer note	239,394
Equipment notes	26,417
<b>Total debt</b>	<b>4,765,811</b>
Less current portion	(4,765,811)
<b>Total long-term debt</b>	<b>\$ —</b>

The Company did not have any debt instruments outstanding at December 31, 2006.

### Boone Pickens Convertible Promissory Note

On June 12, 2001, the Company signed a secured convertible promissory note payable to Boone Pickens (the Note) in the original principal amount of \$3,200,000. Interest accrued at 8% per annum and was payable quarterly in arrears on the first business day of each calendar quarter. The principal balance was due in one installment on June 12, 2006 unless (i) the Note was converted into common stock of the Company or (ii) the maturity of the Note was otherwise accelerated or prepaid together with all accrued and unpaid interest. Boone Pickens had the right to convert the principal and any accrued interest under the Note into shares of common stock of the Company upon (i) the third anniversary of the Note (June 12, 2004), (ii) the closing of an initial public offering of the Company, (iii) a sale of the Company, (iv) the election by the Company to exercise its prepayment option, or (v) with the consent of the Company, in satisfaction of a capital contribution request by the Company. The principal amount and any accrued interest was convertible into the

number of shares determined by dividing the convertible amount by the conversion price then in effect. The initial conversion price was \$3.41 per share. On April 28, 2006, this note was converted into 944,255 shares of the Company's common stock.

#### **Pickens Grandchildren's Trust Convertible Promissory Note**

On June 12, 2001, the Company signed a secured convertible promissory note payable to the Pickens Grandchildren's Trust (the Trust Note) in the original principal amount of \$800,000. Interest accrued at 8% per annum and was payable quarterly in arrears on the first business day of each calendar quarter. The principal balance was due in one installment on June 12, 2006 unless (i) the Trust Note was converted into common stock of the Company or (ii) the maturity of the Trust Note was otherwise accelerated or prepaid together with all accrued and unpaid interest. The trustholder had the right to convert the principal and any accrued interest under the Trust Note into shares of common stock of the Company upon (i) the third anniversary of the Trust Note (June 12, 2004), (ii) the closing of an initial public offering of the Company, (iii) a sale of the Company, (iv) the election by the Company to exercise its prepayment option, or (v) with the consent of the Company, in satisfaction of a capital contribution request by the Company. The principal amount and any accrued interest was convertible into the number of shares determined by dividing the convertible amount by the conversion price then in effect. The initial conversion price was \$3.41 per share. On April 21, 2006, this note was converted into 235,698 shares of the Company's common stock. The converted shares were simultaneously sold to Boone Pickens.

#### **TXU Gas Company Note**

In connection with the acquisition of certain assets from the TXU Gas Company, Blue Energy entered into an unsecured promissory note for \$1,770,152. This note was assumed by the Company in the acquisition of Blue Energy (see note 2). This note was retired during 2005.

#### **Perseus 2000, LLC (Perseus) Secured Promissory Note**

On July 3, 2002, Blue Energy entered into a senior secured demand promissory note with Perseus for \$500,000. This note was assumed by the Company in the acquisition of Blue Energy (see note 2). The note bore interest at 12.5% and was secured by essentially all the assets of Blue Energy, other than the six LNG tanker trailers secured by the LNG Trailer Note. During 2004, the note was amended to extend the demand date to any time after January 1, 2006. On July 31, 2006, the Company retired this note.

#### **LNG Trailer Note**

On May 7, 2001, Blue Energy entered into a five-year note to a bank for \$581,340. The note bore interest at 8.25% and was secured by six of Blue Energy's LNG tanker trailers. This note was assumed by the Company in the acquisition of Blue Energy (see note 2). The note required monthly principal and interest payments of \$9,133 through its maturity date of May 15, 2006, at which time a balloon payment of \$210,571 was due. The Company retired this note on May 15, 2006.

## Equipment Notes

Prior to the formation of the Company, Pickens Fuel Corp. entered into three notes with a bank in order to finance the construction of three fueling stations. One of the three notes was retired in 2004, and another note was retired in 2005. The interest rate on the remaining note was 5.25% and it matured in March 2006. The Company retired the final note in March 2006.

## Revolving Promissory Note

On August 2, 2006, the Company entered into a \$10 million, unsecured, revolving promissory note with Boone Pickens (the "Revolver"). Interest accrued on the Revolver at a rate equal to Prime plus 1%. On August 31, 2006, the Company amended the Revolver to increase the maximum amount to \$50 million, which allows the Company to borrow and repay up to \$50 million in principal at any time prior to the maturity of the Revolver on August 31, 2007. On November 15, 2006, the Company amended the Revolver to increase the maximum amount to \$100 million. The Revolver was paid in full and cancelled on December 28, 2006. See note 10.

Certain of the debt agreements above contain certain covenants and restrictions relating to the total indebtedness and aggregate capitalization of the Company. With the conversion of the Note and the Trust Note, the Company is no longer subject to these covenants.

## (9) Geographic Information

The Company's operations are structured to achieve consolidated objectives. As a result, significant interdependence and overlap exists among the Company's geographic areas. Accordingly, revenue, operating loss, and identifiable assets shown for each geographic area may not be the amounts which would have been reported if the geographic areas were independent of one another. Revenue by geographic area is based on where fuel is dispensed.

	2004	2005	2006
<b>Revenue:</b>			
United States	\$ 55,645,148	\$ 75,281,862	\$ 88,997,250
Canada	1,996,457	2,673,221	2,550,066
Total revenue	\$ 57,641,605	\$ 77,955,083	\$ 91,547,316
<b>Operating income (loss):</b>			
United States	\$ 4,892,640	\$ 28,633,674	\$ (88,567,269)
Canada	(374,279)	328,107	446,555
Total operating income (loss)	\$ 4,518,361	\$ 28,961,781	\$ (88,120,714)
<b>Identifiable assets:</b>			
United States		\$ 122,017,232	\$ 130,797,322
Canada		6,596,418	6,135,314
Total assets		\$ 128,613,650	\$ 136,932,636

The total amount of goodwill and intangible assets at December 31, 2006 resides in the United States.

## **(10) Related Party Transactions**

In 2004, 2005 and 2006, under an advisory agreement, the Company paid \$10,000 a month for energy market advice to BP Capital L.P. (BP Capital), which is owned by Boone Pickens, the majority stockholder and a director of the Company. During 2004, 2005 and 2006, under the agreement, the Company also paid BP Capital approximately \$289,000, \$11,622,000 and \$2,253,000, respectively, in commissions related to gains on its hedging activities. In addition, the Company reimbursed Terasen, a former stockholder, approximately \$99,000 and \$39,000 in 2004 and 2005, respectively, for certain operational, financial, and executive services. At December 31, 2005, the Company accrued a liability of approximately \$2,276,000 to BP Capital, primarily related to commissions accrued on unrealized hedge gains, and had a payable to Terasen of \$3,432. At December 31, 2006, BP Capital owed the Company \$86,780.

On August 2, 2006, the Company entered into certain futures contracts related to January 2008 through December 2011 (Positions). During the period August 3, 2006 through December 28, 2006, the Positions decreased in value by \$78.7 million. On December 28, 2006, the Company entered into a transaction with Boone Pickens, its majority stockholder, whereby Mr. Pickens assumed the obligations related to the Positions in exchange for a five-year warrant to purchase 15 million shares of the Company's common stock at \$10 per share. The derivative obligation of \$78.7 million was removed from the Company's balance sheet, and the common stock warrants were recorded as an increase of stockholders' equity.

As the Positions decreased in value, the Company was required to make certain additional margin deposits to cover the losses. Mr. Pickens agreed to loan the Company up to \$100 million to make such deposits under the Revolver. See note 8. At December 28, 2006, Mr. Pickens had advanced the Company \$69.7 million under the Revolver to make additional margin deposits. As part of the transaction, Mr. Pickens received back the deposits he had funded with advances under the Revolver as payment of the outstanding Revolver balance. The Company paid Mr. Pickens \$1.2 million of interest expense on advances made under the Revolver during the period. The Revolver was cancelled on December 28, 2006 after the transaction was completed.

## **(11) 401(k) Plan**

The Company has established a savings plan (Savings Plan) which is qualified under Section 401(k) of the Internal Revenue Code. Eligible employees may elect to make contributions to the Savings Plan through salary deferrals of up to 20% of their base pay, subject to limitations. The Company may make discretionary contributions to the Savings Plan that are subject to limitations. For the years ended December 31, 2004, 2005 and 2006, the Company contributed approximately \$40,000, \$139,000 and \$217,000 of matching contributions to the Savings Plan, respectively.

## **(12) Supplier Concentrations**

During 2004, 2005 and 2006, the Company acquired approximately half of its natural gas related to its LNG sales from Williams Gas Processing Company pursuant to a floating rate purchase contract that includes minimum purchase commitments. Any inability to obtain natural gas in the amounts needed on a timely basis or at commercially reasonable prices could result in interruption of gas deliveries or increases in gas costs, which could have a material adverse effect



on the Company's business, financial condition, and results of operations until alternative sources could be developed at a reasonable cost.

**(13) Capitalized Lease Obligation and Receivables**

The Company leases a piece of equipment under a capital lease with an interest rate of 10.0%. The lease is payable in monthly installments of \$6,929 through February 2011. At December 31, 2006, future payments under this capital lease are as follows:

2007	\$ 83,151
2008	83,151
2009	83,151
2010	83,151
2011	13,858
	<hr/>
Total minimum lease payments	346,462
Less amount representing interest	(64,066)
	<hr/>
Present value of future minimum lease payments	282,396
Less current portion	(57,499)
	<hr/>
Capital lease obligation, less current portion	\$ 224,897
	<hr/>

The value of the equipment under capital lease as of December 31, 2006 is \$596,360, with related accumulated depreciation of \$379,325.

The Company also leases certain fueling station equipment, including the asset leased above under capital lease, to certain customers under sales-type leases at a 10% interest rate. The leases are payable in varying monthly installments through 2012.

At December 31, 2006, future receipts under these leases are as follows:

2007	\$ 649,000
2008	649,000
2009	399,000
2010	249,000
2011	99,000
Thereafter	16,500
	<hr/>
Total	2,061,500
Less amount representing interest	(430,983)
	<hr/>
	\$ 1,630,517
	<hr/>

In 2002, the Company entered into sales-type leases to construct and deliver two fueling stations. Construction of those stations was completed and they were delivered to the customers in 2003 and 2004. The Company estimated and recorded losses of \$4.2 million in 2003 under those contracts. Progress payments were made by the customer throughout construction.

#### **(14) Derivative Transactions**

The Company, from time to time, enters into natural gas futures contracts in an effort to fix its cost of natural gas for certain volumes over certain periods of time. These futures contracts are over-the-counter swap transactions that convert its index-priced gas supply arrangements to fixed-price arrangements. The Company historically has purchased all of its contracts from Sempra Energy Trading Corp., which contracts have been based on the price of the Henry Hub natural gas futures contract on the New York Mercantile Exchange. The Company, from time to time, entered into contracts covering the entire amount of its anticipated volumes in future periods, and from time to time purchased contracts for these volumes as far into the future as it deemed appropriate. The Company, from time to time, sold these contracts and realized a gain or loss on the contracts if it believed natural gas prices would decline in the future. The Company also from time to time repurchased contracts for positions previously sold if it believed natural gas prices would increase in the future. The Company typically did not enter into futures contracts to account for the basis difference between the Henry Hub delivery point and the local delivery point where it would purchase the gas for its customers.

The Company marks to market its open futures positions, which historically have not qualified for hedge accounting under SFAS No. 133, at the end of each period and records the net unrealized gain or loss during the period in derivative (gains) losses in the accompanying consolidated statements of operations. At December 31, 2004, 2005 and 2006, the Company's net unrealized (gain) loss amount totaled \$(9,414,673), \$1,233,110 and \$8,956,599, respectively. In addition, during 2006, the Company recorded a \$78,712,599 loss on certain futures contracts it transferred to its majority stockholder. See note 10.

During 2004, 2005 and 2006, the Company recognized net gains of \$1,157,676, \$9,528,854 and \$8,674,251, respectively, related to contracts with expiration dates during the period. In 2003 and 2005, the Company also recognized net gains of \$9,009,266 and \$35,772,000, respectively, related to contracts with expiration dates beyond the current period. In 2006, the Company realized a net loss of \$78,712,599 related to contracts with expiration dates beyond the current period. See note 10. The realized gains and losses have all been recorded in derivative (gains) losses in the Company's consolidated statements of operations.

The Company is required to make certain deposits on its futures contracts. At December 31, 2005, the Company had made deposits totaling \$196,600, all of which related to futures contracts that were current as of December 31, 2005. At December 31, 2006, the Company did not have any outstanding futures contracts or associated deposits. See note 10.

The Company historically has relied on the advice of BP Capital when conducting its futures activities. BP Capital is an entity whose principal is Boone Pickens, the Company's majority stockholder and one of its directors. At the advice of BP Capital, the Company historically has liquidated and subsequently re-established its futures positions based on market conditions.

#### **(15) Futures Contracts and Fixed Price and Price Cap Sales Contracts**

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

As part of determining the fixed price or price cap in the contracts, the Company works with its customers to determine their future usage over the contract term. However, the Company's customers do not agree to purchase a minimum amount of volume or guarantee their volume of purchases. There is not an explicit volume in the contract as the Company agrees to sell its customers volumes on an "as needed" basis, also known as a "requirements contract". The volume required under these contracts varies each month, and is not subject to any minimum commitments. For U.S. generally accepted accounting purposes, there is not a "notional amount", which is one of the required conditions for a transaction to be a derivative pursuant to the guidance in SFAS No. 133.

The Company's sales agreements that fix the price or cap the price of LNG or CNG that it sells to its customers are, for accounting purposes, firm commitments, and U.S. generally accepted accounting principles do not require or allow the Company to record a loss until the delivery of the gas and corresponding sale of the product occurs. When the Company enters into these fixed price or price cap contracts with its customers, the price is set based on the prevailing index price of natural gas at that time. However, the index price of natural gas constantly changes, and a difference between the fixed price of the natural gas included in the customer's contract and the corresponding index price of gas typically develops after the Company enters into the contract. During the years ended December 31, 2004 and 2005, the price of natural gas generally increased. During 2006, the price of natural gas generally decreased. During these time periods, the Company entered into several contracts to sell LNG or CNG to customers at a fixed price or an index-based price that is subject to a fixed price cap. The Company has also generally entered into natural gas futures contracts to offset economically the adverse impact of rising natural gas prices. From an accounting perspective, during periods of rising natural gas prices, the Company's futures contracts have generally been marked-to-market through the recognition of a derivative asset and a corresponding derivative gain in its statements of operations. However, because the Company's contracts to sell LNG or CNG to its customers at fixed prices or an index-based price that is subject to a fixed price cap are not derivatives for purposes of U.S. generally accepted accounting principles, a liability or a corresponding loss has not been recognized in the Company's statements of operations during this historical period of rising natural gas prices for the future commitments under these contracts. As a result, the Company's statements of operations do not reflect its firm commitments to deliver LNG or CNG at prices that are below, and in some cases, substantially below, the prevailing market price of natural gas (and therefore LNG or CNG).

The following table summarizes important information regarding the Company's fixed price and price cap supply contracts under which it is required to sell fuel to its customers as of December 31, 2006:

	Estimated volumes <sup>(a)</sup>	Average price <sup>(b)</sup>	Contracts duration
CNG fixed price contracts	4,546,129	\$ 1.01	through 12/13
LNG fixed price contracts	25,707,632	\$ .32	through 12/08
CNG price cap contracts	7,552,491	\$ .86	through 12/09
LNG price cap contracts	12,273,837	\$ .61	through 12/08

(a) Estimated volumes are in gasoline gallon equivalents for CNG contracts and are in LNG gallons for LNG contracts and represent the volumes the Company anticipates delivering over the remaining duration of the contracts.

(b) Average prices are in gasoline gallon equivalents for CNG contracts and are in LNG gallons for LNG contracts. The average prices represent the natural gas commodity component embedded in the customer's contract.

At December 31, 2006, based on natural gas futures prices as of that date, the Company estimates it will incur between \$7,383,491 and \$9,024,267 to cover the increased price of natural gas above the inherent price of natural gas embedded in its customer's fixed price and price cap contracts over the duration of the contracts. The Company's volumes under these contracts, in gasoline gallon equivalents, expire as follows:

2007	21,346,781
2008	13,132,383
2009	1,790,408
2010	230,000
2011	230,000
2012	230,000
2013	230,000

The price of natural gas has generally increased since the Company entered into these agreements to fix the price or cap the price of LNG or CNG that it sells to these customers. However, this difference has not been reflected in the Company's financial statements as these are executory contracts and are not derivatives under U.S. generally accepted accounting principles.

#### **(16) Earnings Per Share**

Basic earnings per share is based upon the weighted average number of shares outstanding during each period. Diluted earnings per share reflects the impact of assumed exercise

of dilutive stock options, warrants and convertible promissory notes. The information required to compute basic and diluted earnings per share is as follows:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Basic:</b>			
Weighted average number of common shares outstanding	18,949,636	22,602,033	31,676,399
<b>Diluted:</b>			
Net income (loss)	2,129,241	17,257,587	(75,358,646)
Interest expense related to convertible promissory notes, net of tax	0	32,533	62,933
Adjusted net income (loss)	2,129,241	17,290,120	(75,295,713)
Weighted average number of common shares outstanding	18,949,636	22,602,033	31,676,399
Shares issued upon assumed exercise of stock options	0	108,517	0
Shares issued upon assumed exercise of warrants	0	281,710	0
Shares issued upon assumed conversion of convertible promissory notes	0	199,414	0
Shares used in computing diluted earnings per share	18,949,636	23,191,674	31,676,399

Certain securities were excluded from the diluted earnings per share calculation in 2004 as the exercise price of the respective instruments were equal to or greater than the average market value of the Company's common stock during the period presented. Consequently, these instruments did not contribute any incremental outstanding shares to the calculation. Certain securities were excluded from the diluted earnings per share calculation in 2006 as the inclusion of the securities would be anti-dilutive to the calculation. The amounts outstanding as of December 31, 2004 and 2006 for these instruments are as follows:

	<u>2004</u>	<u>2006</u>
Options	1,422,475	2,402,250
Warrants	0	15,000,000
Convertible Notes, with related interest expense per year of \$192,000, net of tax	1,173,021	0

**(17) Fair Value of Financial Instruments**

The carrying amount and fair values of financial instruments are as follows:

	<b>December 31</b>			
	<b>2005</b>		<b>2006</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Derivative assets	8,956,599	8,956,599	—	—
Capital lease receivables	2,287,834	2,159,547	2,061,500	2,022,251
Notes receivable	—	—	3,250,946	3,250,946
Long-term debt	4,765,811	5,516,544	—	—
Capital lease obligations	334,445	334,445	282,396	282,396

As of December 31, 2005 and 2006, the carrying amounts of the Company's other current assets and current liabilities not included in the table above approximate fair value due to the short-term maturities of those instruments. The Company's derivative assets are carried on its balance sheet at fair value, net of related commissions, in accordance with SFAS No. 133, and are based on quoted futures prices on the NYMEX discounted back to the current period at the interest rate the Company's counterparty charges to settle future transactions in the current period. The fair values of capital lease receivables, notes receivable, long-term debt and capital lease obligations were determined by discounting the respective instrument's future cash flows by an interest rate commensurate with existing market rates at the time and the inherent risk of the respective instrument. In 2005, the Company also valued the conversion feature in its convertible notes using the Black-Scholes pricing model.

**Clean Energy Fuels Corp. and Subsidiaries**

**Condensed Consolidated Balance Sheets**

**December 31, 2006 and March 31, 2007**

	<b>December 31, 2006</b>	<b>March 31, 2007</b>
		<b>(unaudited)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 937,445	\$ 11,576,014
Accounts receivable, net of allowance for doubtful accounts of \$352,052 and \$445,746 as of December 31, 2006 and March 31, 2007, respectively	10,997,328	11,757,997
Other receivables	37,818,905	15,250,823
Inventory, net	2,558,689	2,642,876
Prepaid expenses and other current assets	4,862,335	7,703,593
	<hr/>	<hr/>
Total current assets	57,174,702	48,931,303
Land, property and equipment, net	54,888,739	61,861,223
Capital lease receivables	1,412,500	1,312,750
Notes receivable and other long term assets	2,499,106	6,721,239
Goodwill and other intangible assets	20,957,589	20,948,716
	<hr/>	<hr/>
	\$ 136,932,636	\$ 139,775,231
	<hr/>	<hr/>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of long term debt and capital lease obligations	\$ 57,499	\$ 58,948
Accounts payable	6,697,363	9,044,716
Accrued liabilities	5,023,051	6,068,887
Deferred revenue	585,505	744,728
	<hr/>	<hr/>
Total current liabilities	12,363,418	15,917,279
Long term debt and capital lease obligations, less current portion	224,897	209,605
Other long term liabilities	1,428,464	1,624,496
	<hr/>	<hr/>
Total liabilities	14,016,779	17,751,380
	<hr/>	<hr/>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value. Authorized 1,000,000 shares; issued and outstanding no shares	—	—
Common stock, \$0.0001 par value. Authorized 99,000,000 shares; issued and outstanding 34,192,161 shares and 34,193,411 shares at December 31, 2006 and March 31 2007, respectively	3,419	3,420
Additional paid-in capital	179,536,766	179,562,965
Retained earnings (accumulated deficit)	(58,050,126)	(58,920,305)
Accumulated other comprehensive income	1,425,798	1,377,771
	<hr/>	<hr/>
Total stockholders' equity	122,915,857	122,023,851
	<hr/>	<hr/>
	\$ 136,932,636	\$ 139,775,231
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

For the Three-Month Periods Ended

March 31, 2006 and 2007

(Unaudited)

	Three Months Ended March 31,	
	2006	2007
Revenue	\$ 21,033,865	\$ 28,167,044
Operating expenses:		
Cost of sales	19,142,726	21,321,159
Derivative (gains) losses	282,348	—
Selling, general and administrative	4,882,141	6,299,878
Depreciation and amortization	1,199,720	1,576,057
Total operating expenses	25,506,935	29,197,094
Operating loss	(4,473,070)	(1,030,050)
Interest (income), net	(165,306)	(292,212)
Other expense, net	24,972	123,372
Loss before income taxes	(4,332,736)	(861,210)
Income tax expense (benefit)	(1,286,823)	8,969
Net loss	(3,045,913)	(870,179)
Loss per share		
Basic	\$ (0.12)	\$ (0.03)
Diluted	\$ (0.12)	\$ (0.03)
Weighted average common shares outstanding		
Basic	26,214,505	34,192,786
Diluted	26,214,505	34,192,786

See accompanying notes to consolidated financial statements.



Clean Energy Fuels Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the Three-Month Periods Ended March 31, 2006 and 2007

(Unaudited)

	Three months ended March 31,	
	2006	2007
Cash flows from operating activities:		
Net loss	\$ (3,045,913)	\$ (870,179)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,199,720	1,576,057
Provision for doubtful accounts	51,576	641,486
Unrealized (gain) loss on futures contracts	8,956,599	—
Loss on disposal of assets	—	122,868
Deferred income taxes	(1,286,823)	—
Stock option expense	—	22,500
Changes in operating assets and liabilities:		
Accounts and other receivables	1,538,741	16,952,564
Inventory	71,469	(84,187)
Capital lease receivables	99,750	99,750
Prepaid expenses and other assets	(701,656)	(2,841,258)
Accounts payable	(3,977,688)	565,036
Income taxes payable	(6,300,000)	(8,769)
Accrued expenses and other	(413,180)	1,378,591
Net cash provided by (used in) operating activities	(3,807,405)	17,554,459
Cash flows from investing activities:		
Purchases of property and equipment	(1,811,990)	(6,905,747)
Net cash used in investing activities	(1,811,990)	(6,905,747)
Cash flows from financing activities:		
Repayment of notes payable and capital lease obligations	(61,616)	(13,843)
Proceeds from issuance of common stock	3,951,789	3,700
Net cash provided by (used in) financing activities	3,890,173	(10,143)
Net increase (decrease) in cash	(1,729,222)	10,638,569
Cash, beginning of year	28,763,445	937,445
Cash, end of period	\$ 27,034,223	\$ 11,576,014
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 6,070,000	\$ 200
Interest paid	113,241	34,823

See accompanying notes to consolidated financial statements.

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

**Note A — Summary of Significant Accounting Policies**

**Nature of Business:** Clean Energy Fuels Corp. (the "Company") is engaged in the business of providing natural gas fueling solutions to its customers in the United States and Canada. The Company has a broad customer base in a variety of markets including public transit, refuse, airports and regional trucking. Clean Energy operates over 170 fueling locations principally in California, Texas, Colorado, Maryland, New York, New Mexico, Washington, Massachusetts, Georgia, Wyoming and Arizona within the United States, and in British Columbia and Ontario within Canada.

**Basis of Presentation:** The accompanying interim unaudited condensed consolidated financial statements include the accounts of Clean Energy Fuels Corp. and its subsidiaries, and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position, results of operations and cash flows for the three months ended March 31, 2006 and 2007. All intercompany accounts and transactions have been eliminated in consolidation. The three months ended March 31, 2006 and 2007 are not necessarily indicative of the results to be expected for the year ended December 31, 2007 or for any other interim period or for any future year.

**Note B — Derivative Financial Instruments**

The Company, in an effort to manage its natural gas commodity price risk exposures, utilizes derivative financial instruments. The Company often enters into natural gas futures contracts that are over-the-counter swap transactions that convert its index-based gas supply arrangements to fixed-price arrangements. The Company accounts for its derivative instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities in the consolidated balance sheet and the measurement of those instruments at fair value. The Company's derivative instruments did not qualify for hedge accounting under SFAS No. 133 for the year ended December 31, 2006, and as such, changes in the fair value of the derivatives were recorded directly to the consolidated statements of operations during the year. The Company did not have any futures contracts outstanding during the three-month period ended March 31, 2007.

The Company marks to market its open futures position at the end of each period and records the net unrealized gain or loss during the period in derivative (gains) losses in the accompanying condensed consolidated statements of operations. For the three month periods ended March 31, 2006 and 2007, the Company's unrealized net loss amount totaled \$8,956,599 and \$0, respectively.

The Company is required to make certain deposits on its futures contracts. However, at December 31, 2006 and March 31, 2007, the Company did not have any deposits outstanding as it did not have any futures contracts outstanding at the end of these periods.

During the three months ended March 31, 2006 and 2007, the Company recognized realized gains of \$8,674,251 and \$0, respectively, related to the sales of futures contracts.

## Note C — Fixed Price and Price Cap Sales Contracts

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

As part of determining the fixed price or price cap in the contracts, the Company works with its customers to determine their future usage over the contract term. However, the Company's customers do not agree to purchase a minimum amount of volume or guarantee their volume of purchases. There is not an explicit volume in the contract as the Company agrees to sell its customers volumes on an "as needed" basis, also known as a "requirements contract". The volume required under these contracts varies each month, and is not subject to any minimum commitments. For U.S. generally accepted accounting purposes, there is not a "notional amount", which is one of the required conditions for a transaction to be a derivative pursuant to the guidance in SFAS No. 133.

The Company's sales agreements that fix the price or cap the price of LNG or CNG that it sells to its customers are, for accounting purposes, firm commitments, and U.S. generally accepted accounting principles do not require or allow the Company to record a loss until the delivery of the gas and corresponding sale of the product occurs. When the Company enters into these fixed price or price cap contracts with its customers, the price is set based on the prevailing index price of natural gas at that time. However, the index price of natural gas constantly changes, and a difference between the fixed price of the natural gas included in the customer's contract price and the corresponding index price of gas typically develops after the Company enters into the sales contract. During the years ended December 31, 2004 and 2005, the price of natural gas generally increased. During 2006 and during the first three months of 2007, the price of natural gas generally decreased. During these time periods, the Company entered into several contracts to sell LNG or CNG to customers at a fixed price or an index-based price that is subject to a fixed price cap. The Company has also generally entered into natural gas futures contracts to offset economically the adverse impact of rising natural gas prices. From an accounting perspective, during periods of rising natural gas prices, the Company's futures contracts have generally been marked-to-market through the recognition of a derivative asset and a corresponding derivative gain in its statements of operations. However, because the Company's contracts to sell LNG or CNG to its customers at fixed prices or an index-based price that is subject to a fixed price cap are not derivatives for purposes of U.S. generally accepted accounting principles, a liability or a corresponding loss has not been recognized in the Company's statements of operations during this historical period of rising natural gas prices for the future commitments under these contracts. As a result, the Company's statements of operations do not reflect its firm commitments to deliver LNG or CNG at prices that are below, and in some cases, substantially below, the prevailing market price of natural gas (and therefore LNG or CNG).

The following table summarizes important information regarding the Company's fixed price and price cap supply contracts under which it is required to sell fuel to its customers as of March 31, 2007:

	<b>Estimated volumes(a)</b>	<b>Average price(b)</b>	<b>Contracts duration</b>
CNG fixed price contracts	3,521,671	\$ 1.03	through 12/13
LNG fixed price contracts	26,009,595	\$ .37	through 7/09
CNG price cap contracts	6,636,720	\$ .86	through 12/09
LNG price cap contracts	12,613,276	\$ .57	through 12/08

(a) Estimated volumes are in gasoline gallon equivalents for CNG contracts and are in LNG gallons for LNG contracts and represent the volumes the Company anticipates delivering over the remaining duration of the contracts.

(b) Average prices are in gasoline gallon equivalents for CNG contracts and are in LNG gallons for LNG contracts. The average prices represent the natural gas commodity component embedded in the customer's contract.

At March 31, 2007, based on natural gas futures prices as of that date, the Company estimates it will incur between \$9.9 million and \$12.1 million to cover the increased price of natural gas above the inherent price of natural gas embedded in its customer's fixed price and price cap contracts over the duration of the contracts. The Company's volumes under these contracts, in gasoline gallon equivalents, expire as follows:

April 1, 2007 through December 31, 2007	24,222,152
2008	20,787,001
2009	2,852,109
2010	230,000
2011	230,000
2012	230,000
2013	230,000

**Note D — Other Receivables**

Other receivables at December 31, 2006 and March 31, 2007 consisted of the following:

	<b>December 31, 2006</b>	<b>March 31, 2007</b>
Loans to customers to finance vehicle purchases	\$ 816,837	\$ 1,030,541
Advances to vehicle manufacturers	2,465,776	2,620,704
Fuel credit refunds	3,810,109	3,810,109
Futures contracts deposit receivable	22,900,000	—
Income tax receivable	5,600,071	5,591,352
Other	2,226,112	2,198,117
	<b>\$ 37,818,905</b>	<b>\$ 15,250,823</b>

**Note E — Land, Property and Equipment**

Land, property and equipment, at cost, at December 31, 2006 and March 31, 2007 are summarized as follows:

	<b>December 31, 2006</b>	<b>March 31, 2007</b>
Land	\$ 472,616	\$ 472,616
LNG plant	12,898,178	12,898,178
Station equipment	36,913,552	38,839,290
LNG trailers	8,253,415	8,820,583
Other equipment	6,144,553	6,570,683
Construction in progress	7,304,612	12,903,134
	<b>71,986,926</b>	<b>80,504,484</b>
Less accumulated depreciation	(17,098,187)	(18,643,261)
	<b>\$ 54,888,739</b>	<b>\$ 61,861,223</b>

**Note F — Accrued Liabilities**

Accrued liabilities at December 31, 2006 and March 31, 2007 consisted of the following:

	<b>December 31, 2006</b>	<b>March 31, 2007</b>
Salaries and wages	\$ 1,286,196	\$ 852,957
Accrued gas charges	1,566,847	2,810,049
Other	2,170,008	2,405,881
	<b>\$ 5,023,051</b>	<b>\$ 6,068,887</b>

**Note G — Earnings Per Share**

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

	<b>Three Months Ended</b>	
	<b>March 31, 2006</b>	<b>March 31, 2007</b>
<b>Basic:</b>		
Weighted average number of common shares outstanding	26,214,505	34,192,786

Certain securities were excluded from the diluted earnings per share calculation at March 31 2006 and 2007, respectively, as the inclusion of the securities would be anti-dilutive to the calculation. The amounts outstanding as of March 31, 2006 and 2007 for these instruments are as follows:

	<b>March 31,</b>	
	<b>2006</b>	<b>2007</b>
Options	2,392,750	2,401,000
Warrants	6,081,081	15,000,000
Convertible Notes, with related interest expense per year of \$192,000, net of tax	1,173,021	0

**Note H — Commitments**

As of April 27, 2007, the Company had entered into purchase commitments totalling \$27,735,000 related to constructing an LNG liquifaction plant, of which \$5,048,000 had been paid as of this date.

**Note I — Comprehensive Income**

The following table presents the Company's comprehensive income for the three-month periods ended March 31, 2006 and 2007:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2007</b>
Net loss	\$ (3,045,913)	(870,179)
Foreign currency translation adjustments	6,083	(48,027)
Comprehensive loss	\$ (3,039,830)	(918,206)

**Note J — Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note K — Income Taxes**

In June 2006, the FASB issued FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." This interpretation specifies that benefits from tax positions should be recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority having full knowledge of all relevant information. A tax position meeting the more-likely-than-not recognition threshold should be measured at the largest amount of benefit for which the likelihood of realization upon ultimate settlement exceeds 50 percent.

The Company adopted the provisions of FIN No. 48 on January 1, 2007. On December 31, 2006 and March 31, 2007, the Company's liabilities for uncertain tax positions are not significant.

The Company's policy is to recognize interest and penalties related to liabilities for uncertain tax benefits in the provisions for income and other taxes on the consolidated condensed statements of income. The net interest and penalties incurred were immaterial for the three months ended March 31, 2006 and 2007.

The Company is subject to audit by tax authorities for varying periods in various tax jurisdictions. Taxable years from 2001 are subject to audit for U.S. federal and state corporate income tax purposes. The Company is not currently under audit by a taxing authority. Disputes may arise during the course of such audits as to facts and matters of law.

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**

	<b>Allowance for Doubtful Accounts and Notes Receivables</b>	<b>Reserve for Excess and Obsolete Inventory</b>
Balance at December 31, 2003	\$ 282,740	\$ 163,606
Charges to operations	165,079	58,030
Deductions	(49,595)	(21,742)
Balance at December 31, 2004	398,224	199,894
Charges to operations	385,721	75,000
Deductions	(337,133)	(56,543)
Balance at December 31, 2005	446,812	218,351
Charges to operations	772,007	50,000
Deductions	(325,248)	(143,775)
Balance at December 31, 2006	\$ 893,571	\$ 124,576



## GLOSSARY OF KEY TERMS

### Industry Terms

*Gasoline gallon equivalent:* In this prospectus, natural gas is compared to gasoline on a "gasoline gallon equivalent" basis. Industry analysts typically use the gallon equivalent method in an effort to provide a normalized or "apples to apples" comparison of the relative cost of CNG compared to gasoline. Using this method, CNG, which is otherwise typically measured in MCFs, is presented based on the amount of that fuel required to generate the same amount of energy, 125,000 British Thermal Units (BTUs), as a gallon of gasoline. There are 8.1 MCFs of natural gas in a gasoline gallon equivalent. Similarly, there are 1.5 gallons of LNG in a gasoline gallon equivalent.

*Natural gas vehicle (NGV):* A vehicle powered by natural gas, typically compressed natural gas or liquefied natural gas. Current users of NGVs include fleet vehicle operators in a variety of markets, including public transit, refuse, airports, taxis and regional trucking.

*Compressed natural gas (CNG):* Natural gas that has been compressed under high pressures, typically 3,000 to 3,600 psi (pounds per square inch). CNG is typically dispensed in gaseous form into vehicles. The gas expands when used as a fuel. CNG is used as an alternative to gasoline or diesel fuel. CNG is generally used in light to medium-duty vehicles as an alternative to gasoline.

*Liquefied natural gas (LNG):* Natural gas that has been cooled in a process called liquefaction to -259 degrees Fahrenheit (-161 degrees Celsius) and condensed into a liquid which is colorless, odorless and non-corrosive. As a liquid, the volume of natural gas is about 1/600th its volume in gaseous form. LNG is transported via tanker trailer to fueling stations, where it is stored in above ground containers until dispensed into vehicles in liquid form. LNG is generally used in trucks and other medium to heavy-duty vehicles as an alternative to diesel.

*MCF:* A standard measurement unit for volumes of natural gas that equals 1,000 cubic feet. One MCF typically generates the heating value of approximately 1,000,000 BTUs. It requires 6 MCFs of natural gas to generate as many BTUs as a barrel of crude oil.

*Low sulfur diesel:* A diesel fuel containing a maximum allowable sulfur content of 500 ppm (parts per million). Federal fuel standards have specified a maximum allowable sulfur content of 500 ppm in diesel fuel since 1993, but the Heavy-Duty Highway Diesel Rule of the U.S. Environmental Protection Agency (EPA) is requiring a shift to ultra-low sulfur diesel with a sulfur content of 15 ppm between 2006 and 2010.

*Ultra-low sulfur diesel:* A diesel fuel containing a maximum allowable sulfur content of 15 ppm. Under the EPA's Heavy-Duty Highway Diesel Rule, refiners were required to begin producing ultra-low sulfur diesel on June 1, 2006. Ultra-low sulfur diesel is expected to enable the use of advanced emissions control equipment on heavy-duty diesel engines.

*Heavy-duty vehicle:* According to the U.S. Department of Transportation (DOT), any vehicle with a gross vehicle weight rating of over 26,000 pounds.

*Medium duty vehicle:* According to the DOT, any vehicle with a gross vehicle weight rating of 10,001 pounds to 26,000 pounds.

*Light-duty vehicle:* According to the DOT, any vehicle with a gross vehicle weight rating of 10,000 pounds or below.

## Tax Incentives

*Volumetric Excise Tax Credit (VETC):* A U.S. federal tax credit to the seller of CNG or LNG of \$0.50 per gasoline gallon equivalent of CNG and \$0.50 per liquid gallon of LNG sold for use as a vehicle fuel. The excise tax credit went into effect on October 1, 2006 and expires on September 30, 2009. See "Business — Tax Incentives and Grant Programs" for further information.

*Vehicle credits:* Under the Energy Policy Act of 2005, U.S. federal income tax credits are available for the purchase of natural gas and certain other alternative fuel vehicles. The incentive provides for a tax credit to cover up to 50% of the incremental cost of a new or newly converted NGV with an additional 30% tax credit if the vehicle meets the most stringent U.S. federal or California emission standards (other than the zero emission standards). The amount of the credit is subject to the following maximums:

- \$4,000 for vehicles up to 8,500 lbs.
- \$8,000 for vehicles over 8,500 lbs. but not more than 14,000 lbs.
- \$20,000 for vehicles over 14,000 lbs. but not more than 26,000 lbs.
- \$32,000 for vehicles over 26,000 lbs.

These credits went into effect January 1, 2006 and expire on December 31, 2010. See "Business — Tax Incentives and Grant Programs" for further information.

## Emissions

*Carbon monoxide (CO):* A colorless, odorless gas formed when carbon in fuel is not completely burned. It is a component of motor vehicle exhaust, which according to the EPA, contributes about 60% of all CO emissions in the United States.

*Carbon dioxide (CO<sub>2</sub>):* A colorless, odorless, incombustible gas formed during engine combustion. Carbon dioxide is considered to be one of the primary greenhouse gases contributing to global warming.

*Criteria pollutants:* The six air pollutants for which the EPA has established National Ambient Air Quality Standards: ozone, carbon monoxide, suspended particulate matter, sulfur dioxide, lead, and nitrogen oxide.

*Nitrogen oxide (NO<sub>x</sub>):* The generic term for a group of highly reactive gases, all of which contain nitrogen and oxygen in varying amounts. Most are colorless and odorless; however, one common pollutant, nitrogen dioxide (NO<sub>2</sub>), along with particles in the air can often be seen as a reddish-brown layer over many urban areas. Nitrogen oxides form when fuel is burned at high temperatures, as in a combustion process. The primary manmade sources of NO<sub>x</sub> are motor vehicles, electric utilities, and other industrial, commercial and residential sources that burn fuels.

*Nonattainment area:* A geographic area that is not in compliance with the National Ambient Air Quality Standard for a criteria air pollutant under the Federal Clean Air Act. Under the Federal Clean Air Act, a state that contains a nonattainment area must develop a state implementation plan for achieving attainment. State efforts, through their state implementation plans, to achieve ozone attainment form much of the basis for increasingly stringent regulation of mobile source emissions in major U.S. urban areas.

*Ozone (O<sub>3</sub>):* A form of oxygen found in both the troposphere and the stratosphere. In the troposphere (the atmospheric layer extending up to 7-10 miles from the Earth's surface) ozone is a chemical oxidant and a major component of photochemical smog. In the stratosphere (the atmospheric layer beginning 7-10 miles above the Earth's surface) ozone provides a protective layer shielding the Earth from ultraviolet radiation.

*PM:* A complex mixture of extremely small particles and liquid droplets. Particle pollution is made up of a number of components, including acids (such as nitrates and sulfates), organic chemicals, metals, and soil or dust particles.



***Clean Energy***<sup>®</sup>

**20,000,000 Shares**

**Clean Energy Fuels Corp.**

**Common Stock**

**Dealer Prospectus Delivery Obligation**

Until \_\_\_\_\_, 2007 (25 days after the date of this prospectus), all dealers that buy, sell or effect transactions in our stock, whether or not participating in this offering, may be required to deliver a prospectus. This requirement is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 13. Other Expenses of Issuance and Distribution**

The following table sets forth an estimate of the fees and expenses relating to the issuance and distribution of the securities being registered hereby, other than underwriting discounts and commissions, all of which shall be borne by the registrant. All of such fees and expenses, except for the SEC registration fee, are estimated:

SEC registration fee	\$	33,942
NASD filing fee		39,600
Nasdaq listing fee		105,000
Transfer agent's fees and expenses		8,500
Legal fees and expenses		1,750,000
Printing fees and expenses		250,000
Accounting fees and expenses		1,600,000
Miscellaneous fees and expenses		362,958
		<hr/>
<b>Total:</b>	<b>\$</b>	<b>4,150,000</b>

The foregoing items (other than the SEC registration fee, NASD filing fee and Nasdaq listing fee) are estimated. All expenses will be borne by the registrant.

**Item 14. Indemnification of Directors and Officers**

Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act of 1933, as amended. Article 7 of the registrant's Amended and Restated Certificate of Incorporation and Article VIII of the registrant's Amended and Restated Bylaws provide for indemnification of the registrant's directors, officers, employees and other agents to the extent and under the circumstances permitted by the Delaware General Corporation Law. The registrant has also entered into agreements with its directors and officers that will require the registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent allowed.

**Item 15. Recent Sales of Unregistered Securities.**

Set forth below is information regarding securities sold by the registrant in the past three years which were not registered under the Securities Act.

**(a) Issuances of Common Stock and Warrants.**

1. In June 2004, the registrant sold to Boone Pickens, a trust affiliated with Boone Pickens, Alan P. Basham, Terasen, Inc. and Perseus 2000, LLC an aggregate of 1,689,189 shares of common stock upon the exercise of warrants held by these investors at a price per share of \$2.96. The registrant concluded each of the investors qualified as an accredited investor under Rule 501(a) based on representations made by the investors at the time of sale. The shares were offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

2. In September 2004, the registrant sold to Boone Pickens, a trust affiliated with Boone Pickens, Alan P. Basham, Terasen, Inc. and Perseus 2000, LLC an aggregate of 1,566,559 shares of common stock upon the exercise of warrants held by these investors at a price per share of \$2.96. The registrant

concluded each of the investors qualified as an accredited investor under Rule 501(a) based on representations made by the investors at the time of sale. The shares were offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

3. In May 2005, the registrant sold to Boone Pickens, a trust affiliated with Boone Pickens and Perseus ENRG Investment, L.L.C. an aggregate of 2,364,865 shares of common stock at a price per share of \$2.96. These shares were issued pursuant to a capital call made by the registrant's board of directors in accordance with Equity Option Agreements entered into in April 2005 between the registrant and these investors. The registrant concluded each of the investors qualified as an accredited investor under Rule 501(a) based on representations made by the investors at the time of sale. The shares were offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

4. In November 2005, the registrant sold to Boone Pickens and Perseus ENRG Investment, L.L.C. an aggregate of 2,364,865 shares of common stock at a price per share of \$2.96. These shares were issued pursuant to a capital call made by the registrant's board of directors in accordance with Equity Option Agreements entered into in April 2005 between the registrant and these investors. The registrant concluded each of the investors qualified as an accredited investor under Rule 501(a) based on representations made by the investors at the time of sale. The shares were offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

5. In February 2006, the registrant sold to Perseus ENRG Investment, L.L.C. 1,013,513 shares of common stock at a price per share of \$2.96. These shares were issued pursuant to a capital call made by the registrant's board of directors in accordance with an Equity Option Agreement entered into in April 2005 between the registrant and this investor. The registrant concluded the investor qualified as an accredited investor under Rule 501(a) based on representations made by the investor at the time of sale. The shares were offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

6. In April 2006, the registrant sold to Boone Pickens 6,081,081 shares of common stock at a price per share of \$2.96. These shares were issued pursuant to a capital call made by the registrant's board of directors in accordance with an Equity Option Agreement entered into in April 2005 between the registrant and this investor. The registrant concluded the investor qualified as an accredited investor under Rule 501(a) based on representations made by the investor at the time of sale. The shares were offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

7. In April 2006, the registrant sold an aggregate of 1,179,953 shares of common stock at a price per share of \$3.41 to Boone Pickens and an affiliated trust upon the conversion of secured convertible promissory notes held by these investors. The shares were offered and sold without registration under the Securities Act in reliance upon the exemption provided by Section 3(a)(9) thereunder.

8. In December 2006, we issued and sold to Boone Pickens a warrant to purchase up to an aggregate of 15,000,000 shares at a purchase price of \$10.00 per share. This warrant was issued pursuant to an obligation transfer and securities purchase agreement between the registrant and Mr. Pickens. The registrant concluded the investor qualified as an accredited investor under Rule 501(a) based on his status as a director of the registrant and representations made by the investor at the time of sale. The warrant was offered and sold in reliance on the exemption from registration provided by Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

No underwriters were involved in the foregoing sales of securities. The purchasers of shares of our stock described above represented to us in connection with their purchase that they were acquiring the shares for investment and not distribution, that they could bear the risks of the investment and could hold the securities for an indefinite period of time. The purchasers received written disclosures that the

securities had not been registered under the Securities Act and that any resale must be made pursuant to a registration or an available exemption from such registration. The sales of these securities were made without general solicitation or advertising.

**(b) Stock Option Grants.**

As of March 31, 2007, the registrant had outstanding stock options under its 2002 Stock Option Plan to directors, officers, employees and consultants to purchase an aggregate of 2,376,000 shares of common stock with a weighted average exercise price of \$2.96 per share, and had issued 360,750 shares of common stock for an aggregate purchase price of \$998,324 upon exercise of such options. These options generally vest annually in equal increments over a period of three years, except that all options outstanding as of November 2005 vested upon the change of control which occurred when Boone Pickens purchased all of the outstanding shares of Terasen, Inc. and three other minority stockholders. The stock option grants and the common stock issuances described in this paragraph (b) of Item 15 were made pursuant to written compensatory plans or agreements in reliance on the exemption provided by Rule 701 promulgated under the Securities Act.

As of March 31, 2007, the registrant also had 25,000 shares subject to a special stock option issued outside of the 2002 Stock Option Plan and 2006 Equity Incentive Plan to a consultant at an exercise price of \$3.86 per share. The option vests in equal increments over three years and accelerates upon the closing of our initial public offering. The registrant relied on Rule 506 of Regulation D for an exemption from registration for this issuance.

**Item 16. Exhibits and Financial Statement Schedules**

**(a) Exhibits**

**Item 16. Exhibits**

<b>Exhibit number</b>	<b>Description of document</b>
1.1	Form of Underwriting Agreement
2.1**	Stock Purchase Agreement dated June 13, 2001, among the registrant, the stockholders of BCG eFuels, Inc. and the stockholders of Pickens Fuel Corp.
2.2**	Membership Interest Purchase Agreement dated December 31, 2002, among the registrant and the individuals holding member interests of Blue Energy & Technologies, LLC
3.1**	Restated Certificate of Incorporation
3.2**	Amended and Restated Bylaws
4.1**	Specimen Common Stock Certificate
4.2**	Registration Rights Agreement dated December 31, 2002
4.3**	Amendment No. 1 to Registration Rights Agreement dated August 8, 2006
4.4	Form of Amendment No. 2 to Registration Rights Agreement
5.1	Opinion of Sheppard, Mullin, Richter & Hampton LLP
10.1**	2002 Stock Option Plan and Form of Stock Option Agreement
10.2**	2006 Equity Incentive Plan and form of agreements
10.3**	Lease and amendments for facilities in Seal Beach, California
10.4**	Form of Indemnification Agreement between the registrant and its officers and directors

- 10.5\*\* Employment Agreement dated January 1, 2006, between the registrant and Andrew J. Littlefair
- 10.6\*\* Employment Agreement dated January 1, 2006, between the registrant and Richard R. Wheeler
- 10.7\*\* Employment Agreement dated January 1, 2006, between the registrant and James N. Harger
- 10.8\*\* Employment Agreement dated January 1, 2006, between the registrant and Mitchell W. Pratt
- 10.9\*\* Letter Agreement dated April 20, 2005, between the registrant and Warren I. Mitchell
- 10.10\*\* Letter Agreement dated October 15, 2003, between the registrant and Warren I. Mitchell
- 10.11\*\* Buyer's Order and Purchase Agreement with Inland Kenworth, Inc. dated April 12, 2006
- 10.12\*\* Stock Purchase and Buy-Sell Agreement dated February 1, 2006, between the registrant and the individuals and entities named therein
- 10.13\*\* ISDA Master Agreement, dated March 23, 2006, between the registrant and Sempra Energy Trading Corp.
- 10.14\*\* ISDA Credit Support Annex dated March 23, 2006, between the registrant and Sempra Energy Trading Corp.
- 10.15\*\* Trading Authorization dated March 23, 2006
- 10.16\*\* Guarantee dated March 23, 2006, by Boone Pickens in favor of Sempra Energy Trading Corp.
- 10.17\*\* Guarantee dated March 28, 2006, by Sempra Energy in favor of the registrant
- 10.18\*\* LNG Sales Agreement dated May 23, 2003, between the registrant and Williams Gas Processing Company
- 10.19\*\* Amendment to LNG Sales Agreement dated March 3, 2005, between the registrant and Williams Gas Processing Company
- 10.20\*\* Investment Advisory Agreement dated July 24, 2006, between the registrant and BP Capital LP
- 10.21\*\* Pickens Plant Purchase and Sale Agreement dated November 3, 2005
- 10.22\*\* \$50 Million Revolving Promissory Note with Boone Pickens dated August 31, 2006
- 10.23\*\* Equity Option Agreement dated April 8, 2005 between the registrant and Boone Pickens
- 10.24\*\* Equity Option Agreement dated April 8, 2005 between the registrant and Perseus ENRG Investment, L.L.C.
- 10.25\*\* Ground Lease dated November 3, 2006 between the registrant and U.S. Borax, Inc.
- 10.26\*\* Warrant to Purchase Common Stock dated December 28, 2006 issued to Boone Pickens
- 10.27\*\* Obligation Transfer and Securities Purchase Agreement dated December 28, 2006, between the registrant and Boone Pickens
- 10.28\*\* \$100 Million Revolving Promissory Note with Boone Pickens dated November 15, 2006



10.29**	Letter agreement dated September 11, 2006 with Williams Gas Processing Company
10.30**	Investment Advisory Agreement dated March 9, 2007 between the registrant and BP Capital LP
21.1	Subsidiaries
23.1	Consent of Sheppard, Mullin, Richter & Hampton LLP (included in Exhibit 5.1)
23.2	Consent of KPMG LLP
24.3**	Power of Attorney

\* To be filed by amendment

\*\* Previously filed.

† Confidential treatment requested.

## Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denomination and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issues.

The undersigned registrant hereby undertakes that:

(1) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective;

(2) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) for the purpose of determining liability under the Securities Act of 1933 to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or

modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use; and

(4) for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seal Beach, State of California, on May 4, 2007.

CLEAN ENERGY FUELS CORP.

By:           /s/ ANDREW J. LITTLEFAIR

Andrew J. Littlefair  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the date indicated.

Name	Title	Date
<u>          /s/ ANDREW J. LITTLEFAIR</u> <b>Andrew J. Littlefair</b>	President, Chief Executive Officer (Principal Executive Officer) and a Director	May 4, 2007
<u>          /s/ RICHARD R. WHEELER</u> <b>Richard R. Wheeler</b>	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 4, 2007
<u>          /s/ WARREN I. MITCHELL*</u> <b>Warren I. Mitchell</b>	Chairman of the Board and Director	May 4, 2007
<u>          /s/ DAVID R. DEMERS*</u> <b>David R. Demers</b>	Director	May 4, 2007
<u>          /s/ JOHN S. HERRINGTON*</u> <b>John S. Herrington</b>	Director	May 4, 2007
<u>          /s/ JAMES C. MILLER III*</u> <b>James C. Miller III</b>	Director	May 4, 2007
<u>          /s/ BOONE PICKENS*</u> <b>Boone Pickens</b>	Director	May 4, 2007
<u>          /s/ KENNETH M. SOCHA*</u> <b>Kenneth M. Socha</b>	Director	May 4, 2007

\*By:           /s/ ANDREW J. LITTLEFAIR May 4, 2007  
           Andrew J. Littlefair  
           Attorney-in-fact

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20,000,000 Shares

Clean Energy Fuels Corp.

Common Stock

UNDERWRITING AGREEMENT

, 2007

W.R. Hambrecht + Co., LLC  
as Representative of the several  
Underwriters named in Schedule I hereto

c/o W.R. Hambrecht + Co., LLC  
539 Bryant Street, Suite 100  
San Francisco, CA 94107

Ladies and Gentlemen:

Clean Energy Fuels Corp., a Delaware corporation (the "Company"), and the persons listed on Schedule II hereto (the "Selling Stockholders"), propose, subject to the terms and conditions contained in this Underwriting Agreement (this "Agreement"), to sell to you and the other underwriters named on Schedule I to this Agreement (the "Underwriters"), for whom you are acting as Representative (the "Representative"), an aggregate of 20,000,000 shares (the "Firm Shares") of the Company's common stock, par value \$0.0001 per share (the "Common Stock"). Of the Firm Shares, 10,000,000 shares are to be issued and sold by the Company and 10,000,000 shares are to be sold by the Selling Stockholders. The respective amounts of the Firm Shares to be purchased by each of the several Underwriters are set forth opposite their names on Schedule I hereto. In addition, the Selling Stockholders propose to grant to the Underwriters an option to purchase up to an additional 3,000,000 shares (the "Option Shares") of Common Stock from the Selling Stockholders for the purpose of covering over-allotments in connection with the sale of the Firm Shares. The Firm Shares and the Option Shares are collectively called the "Shares."

The Company has prepared and filed in conformity with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the published rules and regulations thereunder (the "Rules") adopted by the Securities and Exchange Commission (the "Commission") a Registration Statement (as hereinafter defined) on Form S-1 (No. 333-137124), including a Preliminary Prospectus (as hereinafter defined) relating to the Shares, and such amendments thereof as may have been required to the date of this Agreement. Copies of such

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Registration Statement (including all amendments thereof) and of the related Preliminary Prospectus have been delivered by the Company to you. As used in this Agreement:

- a. The term "Preliminary Prospectus" means any preliminary prospectus relating to the Shares included at any time as a part of the Registration Statement or filed with the Commission by the Company pursuant to Rule 424 of the Rules.
- b. The term "Pricing Prospectus" means the Preliminary Prospectus relating to the Shares dated [        ], 2007 that was included in the Registration Statement immediately prior to the Applicable Time (as defined below).
- c. The term "Registration Statement" means the registration statement on Form S-1 (File No. 333-137124) (including any Preliminary Prospectus, the Prospectus, all exhibits and financial schedules), as amended at the time and on the date it became effective (the "Effective Date"), including the information (if any) contained in the form of final prospectus to be filed with the Commission pursuant to Rule 424(b) of the Rules and deemed to be part thereof at the Effective Date pursuant to Rule 430A of the Rules. If the Company has filed an abbreviated registration statement to register additional Shares pursuant to Rule 462(b) under the Rules (the "462(b) Registration Statement"), then any reference herein to the Registration Statement shall also be deemed to include such 462(b) Registration Statement.
- d. The term "Prospectus" as used in this Agreement means the prospectus in the form included in the Registration Statement at the Effective Date or, if Rule 430A of the Rules is relied on, the term Prospectus shall also include the final prospectus relating to the Shares filed with the Commission pursuant to Rule 424(b) of the Rules.
- e. The term "Issuer Free Writing Prospectus" means any "issuer free writing prospectus" relating to the Shares as defined in Rule 433 of the Rules. The term "free writing prospectus" means each "free writing prospectus" (as defined in Rule 405 of the Rules) prepared by or on behalf of the Company in connection with the offering of the Shares.
- f. "Pricing Disclosure Package" means, as of the Applicable Time, the Pricing Prospectus together with each Issuer Free Writing Prospectus filed with the Commission or used by the Company on or before the Applicable Time and listed on Schedule IV hereto, including any "road show" (as defined in Rule 433(h) of the Rules) that is an Issuer Free Writing Prospectus but is not required to be filed under Rule 433 of the Rules, taken as a whole.
- g. The "Applicable Time" is [        ] (Eastern Time) on the date of this Agreement.

The Company and the Selling Stockholders understand that the Underwriters propose to make a public offering of the Shares, as set forth in and pursuant to the Prospectus, as soon after the Effective Date and the date of this Agreement as the Representative deems advisable. The Company and the

are authorized to distribute the Prospectus (as from time to time amended or supplemented if the Company furnishes amendments or supplements thereto to the Underwriters).

1. Sale, Purchase, Delivery and Payment for the Shares. On the basis of the representations, warranties and agreements contained in, and subject to the terms and conditions of, this Agreement:

(a) The Company and each Selling Stockholder agree to sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and each Selling Stockholder, at a purchase price of \$[ ] per share (the "Initial Price"), the number of Firm Shares (rounded up or down, as determined by the Representative in its discretion, in order to avoid fractional shares) obtained by multiplying 10,000,000 Firm Shares (in the case of the Company) and the number of Firm Shares set forth opposite the name of such Selling Stockholder in Schedule II hereto under the caption "Number of Firm Shares to be Sold" (in the case of a Selling Stockholder), in each case by a fraction the numerator of which is the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the total number of Firm Shares, subject to adjustment in accordance with Section 10 hereof.

(b) The Selling Stockholders hereby grant to the several Underwriters an option to purchase, severally and not jointly, all or any part of the Option Shares at the Initial Price. The Selling Stockholders agree, severally and not jointly, to sell to the Underwriters the respective numbers of Option Shares obtained by multiplying the number of Option Shares specified in such notice by a fraction the numerator of which is the number of shares set forth opposite the names of such Selling Stockholders in Schedule II hereto under the caption "Maximum Number of Option Shares to be Sold" and the denominator of which is the total number of Optional Shares (subject to adjustment by the Representative to eliminate fractional shares). The number of Option Shares to be purchased by each Underwriter shall be the same percentage (adjusted by the Representative to eliminate fractions) of the total number of Option Shares to be purchased by the Underwriters as such Underwriter is purchasing of the Firm Shares. Such option may be exercised only to cover over-allotments in the sales of the Firm Shares by the Underwriters and may be exercised in whole or in part at any time on or before 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date (as defined below), and from time to time thereafter within 30 days after the date of this Agreement, in each case upon written, facsimile or electronic notice, by the Representative to the Company no later than 12:00 noon, New York City time, on the business day before the Firm Shares Closing Date or at least two business days before the Option Shares Closing Date (as defined below), as the case may be, setting forth the number of Option Shares to be purchased and the time and date (if other than the Firm Shares Closing Date) of such purchase.

(c) Payment of the purchase price for and delivery of certificates for the Firm Shares shall be made at the offices of W.R. Hambrecht + Co., LLC, 539 Bryant Street, Suite 100, San Francisco, California, 94107 at 7:00 a.m., San Francisco time, on the third business day following the date of this Agreement or at such time on such other date,

not later than ten (10) business days after the date of this Agreement, as shall be agreed upon by the Company and the Representative (such time and date of delivery and payment are called the "Firm Shares Closing Date"). In addition, in the event that any or all of the Option Shares are purchased by the Underwriters, payment of the purchase price, and delivery of the certificates, for such Option Shares shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representative and the Company, on each date of delivery as specified in the notice from the Representative to the Company (such time and date of delivery and payment are called the "Option Shares Closing Date"). The Firm Shares Closing Date and any Option Shares Closing Date are called, individually, a "Closing Date" and, together, the "Closing Dates."

(d) Payment for the Shares shall be made to the Company and the Selling Stockholders by wire transfer of immediately available funds or by one or more certified or official bank check or checks in same day funds drawn to the order of the Company, and to the Selling Stockholders for the shares purchased from the Selling Stockholders, against delivery of the respective certificates to the Representative for the respective accounts of the Underwriters of certificates for the Shares to be purchased by them.

(e) Certificates evidencing the Shares shall be registered in such names and shall be in such denominations as the Representative shall request at least two full business days before the Firm Shares Closing Date or, in the case of Option Shares, on the day of notice of exercise of the option as described in Section 1(b) and shall be delivered by or on behalf of the Company to the Representative through the facilities of the Depository Trust Company ("DTC") for the account of such Underwriter. The Company will cause the certificates representing the Shares to be made available for checking and packaging, at such place as is designated by the Representative, on the full business day before the Firm Shares Closing Date (or the Option Shares Closing Date in the case of the Option Shares). Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition to the obligation of each Underwriter hereunder.

2. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) The Registration Statement conformed when filed, and will conform in all material respects on each of the Effective Date and the applicable Closing Date, and any amendment to the Registration Statement filed after the date hereof will conform in all material respects when filed, to the requirements of the Securities Act and the Rules. The Pricing Prospectus conformed as of the Applicable Time, and the Prospectus will conform when filed with the Commission pursuant to Rule 424(b) of the Rules and as of the applicable Closing Date, in all material respects to the requirements of the Securities Act and the Rules.

(b) The Registration Statement, as of the Effective Date, did not contain an untrue statement of a material fact or omit to state any material fact necessary in order



to make the statements therein not misleading. The Prospectus, as of its date and the applicable Closing Date, will not contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. As of the Applicable Time, the Pricing Disclosure Package did not contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each Issuer Free Writing Prospectus listed on Schedule IV hereto does not conflict with the information contained in the Registration Statement, the Pricing Prospectus or the Prospectus. Each such Issuer Free Writing Prospectus, as of the Applicable Time, did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Prospectus, as of its filing date and the applicable Closing Date, will not contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Notwithstanding the foregoing, none of the representations and warranties in this paragraph shall apply to statements in, or omissions from, the Registration Statement, the Pricing Prospectus, the Prospectus and any Issuer Free Writing Prospectus made in reliance upon, and in conformity with, information herein or otherwise furnished in writing by the Representative on behalf of the several Underwriters for use in the Registration Statement, the Pricing Prospectus, the Prospectus or any Issuer Free Writing Prospectus. With respect to the preceding sentence, the Company acknowledges that the only information furnished in writing by the Representative on behalf of the several Underwriters for use in the Registration Statement, the Pricing Prospectus, the Prospectus or any Issuer Free Writing Prospectus is the information set forth in the paragraph describing the OpenIPO process on the front cover page and under the caption "Plan of Distribution" and the information contained in the 1st and 3rd paragraphs under the caption "Plan of Distribution" in the Registration Statement, the Pricing Prospectus and the Prospectus.

(c) Unless the Company obtains the prior consent of the Representative, it has not made and will not make any offer relating to the Shares that would constitute an Issuer Free Writing Prospectus other than those Issuer Free Writing Prospectuses listed on Schedule IV attached hereto, or that would otherwise constitute a Free Writing Prospectus required to be filed with the Commission. The Company has complied and will comply with the requirements of Rule 433 of the Rules applicable to any Issuer Free Writing Prospectus, including timely filing with the Commission where required, legending and recordkeeping.

(d) If applicable, each Preliminary Prospectus (including the Pricing Prospectus) and the Prospectus delivered to the Underwriters for use in connection with this offering was identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T. If Rule 434 of the Rules is used, the Company will comply with the requirements of Rule 434 and the Prospectus shall not be "materially different," as such term is used in Rule

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434, from the Prospectus included in the Registration Statement at the time it became effective.

(e) The Registration Statement has been declared effective under the Securities Act and no stop order preventing or suspending the effectiveness of the Registration Statement or suspending or preventing the use of any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission and no proceedings for that purpose are pending or have been instituted or threatened by the Commission. Any required filing of the Prospectus and any supplement thereto pursuant to Rule 424(b) of the Rules has been or will be made in the manner and within the time period required by such Rule 424(b).

(f) The Company has not distributed and, prior to the later to occur of any Closing Date and completion of the distribution of the Shares, will not distribute any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectus, the Prospectus, any Issuer Free Writing Prospectus listed on Schedule IV hereto, and any other materials, if any, permitted by the Securities Act, including Rule 134 of the Rules, to which the Representative has consented.

(g) The financial statements of the Company (including all notes and schedules thereto) included in the Registration Statement and the Pricing Prospectus present fairly the financial position of the Company and its consolidated subsidiaries at the dates indicated and the statement of operations, stockholders' equity and cash flows of the Company and its consolidated subsidiaries for the periods specified; and such financial statements and related schedules and notes thereto, and the unaudited financial information filed with the Commission as part of the Registration Statement and the Pricing Prospectus has been prepared in conformity with generally accepted accounting principles, consistently applied throughout the periods involved. The summary and selected financial data included in the Registration Statement and the Pricing Prospectus presents fairly the information shown therein as at the respective dates and for the respective periods specified and have been presented on a basis consistent with the consolidated financial statements set forth in the Registration Statement and the Pricing Prospectus and other financial information.

(h) KPMG, LLP, whose reports are filed with the Commission as a part of the Registration Statement, are and, during the periods covered by their reports, was an independent registered public accounting firm within the meaning of the Securities Act and the Rules and the rules and regulations adopted by the PCAOB.

(i) The Company (i) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, having full power and corporate authority to own or lease its properties and to conduct its business as described in the Pricing Disclosure Package; and (ii) is duly qualified to do business as a foreign corporation and is in good standing in all jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary except for such jurisdictions where the failure to so qualify individually or in the aggregate would not have a material adverse effect on the assets,

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properties, condition (financial or otherwise) or in the results of operations, business affairs or business prospects of the Company and its subsidiaries considered as a whole (a "Material Adverse Effect"). The Company has employees located solely in Arizona, California, Colorado,

Maryland, Massachusetts, New Mexico, New York, Texas, Washington, Wyoming and Canada, and in no other jurisdiction, and is duly qualified to do business as a foreign corporation and is in good standing in such jurisdictions, which are the only jurisdictions where the Company is required to be so qualified. To the Company's knowledge, no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification. Except for Canada, the Company does not own, lease or license any asset or property outside the United States of America.

(j) The Company and each of its subsidiaries has all requisite corporate power and authority, and all necessary authorizations, approvals, consents, orders, licenses, certificates and permits of and from all governmental or regulatory bodies or any other person or entity (collectively, the "Permits"), to own, lease and license its assets and properties and conduct its business, all of which are valid and in full force and effect, except where the lack of such Permits, individually or in the aggregate, would not have a Material Adverse Effect. The Company and each of its subsidiaries has fulfilled and performed in all material respects all of its material obligations with respect to such Permits and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the Company thereunder. Except as may be required under the Securities Act and state and foreign Blue Sky laws, no other Permits are required to enter into, deliver and perform this Agreement and to issue and sell the Shares.

(k) The Company and each of its subsidiaries owns or possesses legally enforceable rights to use all patents, patent rights, patent applications, inventions, trademarks, trademark applications, trade names, service marks, copyrights, copyright applications, licenses, domain names, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures) and other similar rights and proprietary knowledge (collectively, "Intellectual Property") necessary for the conduct of its business. Neither the Company nor any of its subsidiaries is aware of or has received any notice of any (i) infringement, misappropriation or violation by third parties of any such Intellectual Property or (ii) any threatened action, suit, proceeding or claim by others challenging the Company or its subsidiaries' rights in or to any such Intellectual Property. The Intellectual Property owned by the Company and its subsidiaries and licensed to the Company and its subsidiaries has not been adjudged invalid or unenforceable, in whole or in part, and there is no pending or threatened action, suit, proceeding or claim by others challenging the validity or scope of any such Intellectual Property. There is no pending or threatened action, suit, proceeding or claim by others against the Company or any of its subsidiaries that the Company or any of its subsidiaries infringes, misappropriates or otherwise violates any Intellectual Property or other proprietary rights of others. To the Company's knowledge, no employee of the Company or any of its subsidiaries is the subject of any claim or proceeding involving a violation of any term of any employment contract, patent disclosure agreement, invention assignment agreement,

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non-competition agreement, non-solicitation agreement, nondisclosure agreement or any restrictive covenant to or with a former employer where the basis of such violation relates to such employee's employment with the Company or any of the Company's subsidiaries or actions undertaken by the employee while employed with the Company or any of the Company's subsidiaries.

(l) The Company and each of its subsidiaries has good and marketable title in fee simple to all real property, and good and marketable title to all other property owned by it, in each case free and clear of all liens, encumbrances, claims, security interests and defects, except such as do not materially affect the value of such property and do not materially interfere with the use made or proposed to be made of such property by the Company and its subsidiaries. All property held under lease by the Company and its subsidiaries is held by them under valid, existing and enforceable leases, free and clear of all liens, encumbrances, claims, security interests and defects, except such as are not material and do not materially interfere with the use made or proposed to be made of such property by the Company and its subsidiaries. Subsequent to the respective dates as of which information is given in the Pricing Prospectus, (i) there has not been any Material Adverse Effect; (ii) neither the Company nor any of its subsidiaries has sustained any loss or interference with its assets, businesses or properties (whether owned or leased) from fire, explosion, earthquake, flood or other calamity, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree which would have a Material Adverse Effect; and (iii) since the date of the latest balance sheet included in the Pricing Prospectus, neither the Company nor its subsidiaries has (A) issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money, except such liabilities or obligations incurred in the ordinary course of business, (B) entered into any transaction not in the ordinary course of business or (C) declared or paid any dividend or made any distribution on any shares of its stock or redeemed, purchased or otherwise acquired or agreed to redeem, purchase or otherwise acquire any shares of its capital stock.

(m) There is no document, contract or other agreement required to be described in the Registration Statement or the Pricing Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed as required by the Securities Act or Rules. Each description of a contract, document or other agreement in the Registration Statement and the Pricing Prospectus accurately reflects in all respects the terms of the underlying contract, document or other agreement. Each contract, document or other agreement described in the Registration Statement or the Pricing Prospectus or listed in the Exhibits to the Registration Statement is in full force and effect and is valid and enforceable by and against the Company or its subsidiaries, as the case may be, in accordance with its terms. Neither the Company nor any of its subsidiaries, if a subsidiary is a party, nor to the Company's knowledge, any other party is in default in the observance or performance of any term or obligation to be performed by it under any such agreement, and no event has occurred which with notice or lapse of time or both would constitute such a default, in any such case which default or event, individually or in the aggregate, would have a Material Adverse Effect. No default exists, and no event has occurred which with notice or lapse of time or both would

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constitute a default, in the due performance and observance of any term, covenant or condition, by the Company or a subsidiary, if a subsidiary is a party thereto, of any other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or its properties or business or a subsidiary or the subsidiary's properties or business may be bound or affected which default or event, individually or in the aggregate, would have a Material Adverse Effect.

(n) The statistical and market related data included in the Pricing Disclosure Package are based on or derived from sources that the Company believes to be reliable and accurate.

(o) Neither the Company nor any of its subsidiaries is in violation of any term or provision of its charter or bylaws or of any franchise, license, permit, judgment, decree, order, statute, rule or regulation, where the consequences of such violation, individually or in the aggregate, would have a Material Adverse Effect.

(p) This Agreement has been duly authorized, executed and delivered by the Company.

(q) Neither the execution, delivery and performance of this Agreement by the Company nor the consummation of any of the transactions contemplated hereby (including, without limitation, the issuance and sale by the Company of the Shares) will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company or its subsidiaries pursuant to the terms of, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which either the Company or its subsidiaries or any of their properties or businesses is bound, or any franchise, license, permit, judgment, decree, order, statute, rule or regulation applicable to the Company or any of its subsidiaries or violate any provision of the charter or bylaws of the Company or any of its subsidiaries, except for such consents or waivers which have already been obtained and are in full force and effect.

(r) The Company has the duly authorized and validly issued outstanding capitalization as of March 31, 2007 as set forth under the caption "Capitalization" in the Pricing Prospectus and will have the adjusted capitalization as of March 31, 2007 (giving effect to the closing of the offering contemplated by this Agreement) set forth therein on each Closing Date, based on the assumptions set forth therein. The certificates evidencing the Shares are in due and proper legal form and have been duly authorized for issuance by the Company. All of the issued and outstanding shares of Common Stock have been duly and validly issued and are fully paid and nonassessable. All of the issued and outstanding shares of capital stock of the Company were issued in transactions that were exempt from the registration requirements of the Securities Act, without violation of preemptive rights, rights of first refusal or similar rights. There are no statutory preemptive or other similar rights to subscribe for or to purchase or acquire

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any shares of Common Stock of the Company or any of its subsidiaries or any such rights pursuant to its Certificate of Incorporation or bylaws or any agreement or instrument to or by which the Company or any of its subsidiaries is a party or bound. The Shares to be issued and sold by the Company pursuant to this Agreement (the "Company Shares"), when issued and sold against payment therefor pursuant to this Agreement, will be duly authorized and validly issued, fully paid and nonassessable and none of them will be issued in violation of any preemptive or other similar right. The Shares to be sold by the Selling Stockholders have been duly authorized and validly issued and are fully paid and nonassessable. Except as disclosed in the Pricing Prospectus, there is no outstanding option, warrant or other right calling for the issuance of, and there is no commitment, plan or arrangement to issue, any share of stock of the Company or any of its subsidiaries or any security convertible into, or exercisable or exchangeable for, such stock. The securities of the Company conform, and the Company Shares when issued at the applicable Closing Date will conform, to the descriptions thereof contained in the Registration Statement, the Pricing Prospectus and the Prospectus. All outstanding shares of capital stock of each of the Company's subsidiaries have been duly authorized and validly issued, and are fully paid and nonassessable and are owned directly by the Company or by another wholly-owned subsidiary of the Company free and clear of any security interests, liens, encumbrances, equities or claims, other than those described in the Registration Statement and the Pricing Prospectus.

(s) No holder of any security of the Company has any right, which has not been waived, to have any security owned by such holder included in the Registration Statement or to demand registration of any security owned by such holder for a period of 180 days after the date of this Agreement. Each director and executive officer of the Company and each stockholder of the Company listed on Schedule III has delivered to the Representative his enforceable written lock-up agreement in the form attached to this Agreement as Exhibit A hereto ("Lock-Up Agreement").

(t) All necessary corporate action has been duly and validly taken by the Company to authorize the execution, delivery and performance of this Agreement and the issuance and sale of the Shares by the Company. This Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes and will constitute legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(u) Neither the Company nor any of its subsidiaries is involved in any labor dispute nor, to the knowledge of the Company, is any such dispute threatened, which dispute would have a Material Adverse Effect. The Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers or contractors which would have a Material Adverse Effect. The Company is not aware of any threatened or pending litigation between the Company or its subsidiaries and any of its executive officers which, if adversely determined, could

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have a Material Adverse Effect and has no reason to believe that such officers will not remain in the employment of the Company.

(v) No relationship, direct or indirect, exists between or among the Company or its subsidiaries, on the one hand, and the current or prior directors, officers, stockholders, customers or suppliers of the Company and its subsidiaries, on the other hand, which is required to be described in the Registration Statement and the Pricing Prospectus that is not so described.

(w) Neither the Company nor any affiliate of the Company has taken, nor will they take, directly or indirectly, any action designed to or which might reasonably be expected to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Common Stock or any security of the Company to facilitate the sale or resale of any of the Shares.

(x) The Company and each of its subsidiaries has filed all federal, state, local and foreign tax returns which are required to be filed through the date hereof, which returns are true and correct in all material respects or has received timely extensions thereof, and has paid all taxes shown on such returns and all assessments received by it to the extent that the same are material and have become due. There are no tax audits or

investigations pending, which if adversely determined would have a Material Adverse Effect; nor are there any material proposed additional tax assessments against the Company or any of its subsidiaries.

(y) The Shares have been approved for listing on the National Association of Securities Dealers Automated Quotation (“Nasdaq”) Global Market subject only to notice of issuance.

(z) A registration statement has been filed on Form 8-A pursuant to Section 12 of the Exchange Act, which registration statement complies in all material respects with the Exchange Act.

(aa) The Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act or the listing of the Common Stock on the Nasdaq Global Market, nor has the Company received any notification that the Commission or the Nasdaq Global Market is contemplating terminating such registration or listing.

(bb) The books, records and accounts of the Company and its subsidiaries accurately and fairly reflect, in reasonable detail, the transactions in, and dispositions of, the assets of, and the results of operations of, the Company and its subsidiaries. The Company and each of its subsidiaries maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management’s general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and to maintain asset accountability, (iii)

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access to assets is permitted only in accordance with management’s general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; the chief executive officer and the chief financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) and any related rules and regulations promulgated by the Commission, and the statements contained in any such certification are complete and correct; the Company maintains “disclosure controls and procedures” (as defined in Rule 13a-14(c) under the Exchange Act) to ensure that material information relating to the Company is made known to the Company’s principal executive officer and the Company’s principal financial officer or persons performing similar functions; the Company is otherwise in compliance in all material respects with all applicable effective provisions of the Sarbanes-Oxley Act and is actively taking steps to ensure that it will be in compliance with other applicable provisions of the Sarbanes-Oxley Act upon the effectiveness of such provisions.

(cc) The Company and its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are customary in the businesses in which they are engaged or propose to engage after giving effect to the transactions described in the Pricing Prospectus, all of which insurance is in full force and effect. The Company and each of its subsidiaries are in compliance with the terms of such policies and instruments in all material respects; and neither the Company nor any subsidiary of the Company has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that is not materially greater than the current cost. Neither the Company nor any of its subsidiaries has been denied any insurance coverage which it has sought or for which it has applied.

(dd) Each approval, consent, order, authorization, designation, declaration or filing of, by or with any regulatory, administrative or other governmental body necessary in connection with the execution and delivery by the Company of this Agreement and the consummation of the transactions herein contemplated required to be obtained or performed by the Company (except such additional steps as may be required by the National Association of Securities Dealers, Inc. (the “NASD”) or may be necessary to qualify the Shares for public offering by the Underwriters under the state securities or “Blue Sky” laws) has been obtained or made and is in full force and effect.

(ee) Except as disclosed in the Registration Statement and the Pricing Prospectus, there is no action, suit, claim, proceeding or investigation pending or, to the Company’s knowledge, threatened against the Company before or by any court, regulatory body or administrative agency or any other governmental agency or body, domestic or foreign, that (i) questions the validity of the capital stock of the Company or this Agreement or any action taken or to be taken by the Company pursuant to or in connection with this Agreement; (ii) is required to be disclosed in the Registration Statement and the Pricing Prospectus and is not disclosed (and such proceedings, if any,

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as are summarized in the Registration Statement and the Pricing Prospectus are accurately summarized in all material respects) or (ii) may have a Material Adverse Effect.

(ff) There are no affiliations with the NASD among the Company’s officers, directors or, to the best of the knowledge of the Company, any five percent (5%) or greater stockholder of the Company, except as set forth in the Pricing Prospectus or otherwise disclosed in writing to the Representative.

(gg) (i) Each of the Company and each of its subsidiaries is in compliance in all material respects with all rules, laws and regulation relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment (“Environmental Law”) which are applicable to its business; (ii) neither the Company nor its subsidiaries has received any notice from any governmental authority or third party of an asserted claim under Environmental Laws; (iii) each of the Company and each of its subsidiaries has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and is in compliance with all terms and conditions of any such permit, license or approval; (iv) to the Company’s knowledge, no facts currently exist that will require the Company or any of its subsidiaries to make future material capital expenditures to comply with Environmental Laws; and (v) no property which is or has been owned, leased or occupied by the Company or its subsidiaries has been designated as a Superfund site pursuant to the Comprehensive Environmental Response, Compensation of Liability Act of 1980, as amended (42 U.S.C. Section 9601, et. seq.) (“CERCLA”) or otherwise designated as a contaminated site under applicable state or local law. Neither the Company nor any of its subsidiaries has been named as a “potentially responsible party” under CERCLA.

(hh) In the ordinary course of its business, the Company periodically reviews the effect of Environmental Laws on the business, operations and properties of the Company and its subsidiaries, in the course of which the Company identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws, or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review, the Company has reasonably concluded that such associated costs and liabilities would not, singly or in the aggregate, have a Material Adverse Effect.

(ii) The Company is not and, after giving effect to the offering and sale of the Shares, including the issuance, offering and sale of the Company Shares, and the application of proceeds from the sale of the Company Shares as described in the Pricing Prospectus and the Prospectus, will not be an “investment company” within the meaning of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

(jj) The Company was not at the time of initial filing of the Registration Statement and at the earliest time thereafter that the Company or another offering

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participant made a bona fide offer (within the meaning of Rule 164(h)(2) of the Rules) of the Shares, is not on the date hereof and will not be on the applicable Closing Date, an “ineligible issuer” (as defined in Rule 405 of the Rules).

(kk) The Company does not, directly or indirectly, including through any subsidiary, have any outstanding personal loans or other credit extended to or for any director or executive officer.

(ll) None of the Company nor any other person associated with or acting on behalf of the Company including, without limitation, any director, officer, agent or employee of the Company or its subsidiary, has, directly or indirectly, while acting on behalf of the Company or any of its subsidiaries (i) used any corporate funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (ii) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns from corporate funds; (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (iv) made any other unlawful payment.

(mm) The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the USA Patriot Act, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the “Money Laundering Laws”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or its subsidiary with respect to the Money Laundering Laws is pending, or to the best knowledge of the Company, threatened.

(nn) Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(oo) Except as described in the Pricing Prospectus and the Registration Statement, the Company has not sold or issued any securities during the six-month period preceding the date of the Pricing Prospectus, including any sales pursuant to Rule 144A under, or Regulations D or S of, the Securities Act.

(pp) The Company has fulfilled its obligations, if any, under the minimum funding standards of Section 302 of the U.S. Employee Retirement Income Security Act of 1974 (“ERISA”) and the regulations and published interpretations thereunder with respect to each “plan” as defined in Section 3(3) of ERISA and such regulations and published interpretations in which its employees are eligible to participate and each such plan is in compliance in all material respects with the presently applicable provisions of ERISA and such regulations

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and published interpretations in which its employees are eligible to participate and each such plan is in compliance in all material respects with the presently applicable provisions of ERISA and such regulations and published interpretations. No “Reportable Event” (as defined in 12 ERISA) has occurred with respect to any “Pension Plan” (as defined in ERISA) for which the Company could have any liability.

(qq) The Company has not incurred any liability for a fee, commission, or other compensation on account of the employment of a broker or finder in connection with the transactions contemplated by this Agreement other than as contemplated hereby.

(rr) Each of the Company, its directors and officers has not distributed and will not distribute prior to the later of (i) the Firm Shares Closing Date, or the Option Shares Closing Date, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectus, the Prospectus, the Registration Statement and any Issuer Free Writing Prospectus listed on Schedule IV attached hereto.

3. Representations and Warranties of the Selling Stockholders. Each of the Selling Stockholders hereby represents and warrants to, and agrees with, each Underwriter that:

(a) Each Selling Stockholder has caused certificates for the number of Shares listed opposite such Selling Stockholder’s name on Schedule II hereto to be delivered to [ ] (the “Custodian”), endorsed in blank or with blank stock powers duly executed, with a signature appropriately guaranteed, such certificates to be held in custody by the Custodian for delivery, pursuant to the provisions of this Agreement and an

agreement dated [ ] among the Custodian and the Selling Stockholders substantially in the form attached hereto as Exhibit B (the "Custody Agreement").

(b) Each Selling Stockholder has granted an irrevocable power of attorney substantially in the form attached hereto as Exhibit C (the "Power of Attorney") to the person named therein, on behalf of each such Selling Stockholder, to execute and deliver this Agreement and any other document necessary or desirable in connection with the transactions contemplated hereby and to deliver the shares to be sold by each Selling Stockholder pursuant hereto.

(c) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement have each been duly authorized, executed and delivered by or on behalf of each Selling Stockholder and, assuming due authorization, execution and delivery by the other parties thereto, constitutes the valid and legally binding agreement of each Selling Stockholder, enforceable against each such Selling Stockholder in accordance with its terms.

(d) The execution and delivery by each Selling Stockholder of this Agreement and the performance by each Selling Stockholder of its obligations under this Agreement, including the sale and delivery of the Shares to be sold by each such Selling Stockholder and the consummation of the transactions contemplated herein and compliance by each Selling Stockholder with its obligations hereunder, do not and will

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not, whether with or without the giving of notice or the passage of time or both, (i) violate or contravene any provision of the charter or bylaws or other organizational instrument of any Selling Stockholder, if applicable, or any applicable law, statute, regulation, or filing or any agreement or other instrument binding upon any Selling Stockholder or any judgment, order or decree of any governmental body, agency or court having jurisdiction over any Selling Stockholder, (ii) conflict with or constitute a breach of, or default under, or result in the creation or imposition of any tax, lien, charge or encumbrance upon the shares to be sold by any Selling Stockholder or any property or assets of any Selling Stockholder pursuant to the terms of any agreement or instrument to which any Selling Stockholder is a party or by which any Selling Stockholder may be bound or to which any of the property or assets of any Selling Stockholder is subject or (iii) require any consent, approval, authorization or order of or registration or filing with any court or governmental agency or body having jurisdiction over it, except such as may be required by the Blue Sky laws of the various states in connection with the offer and sale of the Shares which have been or will be effected in accordance with this Agreement.

(e) Each Selling Stockholder holding Firm Shares on the Firm Shares Closing Date and each Selling Stockholder holding Option Shares on the Option Shares Closing Date will have valid and marketable title to the Shares to be sold by such Selling Stockholder free and clear of any lien, claim, security interest or other encumbrance, including, without limitation, any restriction on transfer, except as otherwise described in the Registration Statement and the Pricing Prospectus.

(f) Each Selling Stockholder holding Firm Shares on the Firm Shares Closing Date and each Selling Stockholder holding Option Shares on the Option Shares Closing Date will have full legal right, power and authority, and any approval required by law, to sell, assign, transfer and deliver the Shares to be sold by such Selling Stockholder in the manner provided by this Agreement.

(g) Upon delivery of and payment for the Shares to be sold by each Selling Stockholder pursuant to this Agreement the several Underwriters will receive valid and marketable title to such Shares free and clear of any lien, claim, mortgage, pledge, security interest or other encumbrance.

(h) All information relating to each Selling Stockholder furnished in writing by such Selling Stockholder expressly for use in the Registration Statements, the Pricing Prospectus and any Issuer Free Writing Prospectus is, and on each Closing Date will be, true, correct, and complete, and does not, and on each Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading.

(i) Each Selling Stockholder has reviewed the Registration Statement and Pricing Prospectus and the Pricing Disclosure Package taken as a whole and, although such Selling Stockholder has not independently verified the accuracy or completeness of all the information contained therein, nothing has come to the attention of such Selling Stockholder that would lead such Selling Stockholder to believe that (i) as of the Effective Date, the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein in order to make the statements made therein not misleading or (ii) as of the Applicable Time, neither the Pricing Prospectus nor the Pricing Disclosure Package contained any untrue statement of a

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material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) The sale of Shares by each Selling Stockholder pursuant to this Agreement is not prompted by such Selling Stockholder's knowledge of any material information concerning the Company or any of its subsidiaries which is not set forth in the Pricing Prospectus.

(k) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares.

(l) Such Selling Stockholder has no actual knowledge that any representation or warranty of the Company set forth in Section 2 above is untrue or inaccurate in any material respect.

(m) The representations and warranties of each Selling Stockholder in the Custody Agreement are and on each Closing Date will be, true and correct.

4. Conditions of the Underwriters' Obligations. The obligations of the Underwriters under this Agreement are several and not joint.

The respective obligations of the Underwriters to purchase the Shares are subject to each of the following terms and conditions:

(a) Notification that the Registration Statement has become effective shall have been received by the Representative; the Prospectus shall have been timely filed with the Commission in accordance with Section 5(a) of this Agreement; the Company shall have complied with all filing requirements applicable to any Issuer Free Writing Prospectus used or referred to after the date hereof; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus or otherwise shall have been complied with.

(b) No order preventing or suspending the use of any Preliminary Prospectus, Issuer Free Writing Prospectus or the Prospectus shall have been or shall be in effect and no order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for such purpose shall be pending before or threatened by the Commission, and any requests for additional information on the part of the Commission (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of the Commission and the Representative. If the Company has elected to rely upon Rule 430A, Rule 430A information previously omitted from the effective Registration Statement pursuant to Rule 430A shall have been transmitted to the Commission for filing pursuant to Rule 424(b) within the prescribed time period and the Company shall have provided evidence satisfactory to

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the Underwriters of such timely filing, or a post-effective amendment providing such information shall have been promptly filed and declared effective in accordance with the requirements of Rule 430A. If the Company has elected to rely upon Rule 434, a term sheet shall have been transmitted to the Commission for filing pursuant to Rule 424(b) within the prescribed time period.

(c) The Representative shall be satisfied that (i) the representations and warranties of the Company and the Selling Stockholders contained in this Agreement and in the certificates delivered pursuant to Section 4(d) shall be true and correct when made and on and as of each Closing Date as if made on such date; (ii) since the Effective Date, no event has occurred that should have been set forth in a supplement or amendment to the Prospectus that has not been set forth in an effective supplement or amendment and (iii) since the respective dates as of which information is given in the Registration Statement in the form in which it originally became effective and the Pricing Prospectus, there has not been any material adverse change or any development involving a prospective material adverse change in the business, properties, financial condition or results of operations of the Company, and since such dates, the Company has not entered into any material transaction not referred to in the Registration Statement in the form in which it originally became effective and the Pricing Prospectus. The Company and the Selling Stockholders shall have performed all covenants and agreements and satisfied all the conditions contained in this Agreement required to be performed or satisfied by them at or before such Closing Date.

(d) The Representative shall have received on each Closing Date a certificate, addressed to the Representative and dated such Closing Date, of the chief executive or chief operating officer and the chief financial officer or chief accounting officer of the Company to the effect that (i) the representations, warranties and agreements of the Company in this Agreement were true and correct when made and are true and correct as of such Closing Date; (ii) the Company has performed all covenants and agreements and satisfied all conditions contained herein; (iii) they have carefully examined the Registration Statement, the Prospectus and the Pricing Disclosure Package and, in their opinion (A) as of the Effective Date, the Registration Statement did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; (B) as of the Applicable Time, the Pricing Disclosure Package did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (C) as of its date and the applicable Closing Date, the Prospectus did not include any untrue statement of a material fact and did not omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and (D) since the Effective Date no event has occurred which should have been set forth in a supplement or otherwise required an amendment to the Registration Statement or the Prospectus which was not set forth and (iv) no stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus has

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been issued and, to their knowledge, no proceedings for that purpose are pending or have been instituted or threatened by the Commission.

(e) The Representative shall have received a certificate on each Closing Date signed by the Secretary of the Company to the effect that, as of the Closing Date the Secretary certifies as to the accuracy of the Company's Certificate of Incorporation and bylaws, the resolutions of the Board of Directors relating to the offering contemplated hereby, the form of stock certificate representing the Shares, and copies of all communications with the Commission; as to the execution and delivery of this Agreement; as to the incumbency and signature of persons signing this Agreement, the Registration Statement and other related documents; as to the approval of the Company Shares for listing on the Nasdaq Global Market; as to the Company's compliance with all agreements and performance or satisfaction of all conditions required hereunder; as to the consideration received for all outstanding shares of the Company's Common Stock; and as to such other matters as Underwriters' counsel may reasonably request.

(f) The Representative shall have been furnished evidence in the usual written or electronic form from the appropriate authorities of the several jurisdictions, or other evidence satisfactory to the Representative, of the good standing and qualifications of the Company.

(g) The Representative shall have received, on the Effective Date and prior to the time this Agreement is executed, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and on each Closing Date, a signed letter from KPMG, LLP addressed to the Representative and dated, respectively, the date of this Agreement and each such Closing Date, in form and substance reasonably satisfactory to the Representative containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement, the Pricing Prospectus and the Prospectus.

(h) The Representative shall have received a copy of a letter from KPMG, LLP addressed to the Company, stating that their review of the Company's internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's financial statements filed with the Registration Statement, the Pricing Prospectus and the Prospectus, did not disclose any weakness in internal controls that they considered to be material weaknesses.

(i) The Representative shall have received on each Closing Date from Sheppard, Mullin, Richter & Hampton LLP, counsel for the Company, an opinion, addressed to the Representative and dated such Closing Date, substantially in the form of Exhibit D attached hereto.

(j) The Representative shall have received on each Closing Date from Arnold & Porter LLP, counsel for Perseus ENRG Investments, L.L.C., an

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opinion, addressed to the Representative and dated such Closing Date, and stating in effect that:

(i) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder.

(ii) Each of the Custody Agreement, the Power of Attorney and the Lock-up Agreement has been duly authorized, executed and delivered by such Selling Stockholder.

(iii) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement each constitute the legal, valid and binding obligation of such Selling Stockholder enforceable against such Selling Stockholder in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(iv) Such Selling Stockholder has the legal right, power and authority to enter into this Agreement and to sell, transfer and deliver in the manner provided in this Agreement, the Shares to be sold by such Selling Stockholder hereunder.

(k) The Representative shall have received on each Closing Date from Simon Millner in-house counsel for Westport Innovations, Inc., an opinion, addressed to the Representative and dated such Closing Date, and stating in effect that:

(i) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder.

(ii) Each of the Custody Agreement, the Power of Attorney and the Lock-up Agreement has been duly authorized, executed and delivered by such Selling Stockholder.

(iii) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement each constitute the legal, valid and binding obligation of such Selling Stockholder enforceable against such Selling Stockholder in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(iv) Such Selling Stockholder has the legal right, power and authority to enter into this Agreement and to sell, transfer and deliver in the manner provided in this Agreement, the Shares to be sold by such Selling Stockholder hereunder.

(l) The Representative shall have received on each Closing Date from Fulbright & Jaworski in-house counsel for Alan P. Basham, an opinion, addressed to the Representative and dated such Closing Date, and stating in effect that:

(i) This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder.

(ii) Each of the Custody Agreement, the Power of Attorney and the Lock-up Agreement has been duly authorized, executed and delivered by such Selling Stockholder.

(iii) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement each constitute the legal, valid and binding obligation of such Selling Stockholder enforceable against such Selling Stockholder in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(iv) Such Selling Stockholder has the legal right, power and authority to enter into this Agreement and to sell, transfer and deliver in the manner provided in this Agreement, the Shares to be sold by such Selling Stockholder hereunder.

(m) The Representative shall have received on each Closing Date from Whalen LLP, counsel for the Selling Stockholders who are residents of the State of California

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(the "California Selling Stockholders"), an opinion, addressed to the Representative and dated such Closing Date, and stating in effect that:

(i) This Agreement has been duly authorized, executed and delivered by or on behalf of each California Selling Stockholder.

(ii) Each of the Custody Agreement, the Power of Attorney and the Lock-up Agreement has been duly authorized, executed and delivered by each California Selling Stockholder.



(iii) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement each constitute the legal, valid and binding obligation of each California Selling Stockholder enforceable against each California Selling Stockholder in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(iv) Each California Selling Stockholder has the legal right, power and authority to enter into this Agreement and to sell, transfer and deliver in the manner provided in this Agreement, the Shares to be sold by such California Selling Stockholder hereunder, provided no opinion shall be given concerning compliance with securities or "Blue Sky" laws of any State other than the State of California in connection with the offer or sale of the Shares.

(n) The Representative shall have received on each Closing Date from Haynes and Boone, LLP, counsel for the Selling Stockholders who are residents of the State of Texas (the "Texas Selling Stockholders"), an opinion, addressed to the Representative and dated such Closing Date, and stating in effect that:

(i) This Agreement has been duly authorized, executed and delivered by or on behalf of each Texas Selling Stockholder.

(ii) Each of the Custody Agreement, the Power of Attorney and the Lock-up Agreement has been duly authorized, executed and delivered by each Texas Selling Stockholder.

(iii) This Agreement, the Custody Agreement, the Power of Attorney and the Lock-Up Agreement each constitute the legal, valid and binding obligation of each Selling Stockholder enforceable against each Texas Selling Stockholder in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

(iv) Each Texas Selling Stockholder has the legal right, power and authority to enter into this Agreement and to sell, transfer and deliver in the manner provided in this Agreement, the Shares to be sold by such Texas Selling Stockholder hereunder.

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(o) The Shares shall have been approved for listing on the Nasdaq Global Market, subject only to official notice of issuance.

(p) The Company and each Selling Stockholder shall have furnished or caused to be furnished to the Representative such further certificates or documents as the Representative shall have reasonably requested.

(q) The Representative shall have received from Baker Botts L.L.P., counsel for the Underwriters, such opinion or opinions, dated such Closing Date, with respect to the issuance of the Company Shares, the sale of the Shares, the Registration Statement, the Prospectus and the Pricing Disclosure Package and other related matters as the Representative may reasonably require, and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

5. Covenants of the Company. The Company covenants and agrees as follows:

(a) The Company will (A) prepare and timely file with the Commission under Rule 424(b) a Prospectus containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A; and (B) not file with the Commission any amendment to the Registration Statement or supplement to the Prospectus of which the Underwriters shall not previously have been advised and furnished with a copy a reasonable period of time prior to the proposed filing and as to which the Underwriters shall not have given their consent or which is not in compliance with the Securities Act or the Rules.

(b) The Company shall promptly advise the Representative in writing (A) when any post-effective amendment to the Registration Statement shall have become effective or any supplement to the Prospectus shall have been filed, (B) of any request by the Commission for any amendment of the Registration Statement or the Prospectus or for any additional information, (C) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Preliminary Prospectus, Issuer Free Writing Prospectus or the Prospectus or the institution or threatening of any proceeding for that purpose and (D) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company shall use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(c) The Company will not to make any offer relating to the Shares that would constitute an Issuer Free Writing Prospectus without the prior written consent of the Representative. The Company will comply with all applicable requirements of Rule 433 of the Rules with respect to any Issuer Free Writing Prospectus and retain in accordance with the Rules all Issuer Free Writing Prospectuses not required to be filed pursuant to the Rules. If at any time after the date hereof any events shall have occurred as a result of which any Issuer Free Writing Prospectus, as then amended or

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supplemented, would conflict with the information in the Registration Statement, the Pricing Prospectus or the Prospectus or would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or, if for any other reason it shall be necessary to amend or supplement any Issuer Free Writing Prospectus, the Company will notify the Representative and, upon its request, file such document and prepare and furnish without charge to each Underwriter as many copies as the Representative may from time to time reasonably request of an amended or supplemented Issuer Free Writing Prospectus that will correct such conflict, statement or omission or effect such compliance.

(d) If, at any time when a Prospectus relating to the Shares is required to be delivered under the Securities Act and the Rules, any event occurs as a result of which the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend or supplement the Registration Statement or the Prospectus to comply with the Securities Act or the Rules, the Company promptly shall prepare and file with the Commission, subject to paragraph (a) of this Section 5, an amendment or supplement which shall correct such statement or omission or an amendment which shall effect such compliance.

(e) The Company shall make generally available to its security holders and to the Representative as soon as practicable, but not later than 45 days after the end of the 12-month period beginning at the end of the fiscal quarter of the Company during which the Effective Date occurs (or 90 days if such 12-month period coincides with the Company's fiscal year), an earnings statement (which need not be audited) of the Company, covering such 12-month period, which shall satisfy the provisions of Section 11(a) of the Securities Act or Rule 158 of the Rules.

(f) The Company shall furnish to the Representative and counsel for the Underwriters, without charge, signed copies of the Registration Statement (including all exhibits thereto and amendments thereof) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and all amendments thereof and, so long as delivery of a Prospectus by an Underwriter or dealer may be required by the Securities Act or the Rules, as many copies of any Preliminary Prospectus, the Prospectus and any Issuer Free Writing Prospectus and any amendments thereof and supplements thereto as the Representative may reasonably request. The copies of the Registration Statement, any Preliminary Prospectus, the Prospectus and any Issuer Free Writing Prospectus and each amendment and supplement thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(g) The Company shall cooperate with the Representative and their counsel in endeavoring to qualify the Shares for offer and sale in connection with the offering under the laws of such jurisdictions as the Representative may designate and shall maintain such qualifications in effect so long as required for the distribution of the

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Shares; provided, however, that the Company shall not be required in connection therewith, as a condition thereof, to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction or subject itself to taxation as doing business in any jurisdiction.

(h) The Company, during the period when the Prospectus is required to be delivered under the Securities Act and the Rules or the Exchange Act, will file all reports and other documents required to be filed with the Commission pursuant to Section 13, 14 or 15 of the Exchange Act within the time periods required by the Exchange Act and the regulations promulgated thereunder.

(i) Without the prior written consent of W.R. Hambrecht + Co., LLC, for a period of 180 days after the date of this Agreement, the Company and each of its individual directors and executive officers shall not issue, sell or register with the Commission (other than on Form S-8 or on any successor form), or otherwise dispose of, directly or indirectly, any equity securities of the Company (or any securities convertible into, exercisable for or exchangeable for equity securities of the Company), except for the issuance of the Shares pursuant to the Registration Statement and the issuance of shares pursuant to the Company's existing stock option plan or bonus plan as described in the Registration Statement and the Prospectus. In the event that during this period, (A) any shares are issued pursuant to the Company's existing stock option plan or bonus plan that are exercisable during such 180-day period or (B) any registration is effected on Form S-8 or on any successor form relating to shares that are exercisable during such 180-day period, the Company shall obtain the written agreement of such grantee or purchaser or holder of such registered securities that, for a period of 180 days after the date of this Agreement, such person will not, without the prior written consent of W.R. Hambrecht + Co., LLC, offer for sale, sell, distribute, grant any option for the sale of, or otherwise dispose of, directly or indirectly, or exercise any registration rights with respect to, any shares of Common Stock (or any securities convertible into, exercisable for, or exchangeable for any shares of Common Stock) owned by such person. Notwithstanding the foregoing, if (a) during the last 17 days of such 180-day period, the Company issues an earnings release or publicly announces material news or if a material event relating to the Company occurs or (b) prior to the expiration of such 180-day period, the Company announces that it will release earnings during the 16-day period beginning on the last day of the 180-day period, the restrictions in this Section will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

(j) On or before completion of this offering, the Company shall make all filings required under applicable securities laws and by the Nasdaq Global Market (including any required registration under the Exchange Act).

(k) Prior to the Firm Shares Closing Date, the Company will issue no press release or other communications directly or indirectly and hold no press conference with respect to the Company, the condition, financial or otherwise, or the earnings, business affairs or business prospects of any of them, or the offering of the Shares

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without the prior written consent of the Representative unless in the judgment of the Company and its counsel, and after notification to the Representative, such press release or communication is required by law.

(l) The Company will apply the net proceeds from the offering of the Company Shares in the manner set forth under "Use of Proceeds" in the Pricing Prospectus and the Prospectus.

(m) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar (which may be the same entity as the transfer agent) for its Common Stock.

(n) The Company will not take, directly or indirectly, and will use its best efforts to cause its officers, directors or affiliates not to take, directly or indirectly, any action designed to, or that might in the future be expected to cause or result in, stabilization or manipulation of the price

of any securities of the Company.

(o) Upon the request of any Underwriters, the Company shall furnish to such Underwriter an electronic version of the Company's trademarks, servicemarks and corporate logo for use on the website, if any, operated by such Underwriters for the purpose of facilitating the on-line offering of the Shares (the "License"); provided, however, that the License shall be used solely for the purpose described above and is granted without any fee and may not be assigned or transferred.

(p) The Company agrees to pay, or reimburse if paid by the Representative, whether or not the transactions contemplated hereby are consummated or this Agreement is terminated, all costs and expenses incident to the public offering of the Shares and the performance of the obligations of the Company under this Agreement including those relating to: (i) the preparation, printing, filing and distribution of the Registration Statement including all exhibits thereto, each Preliminary Prospectus, the Prospectus, all amendments and supplements to the Registration Statement and the Prospectus, any Issuer Free Writing Prospectus and the printing, filing and distribution of this Agreement; (ii) the preparation and delivery of certificates for the Shares to the Underwriters; (iii) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the various jurisdictions referred to in Section 5(f), including the reasonable fees and disbursements of counsel for the Underwriters in connection with such registration and qualification and the preparation, printing, distribution and shipment of preliminary and supplementary Blue Sky memoranda; (iv) the furnishing (including costs of shipping and mailing) to the Representative and to the Underwriters of copies of each Preliminary Prospectus, the Prospectus and all amendments or supplements to the Prospectus, any Issuer Free Writing Prospectus and of the several documents required by this Section to be so furnished, as may be reasonably requested for use in connection with the offering and sale of the Shares by the Underwriters or by dealers to whom Shares may be sold; (v) the filing fees of the NASD in connection with its review of the terms of the public offering and reasonable fees and disbursements of counsel for the Underwriters in connection with such review; (vi) inclusion of the Shares for listing on the Nasdaq Global Market; and (vii) all

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transfer taxes, if any, with respect to the sale and delivery of the Shares by the Company to the Underwriters; and (viii) the performance of the Company's obligations under Sections 4, 5 and 6.

(q) The Selling Stockholders, jointly and severally, will pay all expenses incident to the performance of their respective obligations under, and the consummation of the transactions contemplated by, this Agreement, including (i) any stamp duties, capital duties and stock transfer taxes, if any, payable upon the sale of the Shares by the Selling Stockholders to the Underwriters, and their transfer between the Underwriters pursuant to an agreement between such Underwriters, and (ii) the fees and disbursements of their respective counsel and accountants.

#### 6. Indemnification.

(a) Jointly and severally, the Company and each of the Selling Stockholders listed on Schedule V hereto (the "Indemnification Stockholders") agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages and liabilities, joint or several (including any reasonable investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Securities Act, the Exchange Act or other federal or state law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus (including the Pricing Prospectus), the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or any amendment or supplement thereto or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus, in light of the circumstances under which such statements were made); provided, however, that such indemnity shall not inure to the benefit of any Underwriter (or any person controlling such Underwriter) on account of any losses, claims, damages or liabilities arising from the sale of the Shares to any person by such Underwriter if such untrue statement or omission or alleged untrue statement or omission was made in reliance upon and in conformity with information furnished in writing to the Company by the Representative on behalf of any Underwriter specifically for use therein; provided, further, that the liability of any Indemnification Stockholder pursuant to this subsection (a) shall not exceed the aggregate gross proceeds received, before expenses, from the sale of Shares by such Indemnification Stockholder pursuant to this Agreement. The information set forth in the paragraph describing the OpenIPO process on the front cover page and under the caption "Plan of Distribution" and the information contained in paragraphs 1st and 3rd under the caption "Plan of Distribution" in the Registration Statement, any Preliminary Prospectus (including the Pricing Prospectus) and the Prospectus (insofar as such information relates to the Underwriters or related persons) constitutes the only information furnished by the Underwriters to the Company for inclusion in the

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Registration Statement, any Preliminary Prospectus (including the Pricing Prospectus), the Prospectus or any Issuer Free Writing Prospectus. This indemnity agreement will be in addition to any liability which the Company or any Indemnification Stockholder may otherwise have.

(b) Each of the Selling Stockholders other than the Indemnification Stockholders (the "Limited Indemnification Stockholders"), severally and not jointly, agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages and liabilities, joint or several (including any reasonable investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Securities Act, the Exchange Act or other federal or state law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus (including the Pricing Prospectus), the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or any amendment thereof or supplement thereto or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus, in light of the circumstances under which such statements were made); in each case, however, only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission in the Registration Statement, any Preliminary Prospectus (including the Pricing Prospectus), the Prospectus, any Issuer Free

Writing Prospectus or any such amendment or supplement relates to information about such Limited Indemnification Stockholder or related persons, it being understood and agreed that such information includes, without limitation, the information relating to such Limited Indemnification Stockholder in the Registration Statement, any Preliminary Prospectus (including the Pricing Prospectus) and the Prospectus under the caption "Principal and Selling Stockholders;" provided, however, that the liability of any Limited Indemnification Stockholder pursuant to this subsection (b) shall not exceed the aggregate gross proceeds received, before expenses, from the sale of Shares by such Limited Indemnification Stockholder pursuant to this Agreement. This indemnity agreement will be in addition to any liability which any Limited Indemnification Stockholder may otherwise have.

(c) Each Underwriter agrees to indemnify and hold harmless the Company and each Selling Stockholder and each person, if any, who controls the Company or each Selling Stockholder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, each director of the Company, and each officer of the Company who signs the Registration Statement, against any losses, claims, damages or liabilities to which such party may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus (including the

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Pricing Prospectus), the Registration Statement, the Prospectus, any Issuer Free Writing Prospectus or any amendment thereof or supplement thereto or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading (in the case of any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus, in light of the circumstances under which such statements were made); in each case, however, only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information about any Underwriter furnished to the Company by such Underwriter through the Representative expressly for use therein; provided, however, that the obligation of each Underwriter to indemnify the Company or the Selling Stockholders (including any controlling person, director or officer thereof) shall be limited to the net proceeds received by the Company from such Underwriter. The information set forth in the paragraph describing the OpenIPO process on the front cover page and under the caption "Plan of Distribution" and the information contained in paragraphs 1st and 3rd under the caption "Plan of Distribution" in the Registration Statement, any Preliminary Prospectus (including the Pricing Prospectus) and the Prospectus (insofar as such information relates to the Underwriters or related persons) constitutes the only information furnished by the Underwriters to the Company for inclusion in the Registration Statement, any Preliminary Prospectus (including the Pricing Prospectus), the Prospectus or any Issuer Free Writing Prospectus.

(d) Any party that proposes to assert the right to be indemnified under this Section will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section, notify each such indemnifying party of the commencement of such action, suit or proceeding, enclosing a copy of all papers served. No indemnification provided for in Section 6(a), 6(b) or 6(c) shall be available to any party who shall fail to give notice as provided in this Section 6(d) if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was prejudiced by the failure to give such notice; but the omission to notify such indemnifying party of any such action, suit or proceeding shall not relieve it from any liability that it may have to any indemnified party for contribution or otherwise than under this Section. In case any such action, suit or proceeding shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election to assume the defense thereof and the approval by the indemnified party of such counsel, the indemnifying party shall not be liable to such indemnified party for any legal or other expenses, except as provided below and except for the reasonable costs of investigation subsequently incurred by such indemnified party in connection with the defense thereof. The indemnified party shall have the right to employ its counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party has been authorized in writing by the indemnifying parties, (ii)

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the indemnified party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or in addition to those available to the indemnifying party (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party) or (iii) the indemnifying parties shall not have employed counsel to assume the defense of such action within a reasonable time after notice of the commencement thereof, in each of which cases the fees and expenses of counsel shall be at the expense of the indemnifying parties.

(e) An indemnifying party shall not be liable for any settlement of any action, suit, and proceeding or claim effected without its written consent, which consent shall not be unreasonably withheld or delayed.

7. Reimbursement of Certain Expenses. The Company and each of the Selling Stockholders, jointly and severally, and in the case of the Selling Stockholders, subject to Sections 6(a) and 6(b) of this Agreement, hereby agree to reimburse the Underwriters pursuant to Section 6 of this Agreement on a monthly basis for all legal and other expenses incurred in connection with investigating or defending any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission described in Section 6 of this Agreement, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the obligations under this Section 7 and the possibility that such payments might later be held to be improper; provided, however that to the extent that such payment is ultimately held to be improper, the Underwriters shall promptly refund it.

8. Contribution. In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in Section 6(a), 6(b) or 6(c) is due in accordance with its terms but for any reason is unavailable to or insufficient to hold harmless an indemnified party in respect to any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate losses, liabilities, claims, damages and expenses (including any investigation, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting any contribution received by any person entitled hereunder to contribution from any person who may be liable for contribution) incurred by such indemnified party, as incurred, in such proportion as is appropriate to

reflect the relative benefits received by the Company and the Selling Stockholders on the one hand and the Underwriters on the other hand from the offering of the Shares pursuant to this Agreement or, if such allocation is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Selling Stockholders on the one hand and the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above shall be deemed to include

any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission. Notwithstanding the provisions of this Section 8, (i) no Underwriter (except as may be provided in the Agreement Among Underwriters) shall be required to contribute any amount in excess of the underwriting discount applicable to the Shares purchased by the Underwriter hereunder; and (ii) no Selling Stockholders shall be required to contribute any amount in excess of the aggregate net proceeds of the sale of Shares received by the Selling Stockholders. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, and each director of the Company including any person who, with his or her consent, is named in the Registration Statement as about to become a director of the Company, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company or any/the Selling Stockholders within the meaning of the Section 15 of the Securities Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company or any/the Selling Stockholders, as the case may be. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section 8, notify such party or parties from whom contribution may be sought, but the omission so to notify such party or parties from whom contribution may be sought shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this Section 8. No party shall be liable for contribution with respect to any action, suit, proceeding or claim settled without its written consent. The Underwriter's obligations to contribute pursuant to this Section 8 are several in proportion to their respective underwriting commitments and not joint.

#### 9. Termination.

(a) This Agreement may be terminated with respect to the Shares to be purchased on a Closing Date by the Representative by notifying the Company and the Selling Stockholders at any time at or before a Closing Date in the absolute discretion of the Representative if: (i) there has occurred any material adverse change in the securities markets or any event, act or occurrence that has materially disrupted, or in the opinion of the Representative, will in the future materially disrupt, the securities markets or (ii) there shall be a material adverse change in general financial, political or economic conditions in the financial markets such that, in the judgment of the Representative, it is inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (iii) there has occurred any outbreak or material escalation of hostilities or other calamity or crisis the effect of which on the financial market is such as to make it, in the judgment of the Representative, inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (iv) trading in the Shares or any securities of the Company has been suspended or materially limited by the Commission or trading generally on the New York Stock

Exchange, Inc., the American Stock Exchange, Inc. or the Nasdaq Global Market has been suspended or materially limited, or minimum or maximum ranges for prices for securities shall have been fixed, or maximum ranges for prices for securities have been required, by any of said exchanges or by such system or by order of the Commission, the National Association of Securities Dealers, Inc., or any other governmental or regulatory authority; (v) a banking moratorium has been declared by any state or federal authority; or (vi) in the judgment of the Representative, there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Prospectus, any material adverse change in the assets, properties, condition, financial or otherwise, or in the results of operations, business affairs or business prospects of the Company and its subsidiaries considered as a whole, whether or not arising in the ordinary course of business.

(b) If this Agreement is terminated pursuant to this Section 9, neither the Company nor the Selling Stockholders shall be under any liability to any Underwriter, and no Underwriter shall be under any liability to the Company or a Selling Stockholders; provided, however, that in the event of any such termination, the Company agrees to indemnify and hold harmless the Underwriters from all expenses incident to the performance of the obligations of the Company under this Agreement, including all costs and expenses referred to in paragraph 5(o); and, provided further, if this Agreement is terminated by the Representatives or the Underwriters because of any failure, refusal or inability on the part of the Company or the Selling Stockholder to comply with the terms or to fulfill any of the conditions of this Agreement, the Company shall reimburse the Underwriters for all out-of-pocket expenses (including the fees and disbursements of their counsel) incurred by them in connection with the proposed purchase and sale of the Shares or in contemplation of performing their obligations hereunder. Notwithstanding anything in this Section 9(b) to the contrary, no Underwriter who shall have failed or refused to purchase the Shares agreed to be purchased by it under this Agreement shall be relieved of liability to the Company or the other Underwriters for damages occasioned by its refusal.

#### 10. Substitution of Underwriters.

(a) If any Underwriter shall default in its obligation to purchase on any Closing Date the Shares agreed to be purchased hereunder on such Closing Date, the Representative shall have the right, within 36 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase such Shares on the terms contained herein. If, however, the Representative shall not have completed such arrangements within such 36 hour period, then the Company shall be entitled to a further period of 36 hours within which to procure another party or other parties satisfactory to the Underwriters to purchase such Shares on such terms. If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the Representative and the Company as provided above, the aggregate number of Shares which remains unpurchased on such Closing Date does not exceed 10% of the aggregate number of all the

which such Underwriter agreed to purchase hereunder at such date and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default. In any such case, either the Representative or the Company and the Selling Stockholders shall have the right to postpone the applicable Closing Date for a period of not more than seven days in order to effect any necessary changes and arrangements (including any necessary amendments or supplements to the Registration Statement or Prospectus or any other documents), and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in the opinion of the Company and the Underwriters and their counsel may thereby be made necessary.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by the Representative and the Company as provided above, the aggregate number of such Shares which remains unpurchased exceeds 10% of the aggregate number of all the Shares to be purchased at such date, then this Agreement, or, with respect to a Closing Date which occurs after the first Closing Date, the obligations of the Underwriters to purchase and of the Company or the Selling Stockholders, as the case may be, to sell the Option Shares to be purchased and sold on such date, shall terminate, without liability on the part of any non-defaulting Underwriter to the Company or the Selling Stockholders, and without liability on the part of the Company or the Selling Stockholders, except as provided in Sections 5(o), 6, 7 and 8. The provisions of this Section 10 shall not in any way affect the liability of any defaulting Underwriter to the Company or the non-defaulting Underwriters arising out of such default. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section 10 with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

11. Miscellaneous.

(a) The respective agreements, representations, warranties, indemnities and other statements of the Company, Selling Stockholders and the several Underwriters, as set forth in this Agreement or made by or on behalf of them pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or the Company or the Selling Stockholders or any of their respective officers, directors or controlling persons referred to in Section 6 hereof, and shall survive delivery of and payment for the Shares. In addition, the provisions of Sections 5(o), 6, 7 and 8 shall survive the termination or cancellation of this Agreement.

(b) This Agreement has been and is made for the benefit of the Underwriters, the Company and the Selling Stockholders and their respective successors and assigns, and, to the extent expressed herein, for the benefit of persons controlling any of the Underwriters, or the Company, and directors and officers of the Company, and their respective successors and assigns, and no other person shall acquire or have any right

under or by virtue of this Agreement. The term "successors and assigns" shall not include any purchaser of Shares from any Underwriter merely because of such purchase.

(c) The Company acknowledges and agrees that each of the Underwriters is acting solely in the capacity of an arm's length contractual counterparty to the Company with respect to the offering of Shares contemplated hereby. Additionally, neither the Representative nor any of the other Underwriters is advising the Company or any other person as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether such Representative or Underwriter has advised or is advising the Company on other matters). The Company has conferred with its own advisors concerning such matters and shall be responsible for making its own independent investigation and appraisal of the transactions contemplated hereby, and the Underwriters shall have no responsibility or liability to the Company or any other person with respect thereto. The Underwriters advise that the Underwriters and their affiliates are engaged in a broad range of securities and financial services and that they or their affiliates may have business relationships or enter into contractual relationships with purchasers or potential purchasers of the Company's securities. Any review by the Underwriters of the Company, the transactions contemplated hereby or other matters relating to such transactions will be performed solely for the benefit of the Underwriters and shall not be on behalf of the Company.

(d) All notices and communications hereunder shall be in writing and mailed or delivered or by telephone or telegraph if subsequently confirmed in writing, (a) if to the Representative, c/o W.R. Hambrecht + Co., LLC, 539 Bryant Street, San Francisco, CA 94107 Attention: Harrison Clay, Esq., with a copy to Stephen A. Massad, Esq., Baker Botts L.L.P., One Shell Plaza, 910 Louisiana, Houston, TX 77002, and (b) if to the Company, to its agent for service as such agent's address appears on the cover page of the Registration Statement with a copy to John J. Hentrich, Esq., Sheppard, Mullin, Richter & Hampton LLP, 12275 El Camino Real, Suite 200, San Diego, CA 92130 and (c) if to the Selling Stockholders to

**(e) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of law principles thereof. The Company and the Underwriters agree to waive trial by jury in any action, proceeding or counterclaim brought by or on behalf of either party with respect to any matter whatsoever relating to or arising out of this Agreement or the purchase of the Shares hereunder. The Company also hereby submits to the jurisdiction of the courts of the State of New York located in the City and County of New York or in the United States District Court for the Southern District of New York, and each of the parties hereto submits to the jurisdiction of such courts in any proceeding arising out of or relating to this agreement, and agrees not to commence any suit, action or proceeding relating thereto except in such courts, and waives, to the fullest extent permitted by law, the right to move to dismiss or transfer any action brought in such court on the basis of any objection to personal jurisdiction, venue or inconvenient forum.**

(f) This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Please confirm that the foregoing correctly sets forth the agreement among us.

Very truly yours,

**ISSUER**

By \_\_\_\_\_

Title:

**SELLING STOCKHOLDERS NAMED ON  
SCHEDULE II ANNEXED HERETO**

By \_\_\_\_\_

Name:

Attorney in Fact

Confirmed:

**W.R. HAMBRECHT + CO., LLC**

On behalf of itself and as Representative of the several  
Underwriters named in Schedule I annexed  
hereto.

**By W.R. HAMBRECHT + CO., LLC**

By \_\_\_\_\_

Title:

SCHEDULE I

Name	Number of Firm Shares to Be Purchased
W.R. Hambrecht + Co., LLC	
Simmons & Company International	
Susquehanna Financial Group	
NBF Securities (USA) Corp.	
Total	20,000,000

Sch I - 1

SCHEDULE II

Selling Stockholder	Number of Firm Shares to be Sold	Maximum Number of Option Shares to be Sold
Perseus ENRG Investment, L.L.C.	2,274,069	584,342
Westport Innovations, Inc.	720,549	185,151

Alan P. Basham	125,886	32,347
Boone Pickens	4,857,861	1,185,823
Andrew J. Littlefair	462,961	59,291
James N. Harger	177,029	79,055
Mitchell W. Pratt	91,884	21,740
Richard R. Wheeler	135,406	—
Barbara A. Johnson	8,000	—
Catherine M. Weaver	4,500	—
Madeleine Pickens	1,000,000	—
Joseph B. Powers	35,464	988
Denis C.K. Ding	24,180	3,953
Peter J. Grace	24,180	—
Warren I. Mitchell	51,583	39,527
J.L. Herrington 2002 Family Trust	6,448	98,819
Glen David Aasheim	—	1,976
Ronald D. Bassett	—	39,527
G. Michael Boswell IRA - FCC Custodian	—	19,764
Brian Bradshaw	—	19,764
Drew A. Campbell	—	9,882
Marti J. Carlin	—	9,882
Denise Delile	—	791
Sally Geymuller	—	9,882
Dick Grant	—	9,882
M&R Ventures, LLC	—	395,274
Chad M. Lindholm	—	988
David W. Meaney	—	1,976
Eric Oberg	—	39,527
Stephen R. Perkins	—	9,882
Bretta Price	—	198
Mark J. Riley	—	395
Michael Ross	—	19,764
Jack E. Rosser	—	9,882
Robert L. Stillwell	—	39,527
Aleksander A. Szewczyk	—	39,527
Danny Tillett	—	9,882
Jon N. Whisler	—	1,028
Eugene Frenkel	—	19,764
<b>TOTAL</b>	<b>10,000,000</b>	<b>3,000,000</b>

Sch II - 1

### SCHEDULE III

#### Lock-up Signatories

Perseus ENRG Investment, L.L.C.  
Westport Innovations, Inc.  
Alan P. Basham  
Boone Pickens  
Andrew J. Littlefair  
James N. Harger  
Mitchell W. Pratt  
Richard R. Wheeler  
Barbara A. Johnson  
Catherine M. Weaver  
Madeleine Pickens  
Joseph B. Powers  
Denis C.K. Ding  
Peter J. Grace  
Warren I. Mitchell  
J.L. Herrington 2002 Family Trust  
Glen David Aasheim  
Ronald D. Bassett  
G. Michael Boswell IRA - FCC Custodian  
Brian Bradshaw  
Drew A. Campbell  
Marti J. Carlin  
Denise Delile  
Sally Geymuller  
Dick Grant  
M&R Ventures, LLC  
Chad M. Lindholm  
David W. Meaney  
Eric Oberg



Stephen R. Perkins  
Bretta Price  
Mark J. Riley  
Michael Ross  
Jack E. Rosser  
Robert L. Stillwell  
Aleksander A. Szewczyk  
Danny Tillett  
Jon N. Whisler  
Eugene Frenkel  
David D. Demers  
John S. Herrington  
James C. Miller III  
Kenneth M. Socha

Sch III - 1

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SCHEDULE IV

Issuer Free Writing Prospectuses

Roadshow filed with the SEC on May , 2007.

Sch V - 1

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SCHEDULE V

Indemnification Stockholders

[To come]

Sch V - 1

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Exhibit A

FORM OF LOCK-UP AGREEMENT

[ ], 2007

W.R. HAMBRECHT + CO., LLC  
(as Representative of the several Underwriters listed  
in **Schedule I** to the Underwriting Agreement referred to below)  
c/o W.R. HAMBRECHT + CO., LLC  
539 Bryant Street, Suite 100  
San Francisco, California 94107

**Re: CLEAN ENERGY FUELS CORP. — Initial Public Offering**

Ladies and Gentlemen:

The undersigned understands that you, as Representative of the several Underwriters, propose to enter into an Underwriting Agreement (the “*Underwriting Agreement*”) with Clean Energy Fuels Corp., a Delaware corporation (the “*Company*”), providing for the public offering (the “*Public Offering*”) by the several Underwriters named in **Schedule I** to the Underwriting Agreement (the “*Underwriters*”), of common stock of the Company (the “*Securities*”). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Underwriting Agreement.

In consideration of the Underwriters’ agreement to purchase and make the Public Offering of the Securities, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned hereby agrees that, without the prior written consent of W.R. Hambrecht + Co., LLC on behalf of the Underwriters, the undersigned will not, during the period ending 180 days after the date of the prospectus relating to the Public Offering (the “*Prospectus*”), (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock, \$0.0001 per share par value, of the Company (the “*Common Stock*”) or any securities convertible into or exercisable or exchangeable for shares of Common Stock (including without limitation, Common Stock which may be deemed to be beneficially owned by the undersigned in accordance with the rules and regulations of the Securities and Exchange Commission and securities which may be issued upon exercise of a stock option or warrant) or (2) enter into any swap or other agreement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in *clause (1)* or *(2)* above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, other than: (a) transfers or distributions of shares of Common Stock acquired from the Underwriters in the Public Offering; (b) transfers or distributions of shares of Common Stock acquired in open market transactions after the completion of the Public Offering; (c) transfers of shares of Common Stock or any security convertible into Common

Stock as a bona fide gift or gifts; (d) transfers of shares of Common Stock to any trust for the direct or indirect benefit of the persons bound by the foregoing terms or the immediate family of the persons bound by the foregoing terms; or (e) distributions of shares of Common Stock or any security convertible into Common Stock to the partners, members or stockholders of the persons bound by the foregoing terms; *provided, however*, that in the case of any transfer or distribution described in any of *subclauses (c) through (e)* above, the transferees, donees or distributees, as the case may be, agree to be bound by the foregoing terms and the transferor, donor or distributor, as the case may be, would not be required to, nor would such transferor, donor or distributor voluntarily, file a report under Section 16(a) of the United States Securities Exchange Act of 1934, as amended. In addition, the undersigned agrees that, without the prior written consent of W.R. Hambrecht + Co., LLC on behalf of the Underwriters, it will not, during the period ending 180 days after the date of the Prospectus, make any demand for or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

Notwithstanding the foregoing, if (1) during the last 17 days of the 180-day restricted period, the Company issues an earnings release, publicly announces material news or if a material event relating to the Company occurs; or (2) prior to the expiration of the 180-day restricted period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the 180-day period, the restrictions imposed by this Letter Agreement shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

In furtherance of the foregoing, the Company, and any duly appointed transfer agent for the registration or transfer of the securities described herein, are hereby authorized to decline to make any transfer of securities if such transfer would constitute a violation or breach of this Letter Agreement.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this Letter Agreement. All authority herein conferred or agreed to be conferred and any obligations of the undersigned shall be binding upon the successors, assigns, heirs or personal representatives of the undersigned.

The undersigned understands that, if the Underwriting Agreement does not become effective, or if the Underwriting Agreement (other than the provisions thereof which survive termination) shall terminate or be terminated prior to payment for and delivery of the Securities, the undersigned shall be released from all obligations under this Letter Agreement.

The undersigned understands that the Underwriters are entering into the Underwriting Agreement and proceeding with the Public Offering in reliance upon this Letter Agreement.

This Letter Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflict of laws principles thereof.

Very truly yours,

**[NAME OF STOCKHOLDER]**

By: \_\_\_\_\_  
Name:  
Title:

**FORM OF CUSTODY AGREEMENT**  
for sale of shares of common stock,  
par value \$0.0001 per share, of Clean Energy Fuels Corp.

(the "Custodian")

[Address]

Attention: [     ]

Ladies and Gentlemen:

There are delivered to you herewith certificate(s) representing shares of Common Stock, par value \$0.0001 per share ("Common Stock"), of Clean Energy Fuels Corp., a Delaware corporation (the "Company"), as set forth at the end of this letter on the page entitled "CERTIFICATE(S) DEPOSITED." Each of the certificates so delivered is accompanied by an executed assignment form duly endorsed for transfer and is in negotiable form bearing the signature of the undersigned. The certificate(s) are to be held by you as Custodian for the account of the undersigned and are to be disposed of by you in accordance with this Custody Agreement (this "Custody Agreement").

If the undersigned is (i) acting as trustee or in any fiduciary or representative capacity, the undersigned has also delivered duly certified copies of each trust agreement, will, letters testamentary or other instrument pursuant to which the undersigned is authorized to act as an Selling Stockholders (as

defined herein); (ii) a corporation, the undersigned has also delivered duly certified resolutions of its board of directors authorizing it to enter into this Custody Agreement, the Underwriting Agreement (as defined herein) and the Power of Attorney (as defined herein) and duly certified copies of such corporation's by-laws, certificate of incorporation or other organizational documents; or (iii) a partnership, the undersigned has also delivered extracts of any applicable provisions of its partnership agreement (and applicable provisions of the organizational documents or partnership agreement(s) of the general partner(s) of such partnership) authorizing such partnership to enter into this Custody Agreement, the Underwriting Agreement and the Power of Attorney.

The undersigned agrees to deliver such additional documentation as you, the Attorneys (as defined herein), the Company or the Representative (as defined herein) or any of their respective counsel may reasonably request to effectuate or confirm compliance with any of the provisions hereof or of the Power of Attorney or the Underwriting Agreement, all of the foregoing to be in form and substance satisfactory in all respects to the party requesting such documentation.

Concurrently with the execution and delivery of this Custody Agreement, the undersigned has executed a power of attorney (the "Power of Attorney") irrevocably appointing \_\_\_\_\_ and \_\_\_\_\_, each with full power and authority to act alone in any

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matter thereunder and with full power of substitution, the true and lawful attorneys-in-fact of the undersigned (individually, an "Attorney" and collectively, the "Attorneys"), with full power and authority in the name of, for and on behalf of, the undersigned with respect to all matters arising in connection with the sale of the Common Stock by the undersigned including, but not limited to entering into and performing an underwriting agreement (the "Underwriting Agreement") among the Company, certain stockholders of the Company including the undersigned (the "Selling Stockholders"), W.R. Hambrecht + Co., LLC, as representative (the "Representative") of the several underwriters to be named in Schedule I to the Underwriting Agreement (the "Underwriters"). The total number of shares of Common Stock to be sold by the undersigned to the Underwriters and set forth opposite the name of the undersigned in Schedule II to the Underwriting Agreement is hereinafter referred to as the "Shares."

You are authorized and directed to hold the certificate(s) deposited with you hereunder in your custody and, subject to the instructions of the Attorneys, (i) to take all necessary action to cause the Shares to be transferred on the books of the Company into such names as the Representative, on behalf of the several Underwriters, shall have instructed, including surrendering the certificate(s) representing the Shares to the transfer agent for the Common Stock for cancellation, in exchange for new certificate(s) for shares of Common Stock registered in such names and in such denominations as the Representative shall have instructed; (ii) to deliver such new certificate(s) to the Representative, for the accounts of the several Underwriters, against payment for such Shares at the purchase price per Share specified in the Underwriting Agreement and to give receipt for such payment; (iii) to deposit the same to your account as Custodian and draw upon such account to pay such transfer taxes, if any, payable in connection with the transfer of the Shares to the Underwriters ("Transfer Taxes") as you may be instructed to pay by the Attorneys; (iv) to transmit to the undersigned in the manner set forth under "Manner of Payment" below, within 24 hours of receiving instructions from the Attorneys to do so, the excess, if any (the "Net Proceeds"), of the amount received by you as payment for the Shares over the Transfer Taxes, if any. The amount of such Net Proceeds is to be paid in the manner requested by the undersigned at the end of this Custody Agreement or in such manner as you, in accordance with the terms hereof, shall deem appropriate. Upon receipt of instructions from the Attorneys, you shall also return to the undersigned, new certificate(s) representing the excess, if any, of the number of shares of Common Stock represented by the certificate(s) deposited with you hereunder over the number of Shares sold by the undersigned to the Underwriters.

Under the terms of the Power of Attorney, the authority conferred thereby is granted and conferred subject to and in consideration of the interests of the Attorneys, the several Underwriters, the Company and the other Selling Stockholders (as defined in the Underwriting Agreement) and is irrevocable and not subject to withdrawal or termination by any act of the undersigned or by operation of law, whether by the death or incapacity of the undersigned (or either or any of the undersigned) or by the occurrence of any other event or events (including, without limitation, the termination of any trust or estate for which the undersigned is acting as fiduciary or fiduciaries, the death or incapacity of one or more trustees, guardians, executors or administrators under such trust or estate or the merger, consolidation, dissolution or liquidation of any corporation or partnership) (any of the foregoing being hereinafter referred to as an "Event"). Accordingly, the certificate(s) deposited with you hereunder and this Custody

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Agreement and your authority hereunder are subject to and in consideration of the interests of the several Underwriters, the Company, the Attorneys and the other Selling Stockholders, and this Custody Agreement and your authority hereunder are irrevocable and are not subject to withdrawal or termination by the occurrence of any Event. If an Event shall occur after the execution hereof but before the delivery of the Shares to the Underwriters, then certificate(s) representing such Shares will be delivered by you to the Underwriters on behalf of the undersigned in accordance with the terms and conditions of the Underwriting Agreement and this Custody Agreement and any actions taken by you pursuant to this Custody Agreement shall be as valid as if such Event had not occurred, regardless of whether or not you, the Attorneys, the Underwriters or any one of them, shall have received notice of such Event.

Notwithstanding any of the foregoing provisions, if the Underwriting Agreement shall not have been executed and delivered prior to [ ], 2007, then, upon the written request of the undersigned to you (accompanied by written notice of termination of the Power of Attorney addressed to each of the Attorneys) on or after that date, you are to return to the undersigned, all certificate(s), together with any stock powers, delivered herewith.

Until payment of the purchase price for the Shares has been made to you by or for the account of the several Underwriters, the undersigned shall remain the owner of all shares of Common Stock represented by the certificate(s) deposited with you hereunder and shall have the right to vote such shares and all other securities, if any, represented by such certificate(s) and to receive all dividends and distributions thereon, except the right to retain custody and dispose of such shares, which is subject to the rights of the Custodian under this Custody Agreement, the Attorneys under the Power of Attorney and the Underwriters under the Underwriting Agreement. The Underwriters shall not acquire the power or the right to direct the investment of the Shares by virtue of this Custody Agreement until the consideration therefor is paid pursuant to the Underwriting Agreement.

You shall be entitled to act and rely upon any statement, request, notice or instruction respecting this Custody Agreement given to you by the Attorneys, or any one of them. Any Attorney has the authority to instruct you on irregularities or discrepancies in the certificates representing shares of Common Stock and any accompanying documents.

In taking any action requested or directed by the Representative under the terms of this Custody Agreement, you will be entitled to rely upon a writing signed by a Vice President, Senior Vice President, Managing Director or General Counsel of W.R. Hambrecht + Co., LLC

It is understood that you assume no responsibility or liability to any person other than to deal with the certificate(s) deposited with you hereunder and the proceeds from the sale of all or a portion of the securities represented thereby in accordance with the provisions of this Custody Agreement. The undersigned agrees to indemnify you for and to hold you free from and harmless against any and all loss, claim, damage, liability or expense incurred by you arising out of or in connection with acting as Custodian hereunder, as well as the cost and expense of defending against any claim of liability hereunder, which is not due to your own gross negligence or willful misconduct.

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The representations and warranties of the undersigned set forth in the Underwriting Agreement are hereby incorporated by reference herein and the undersigned represents and warrants that such representations and warranties are true and correct on the date hereof as if made on the date hereof. The representations, warranties and agreements contained herein, as well as those contained in the Underwriting Agreement, are made for the benefit of, and may be relied upon by, you, the other Selling Stockholders, the Attorneys, the Company, the Underwriters and Underwriter counsel and their Representative, agents and counsel. These representations, warranties and agreements shall remain operative and in full force and effect, and shall survive delivery of and payment for the Shares, regardless of (i) any investigation, or statement as to the results thereof, made by or on behalf of any of the persons listed in the preceding sentence, (ii) acceptance of the Shares and payment for them under the Underwriting Agreement and (iii) termination of this Custody Agreement.

This Custody Agreement shall be binding upon the undersigned and the heirs, legal Representative, distributees, successors and assigns of the undersigned.

This Custody Agreement may be signed in counterparts which together shall constitute one and the same agreement.

This Custody Agreement shall be governed by the laws of the State of New York without regard to the conflicts of laws principles thereof.

Please acknowledge your acceptance hereof as Custodian, and receipt of the certificate(s) deposited with you hereunder, by executing and returning the enclosed copy hereof to the undersigned in care of [name of Attorneys for Selling Stockholders].

Dated: \_\_\_\_\_,

Very truly yours,

By: \_\_\_\_\_  
Name:  
Title:

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Print Name(s) and Address of Selling  
Stockholder(s) and Name and Title of  
any Person Signing as Agent or  
Fiduciary:

Taxpayer I.D.:  
Telephone:

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Instruction: If you are an individual and are married, your spouse is required to complete this form:

#### SPOUSAL CONSENT

I am the spouse of \_\_\_\_\_ . On behalf of myself, my heirs and legatees, I hereby join in and consent to the terms of the foregoing Custody Agreement and agree to the sale of the shares of Common Stock of \_\_\_\_\_ , registered in the name of my spouse or otherwise registered, which my spouse proposes to sell pursuant to the Underwriting Agreement (as defined therein).

Dated: \_\_\_\_\_,

\_\_\_\_\_  
(Signature of Spouse)

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Instruction: Complete each column as to certificate(s) to be deposited with the Custodian.

CERTIFICATE(S) DEPOSITED

Stock Certificate No.	Maximum Number of Shares of Common Stock To Be Sold from Certificate
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TOTAL:

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Instruction: Indicate how you wish to receive payment for the shares of Common Stock sold to the Underwriters. Please note that if you are selling shares of Common Stock registered in the name of a corporation or other association or a trust, payment will be made only to the corporation or other association or trust. A wire transfer can be made only to an account standing in exactly the same name as the person or entity, including the corporation or other association or trust, that is the registered owner of the Common Stock being sold.

MANNER OF PAYMENT

I request that payment of the net proceeds from the sale of the shares of Common Stock of the Company to be sold by me pursuant to the Underwriting Agreement be made in the following manner (CHECK ONE):

CHECK made payable to:  
to be sent to the following address:

Phone: ( )

Please send by (check one):

- First class mail
- Federal Express  
Federal Express account number

or transfer to the following account:  
Account No.

Bank (name) See attached wire transfer instructions

(address)

ABA No.

Phone: ( )

Other (please specify)

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CUSTODIAN'S ACKNOWLEDGMENT AND RECEIPT

, as Custodian, acknowledges acceptance of the duties of the Custodian under the foregoing Custody Agreement and receipt of the certificate(s) referred therein.

Dated: ,

[Custodian]

By: \_\_\_\_\_  
Name:  
Title:

SELLING STOCKHOLDERS'  
IRREVOCABLE POWER OF ATTORNEY  
for sale of shares of common stock,  
par value \$0.0001 per share, of Clean Energy Fuels Corp.

[name of Attorney 1]

[name of Attorney 2]

[Address]

Ladies and Gentlemen:

The undersigned stockholder and certain other holders of common stock of Clean Energy Fuels Corp. (the "Company") (such holders and the undersigned being hereinafter sometimes collectively referred to as the "Selling Stockholders"), propose to enter into an Underwriting Agreement (the "Underwriting Agreement") with the Company and W.R. Hambrecht + Co., LLC, as Representative (the "Representative") of the several underwriters to be named in Schedule I to the Underwriting Agreement (the "Underwriters"). The Selling Stockholders propose to sell to the Underwriters pursuant to the Underwriting Agreement certain authorized and issued shares of the common stock, par value \$0.0001 per share, of the Company (the "Common Stock") owned by them. It is understood that at this time there is no commitment on the part of the Underwriters to purchase any shares of Common Stock and no assurance that the Underwriting Agreement will be entered into by the Company or the Underwriters.

The undersigned hereby irrevocably constitutes and appoints \_\_\_\_\_ and \_\_\_\_\_ each with full power and authority to act alone in any matter hereunder and with full power of substitution, the true and lawful attorneys-in-fact of the undersigned (individually an "Attorney" and collectively the "Attorneys"), with full power and authority in the name of, for and on behalf of, the undersigned with respect to all matters arising in connection with the sale of Common Stock by the undersigned including, but not limited to, the power and authority on behalf of the undersigned to take any and all of the following actions:

1. To sell, assign, transfer and deliver to the several Underwriters up to the number of shares of Common Stock set forth on the signature page hereof such shares of Common Stock to be represented by certificate(s) deposited by the undersigned pursuant to the Custody Agreement (the "Custody Agreement") between the undersigned and \_\_\_\_\_, as Custodian (the "Custodian"), at a purchase price per share, after deducting underwriting discounts and commissions, to be paid by the Underwriters, as the Attorneys, in their sole discretion, shall determine, but at the same price per share at which the Company and all other Selling Stockholders (as defined in the Underwriting Agreement) sell Common Stock to the Underwriters;

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2. To determine the number of shares of Common Stock to be sold by the undersigned to the Underwriters, which numbers shall be no greater but may be fewer than the corresponding numbers set forth on the signature page hereof (such total number of shares of Common Stock as is finally determined by the Attorneys and set forth opposite the name of the undersigned in Schedule II to the Underwriting Agreement is hereinafter referred to as the "Shares");

3. To execute, deliver and perform the Underwriting Agreement in customary form with such customary representations, warranties and covenant as the Attorneys, in their sole discretion, may deem appropriate, with full power to make such amendments to the Underwriting Agreement as the Attorneys, in their sole discretion, may deem advisable;

4. On behalf of the undersigned, to make the representations and warranties and enter into the agreements contained in the Underwriting Agreement (including, without limitation, entering into the "lock-up" agreements);

5. (a) To instruct the Custodian on all matters pertaining to the sale of the Shares and the delivery of certificates therefor, including: (i) the transfer of the Shares on the books of the Company in order to effect the sale of the Shares (including designating the name or names in which new certificate(s) for Shares are to be issued and the denominations thereof), (ii) the delivery to or for the account of the Underwriters of the certificate(s) for the Shares against receipt by the Custodian of the purchase price to be paid therefor, (iii) the payment, out of the proceeds (net of underwriting discounts and commissions) from the sale of the Shares by the undersigned to the Underwriters, of any expense incurred in accordance with paragraph 6 which is not payable by the Company and any transfer taxes payable in connection with the transfer of the Shares to the Underwriters ("Transfer Taxes") and (iv) the transmission to the undersigned of the proceeds, if any, from the sale of the Shares (after deducting all amounts payable by the undersigned pursuant to clause (iii) above) and the return to the undersigned, of new certificate(s) representing the excess, if any, of the number of shares of Common Stock represented by certificate(s) deposited with the Custodian over the number of Shares sold to the Underwriters; and (b) to amend the Custody Agreement and any related documents in such manner as the Attorneys may determine to be not materially adverse to the undersigned.

6. To incur or authorize the incurrence of any necessary or appropriate expense in connection with the sale of the Shares and to determine the amount of any Transfer Taxes;

7. To take any and all steps deemed necessary or desirable by the Attorneys in connection with the registration of the Shares under the Securities Act of 1933, as amended (the "Act"), the Securities Exchange Act of 1934, as amended, and the securities or "blue sky" laws of various states and jurisdictions, including, without limitation, the giving, making or filing of such undertakings, consents to service of process and representations and agreements and the taking of such other steps as the Attorneys may deem necessary or desirable;

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9. To retain legal counsel to represent the undersigned in connection with any and all matters referred to herein (which counsel may, but need not be, counsel for the Company);

10. To make, execute, acknowledge and deliver all such other contracts, stock powers, orders, receipts, notices, instructions, certificates, letters and other writings, including, without limitation, communications with the Securities and Exchange Commission, state securities commissions and the National Association of Securities Dealers, Inc. ("NASD"), and in general to do all things and to take all actions which the Attorneys, in their sole discretion, may consider necessary or desirable in connection with the sale of Shares to the Underwriters and the public offering thereof, as fully as could the undersigned if personally present and acting;

11. If necessary, to endorse (in blank or otherwise) on behalf of the undersigned the certificate(s) representing the Shares, or a stock power or powers attached to such certificate(s); and

12. To sign such other certificates, documents and agreements and take any and all other actions as the Attorneys may deem necessary or desirable in connection with the consummation of the transactions contemplated by the Underwriting Agreement, the Custody Agreement and this Power of Attorney.

Each Attorney may act alone in exercising the rights and powers conferred on the Attorneys in this Power of Attorney, and the act of any Attorney shall be the act of the Attorneys. Each Attorney is hereby empowered to determine in his or her sole discretion the time or times when, the purpose for and the manner in which any power herein conferred upon him or her shall be exercised, and the conditions, provisions or covenants of any instrument or document which may be executed by him or her pursuant hereto.

The undersigned acknowledges receipt of a copy of Amendment No. 2 to the Registration Statement on Form S-1 (the "Registration Statement") relating to the offering of the Shares and the other shares of Common Stock (together, the "Offered Shares") to be sold by the Selling Stockholders and a copy of the draft form of the Underwriting Agreement dated . The undersigned has reviewed the Registration Statement and the form of the Underwriting Agreement and understands the obligations and agreements of the undersigned set forth in the Underwriting Agreement. All representations and warranties of the Selling Stockholders in the Underwriting Agreement with respect to the undersigned will be as of the date of the execution of the Underwriting Agreement and the Closing Dates (as determined in accordance with the Underwriting Agreement), true and correct. All such representations and warranties will, as provided in the Underwriting Agreement, survive the termination of the Underwriting Agreement and the delivery of and payment for the Shares.

Upon the execution and delivery of the Underwriting Agreement by the Attorneys on behalf of the Selling Stockholders, the undersigned agrees to be bound by and to perform each and every covenant and agreement contained therein of the undersigned as a Selling Stockholders.

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The undersigned agrees, if so requested, to provide an opinion of counsel, addressed to Sheppard, Mullin, Richter & Hampton LLP, which opinion shall expressly permit reliance thereon by Sheppard, Mullin, Richter & Hampton LLP, setting forth such matters as Sheppard, Mullin, Richter & Hampton LLP may reasonably request in rendering its opinion pursuant to the Underwriting Agreement and such other documentation as the Attorneys, the Company, the Representative or any of their respective counsel may request to effectuate any of the provisions hereof or of the Underwriting Agreement, all of the foregoing to be in form and substance satisfactory in all respects to the party requesting such documentation.

This Power of Attorney and all authority conferred hereby are granted and conferred subject to and in consideration of the interests of the Attorneys, the several Underwriters, the Company and the other Selling Stockholders who may become parties to the Underwriting Agreement, and for the purposes of completing the transactions contemplated by the Underwriting Agreement and this Power of Attorney.

This Power of Attorney is an agency coupled with an interest and all authority conferred hereby shall be irrevocable, and shall not be withdrawn or terminated by any act of the undersigned or by operation of law, whether by the death or incapacity of the undersigned (or either or any of the undersigned) or by the occurrence of any other event or events (including, without limitation, the termination of any trust or estate for which the undersigned is acting as a fiduciary or fiduciaries, the death or incapacity of one or more trustees, guardians, executors or administrators under such trust or estate or the merger, consolidation, dissolution or liquidation of any corporation or partnership) (any of the foregoing being hereinafter referred to as an "Event"). If an Event shall occur after the execution hereof but before completion of the transactions contemplated by the Underwriting Agreement or this Power of Attorney, then certificate(s) representing the Shares will be delivered to the Underwriters by or on behalf of the undersigned in accordance with the terms and conditions of the Underwriting Agreement and the Custody Agreement and any actions taken hereunder by the Attorneys shall be as valid as if such Event had not occurred regardless of whether or not the Custodian, the Attorneys, the Underwriters, or any one of them, shall have received notice of such Event.

Notwithstanding any of the foregoing provisions, if the Underwriting Agreement shall not have been executed and delivered prior to [ ], 2007 then, upon the written notice of the undersigned on or after that date to the Attorneys, this Power of Attorney shall terminate subject, however, to all lawful action done or performed pursuant hereto prior to the receipt of actual notice.

It is understood that the Attorneys assume no responsibility or liability to any person other than to deal with the certificate(s) for shares of Common Stock deposited with the Custodian pursuant to the Custody Agreement and the proceeds from the sale of the Shares in accordance with the provisions hereof. The Attorneys make no representations with respect to and shall have no responsibility for the Registration Statement or the Prospectus nor, except as herein expressly provided, for any aspect of the offering of Common Stock, and the Attorneys shall not be liable for any error of judgment or for any act done or omitted or for any mistake of fact or law except for the Attorneys' own gross negligence or willful misconduct. The undersigned agrees to indemnify the Attorneys for and to hold the Attorneys, jointly and

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severally, free from and harmless against any and all loss, claim, damage, liability or expense incurred by or on behalf of the Attorneys, or any of them, arising out of or in connection with acting as Attorneys under this Power of Attorney, as well as the cost and expense of defending against any claim of liability hereunder, which is not due to the Attorneys' own gross negligence or willful misconduct. The undersigned agrees that the Attorneys may consult with counsel of their choice (which may but need not be counsel for the Company) and the Attorneys shall have full and complete authorization and protection for any action taken or suffered by the Attorneys, or any of them hereunder, in good faith and in accordance with the opinion of such counsel.

It is understood that the purchase price per share of Common Stock to be paid in connection with the offering contemplated by the Prospectus and the Underwriting Agreement could be higher or lower than the high end and the low end of the price range reflected on the Preliminary Prospectus.

It is understood that the Attorneys shall serve entirely without compensation.

This Power of Attorney shall be binding upon the undersigned and the heirs, legal Representative, distributees, successors and assigns of the undersigned.

This Power of Attorney shall be governed by the laws of the State of New York without regard to the conflicts of laws principles thereof.

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Witness the due execution of the foregoing Power of Attorney as of the date written below.

Maximum Number of Shares of  
Common Stock to be Sold by Selling  
Stockholders(s):

Very truly yours,

By: \_\_\_\_\_  
Name:  
Title:

DATED: \_\_\_\_\_,  
Print Name and Address of Selling  
Stockholder(s) and Name and Title of any Person  
Signing as Agent or Fiduciary:

Telephone: ( )

Facsimile: ( )

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ACKNOWLEDGMENT

State of )  
) ss.  
County of )

On this the \_\_\_\_\_ day of \_\_\_\_\_ before me personally appeared \_\_\_\_\_ who acknowledged the signing of the foregoing instrument and that the same is the free act and deed of such person (and if such person is signing on behalf of a corporation, partnership or trust that the same is the free act and deed of such corporation, partnership or trust and that such person is duly authorized to sign the foregoing instrument).

WITNESS my hand and official seal.

Notary's Signature

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(i) The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware, and each of its subsidiaries has been duly organized and is validly existing as a corporation, limited liability company or limited partnership, as the case may be, in good standing under the laws of its jurisdiction of incorporation, formation or organization. Each of the Company and its subsidiaries is duly qualified to transact business and is in good standing as a foreign corporation in each jurisdiction in which the character or location of its assets or properties or the nature of its business makes such qualification necessary, except where the failure to so qualify or to be in good standing, individually or in the aggregate, would not have a Material Adverse Effect.

(ii) Each of the Company and its subsidiaries has all requisite corporate power and authority to own, lease and operate its properties and to conduct its business as now being conducted and as described in the Registration Statement and the Pricing Prospectus and, with respect to the Company, to enter into and perform its obligations under this Agreement and to issue and sell the Shares.

(iii) The authorized, issued and outstanding capital stock of the Company is as set forth in the Registration Statement and the Pricing Prospectus under the caption “Capitalization” as of the dates stated therein and, since such dates, there has been no change in the capital stock of the Company except for subsequent issuances, if any, pursuant to this Agreement or pursuant to reservations, agreements or employee benefit plans referred to in the Pricing Prospectus and the Prospectus or pursuant to the exercise of convertible securities or options referred to in the Pricing Prospectus and the Prospectus; all of the outstanding shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and nonassessable and none of them was issued in violation of any preemptive or other similar right. The Company Shares have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set forth herein, will be validly issued, fully paid and nonassessable, and no holder of the Shares is or will be subject to personal liability by reason of being such a holder. The Selling Stockholder Shares have been duly authorized and validly issued and are fully paid and nonassessable. The issuance and sale of the Company Shares by the Company is not subject to any preemptive or other similar rights of any securityholder of the Company. Except as disclosed in the Registration Statement and the Pricing Prospectus, there are no preemptive or other rights to subscribe for or to purchase or any restriction upon the voting or transfer of any securities of the Company pursuant to the Company’s Certificate of Incorporation or bylaws or other

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governing documents or any agreements or other instruments to which the Company is a party or by which it is bound. The sale of the shares by the Selling Stockholders is not subject to any preemptive or other similar rights of any security holders of the company. Except as disclosed in the Registration Statement and the Pricing Prospectus, there is no outstanding option, warrant or other right calling for the issuance of, and no commitment, plan or arrangement to issue, any shares of stock of the Company or any security convertible into, exercisable for, or exchangeable for stock of the Company. The Common Stock, and the Shares conform in all material respects to the descriptions thereof contained in the Registration Statement, the Pricing Prospectus and the Prospectus. The form of certificate used to evidence the Common Stock complies in all material respects with all applicable statutory requirements, with any applicable requirements of the Certificate of Incorporation or bylaws of the Company and the requirements of the Nasdaq Global Market. There are no persons with registration rights or other similar rights to have any Company securities registered pursuant to the Registration Statement or otherwise registered by the Company under the Securities Act.

(iv) All necessary corporate action has been duly and validly taken by the Company to authorize the execution, delivery and performance of this Agreement and the issuance and sale of the Shares. This Agreement has been duly and validly authorized, executed and delivered by the Company and this Agreement constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting the enforcement of creditors’ rights generally and by general equitable principles.

(v) Neither the execution, delivery and performance of this Agreement by the Company nor the consummation of any of the transactions contemplated hereby (including, without limitation, the issuance and sale by the Company of the Shares) nor the execution, delivery or performance of any other agreement or instrument entered into or to be entered into by the Company in connection with the transactions contemplated by the Registration Statement and the Pricing Prospectus will give rise to a right to terminate or accelerate the due date of any payment due under, or conflict with or result in the breach of any term or provision of, or constitute a default (or any event which with notice or lapse of time, or both, would constitute a default) under, or require consent or waiver under, or result in the execution or imposition of any lien, charge, claim, security interest or encumbrance upon any properties or assets of the Company or any subsidiary pursuant to the terms of, any indenture, mortgage, deed trust, note or other agreement or instrument of which such counsel is aware and to which the Company or any subsidiary is a party or by which the Company or any subsidiary or any of its assets or properties or businesses is bound, or any franchise, license, permit, judgment, decree, order, statute, rule or regulation, domestic or foreign, of which such counsel is aware or violate any provision of the charter or bylaws of the Company or any subsidiary.

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(vi) No consent, approval, authorization, license, registration, qualification or order of any court or governmental agency or regulatory body is required for the due authorization, execution, delivery or performance of this Agreement by the Company or the consummation of the transactions contemplated hereby or thereby, except such as have been obtained under the Securities Act and such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the several Underwriters.

(vii) To the best of such counsel’s knowledge, there is no any action, suit, proceeding or other investigation, before any court or before or by any public body or board pending or threatened against, or involving the assets, properties or businesses of, the Company which is required to be disclosed in the Registration Statement and the Pricing Prospectus and is not so disclosed or which could reasonably be expected to have a Material Adverse Effect.

(viii) The statements in the Pricing Prospectus and the Prospectus under the captions “Description of Capital Stock,” “Business-Background on Clean Air Regulation,” “Business-Government Regulation and Environmental Matters,” “Business-Legal Proceedings,” “Shares Eligible for Future Sale” and “Certain Relationships and Related Party Transactions,” and in the Registration Statement under Item 15 of Part II, insofar as such statements constitute a summary of documents referred to therein or matters of law, are accurate in all material respects and accurately present the information with respect to such documents and matters. Accurate copies of all contracts and other documents required to be

filed as exhibits to, or described in, the Registration Statement, the Pricing Prospectus and the Prospectus have been so filed with the Commission or are fairly described therein.

(ix) (A) Each of the Company and its subsidiaries is in compliance in all material respects with all applicable Environmental Laws; (B) none of the Company or its subsidiaries has received any notice from any governmental authority or third party of an asserted claim under any Environmental Law; (C) each of the Company and its subsidiaries has received all permits, licenses or other approvals required of it under applicable Environmental Laws to conduct its business and is in compliance with all terms and conditions of any such permit, license or approval, except where such failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or other approvals would not, singly or in the aggregate, have a Material Adverse Effect; and (D) no property which is or has been owned, leased or occupied by the Company or its subsidiaries has been designated as a Superfund site pursuant to CERCLA, or otherwise designated as a contaminated site under applicable state or local law.

(x) The Registration Statement, as of the Effective Date and the applicable Closing Date, all Preliminary Prospectuses, including the Pricing Prospectus, as of their respective dates and the applicable Closing Date, and the Prospectus, as of its date and the applicable Closing Date, (except for the financial statements and schedules and other financial data included therein, as to which such

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counsel need not express an opinion) comply as to form in all material respects with the requirements of the Securities Act and the Rules.

(xi) The Registration Statement is effective under the Securities Act, and to such counsel's knowledge no stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of any Preliminary Prospectus, the Prospectus or any Issuer Free Writing Prospectus has been issued and no proceedings for that purpose are pending or have been instituted or threatened by the Commission.

(xii) Any required filing of the Prospectus and any supplement thereto pursuant to Rule 424(b) of the Rules has been made in the manner and within the time period required by such Rule 424(b).

(xiii) The Shares have been approved for listing on the Nasdaq Global Market, subject only to official notice of issuance.

(xiv) The Company is not an "investment company" or an entity controlled by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

To the extent deemed advisable by such counsel, such counsel may rely as to matters of fact on certificates of responsible officers of the Company and public officials and on the opinions of other counsel satisfactory to the Representative as to matters which are governed by laws other than the laws of the States of California and New York, the General Corporation Law of the State of Delaware and the Federal laws of the United States; provided that such counsel shall state that in their opinion the Underwriters and they are justified in relying on such other opinions. Copies of such certificates and other opinions shall be furnished to the Representative and counsel for the Underwriters.

In addition, such counsel shall state that such counsel has participated in conferences with officers and other representatives of the Company, the Underwriters and the independent registered public accounting firm of the Company, at which conferences the contents of the Registration Statement, the Pricing Disclosure Package and the Prospectus and related matters were discussed and, although such counsel is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement, the Pricing Disclosure Package and the Prospectus (except as specified in the foregoing opinion), on the basis of the foregoing, no facts have come to the attention of such counsel which lead such counsel to believe that (i) the Registration Statement, as of the Effective Date, (except with respect to the financial statements and notes and schedules thereto and other financial data, as to which such counsel need make no statement) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Pricing Disclosure Package, as of the Applicable Time, (except with respect to the financial statements, notes and schedules thereto and other financial data, as to which such counsel need make no statement) contained any untrue statement of a material fact or omitted to state a material fact

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necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (iii) the Prospectus, as of its date and the applicable Closing Date, (except with respect to the financial statements, notes and schedules thereto and other financial data, as to which such counsel need make no statement) contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

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**AMENDMENT NO. 2 TO  
REGISTRATION RIGHTS AGREEMENT**

THIS AMENDMENT NO. 2 TO REGISTRATION RIGHTS AGREEMENT (this “**Amendment**”) is entered into as of May 1, 2007, among Clean Energy Fuels Corp., a Delaware corporation f/k/a ENRG, Inc. (the “**Company**”), and the undersigned holders of capital stock of the Company.

**BACKGROUND**

A. In connection with a proposed initial public offering of the Company’s Common Stock (the “**IPO**”), the holders of registration rights (the “**Existing Registration Rights Holders**”) under the Registration Rights Agreement dated December 31, 2002, among the Existing Registration Rights Holders and the Company (the “**Rights Agreement**”), amended the Rights Agreement in accordance with the Amendment No. 1 to Registration Rights Agreement dated August 8, 2006 (“**Amendment No. 1**”), among the Existing Registration Rights Holders, the Company, the Company Designees (defined below) and the Pickens Transferees (defined below).

B. Pursuant to Amendment No. 1, the Company and the Existing Registration Rights Holders granted registration rights to (i) certain stockholders who are employees or directors of the Company listed under the caption “Company Designees” on Exhibit C (the “**Company Designees**”), and (ii) certain stockholders who purchased or otherwise received shares of the Company’s Common Stock from Boone Pickens listed on Exhibit B (the “**Pickens Transferees**”). However, the registration rights granted under Amendment No. 1 expired on December 31, 2006, in accordance with Section 1(f) of Amendment No. 1, and the Company Designees and Pickens Transferees ceased to be parties to the Rights Agreement at that time.

C. Given the expiration of registration rights described above, the Existing Registration Rights Holders desire to amend the Rights Agreement again, pursuant to this Amendment, (i) to allow Madeleine Pickens and the Company Designees to sell shares of Common Stock in the initial closing of the IPO (the “**Initial Closing**”), as provided in Section 1(b) of this Amendment; and (ii) to allow the Pickens Transferees who sign the Adoption Agreement attached hereto as Exhibit A to sell shares of Common Stock in the over-allotment closing of the IPO (the “**Over-Allotment Closing**”), as provided in Section 1(c) of this Amendment.

D. In general, as a result of the transactions contemplated by this Amendment, (i) each Existing Registration Rights Holder is allocating to the Company Designees a portion of such Existing Registration Rights Holder’s right under the Rights Agreement to sell shares of Common Stock in the Initial Closing, (ii) Boone Pickens is allocating to Madeleine Pickens a portion of his right (and potentially his entire right) under the Rights Agreement to sell shares of Common Stock in the Initial Closing, and (iii) Boone Pickens is allocating to the Pickens Transferees his entire right under the Rights Agreement to sell shares of Common Stock in the Over-Allotment Closing, subject to the Madeleine Pickens Over-Allotment Closing Adjustment (defined in Section 1(c) of this Amendment). In light of the registration rights granted to the Company Designees, Madeleine Pickens and the Pickens Transferees pursuant to Section 1 of this Amendment, the Existing Registration Rights Holders acknowledge that their rights to sell shares of Common Stock in the Initial Closing and the Over-Allotment Closing shall be as provided in Section 3 of this Amendment.

E. For purposes of this Amendment, the “**Initial Closing Selling Stockholder Amount**” shall mean the number of shares of Common Stock permitted to be sold by selling stockholders in the Initial Closing, as determined by the Company, in its discretion, in consultation with the IPO underwriters. The

parties to this Amendment acknowledge and agree as follows with respect to the Initial Closing Selling Stockholder Amount:

- The Company, based on current expectations, requires \$150,000,000 in gross proceeds from the Initial Closing (the “**Company Minimum Proceeds**”), which amount is subject to increase.
- The Amendment No. 1 to Form S-1 Registration Statement dated March 27, 2007 (File No. 333-137124) relating to the IPO contemplates that \$300,000,000 of shares of Common Stock will be sold in the Initial Closing, 50% of which is currently expected to be sold by the Company and 50% of which is currently expected to be sold by the selling stockholders as a group. However, these amounts are subject to change, and the Initial Closing Selling Stockholder Amount may be decreased, in the Company’s discretion in consultation with the IPO underwriters, to ensure that the Company is able to sell a sufficient number of shares of Common Stock to achieve the Company Minimum Proceeds at a public offering price that the Company considers appropriate, in its discretion.
- If the IPO is successful and the total number of shares of Common Stock proposed to be sold in the Initial Closing is increased by up to 20% pursuant to Rule 462(b) promulgated under the Securities Act of 1933, as amended (“**Rule 462(b)**”), only the Company will sell the additional shares of Common Stock resulting from this increase in offering size.
- The public offering price of the shares of Common Stock to be sold in the IPO (the “**Public Offering Price**”) shall be determined primarily based on an auction in which prospective purchasers are required to bid for the shares; *provided, however*, that the Public Offering Price is ultimately determined by the Company in its discretion in consultation with the IPO underwriters based on the clearing price resulting from the auction, as well as a number of other factors. Based on the auction results and the Public Offering Price, the total number of shares to be sold in the Initial Closing may increase or decrease, and therefore the Initial Closing Selling Stockholder Amount may increase or decrease.

F. For purposes of this Amendment, the “**Over-Allotment Closing Selling Stockholder Amount**” shall mean the number of shares of Common Stock permitted to be sold by selling stockholders in the Over-Allotment Closing, as determined by the Company, in its discretion, in consultation with the IPO underwriters. The parties to this Amendment acknowledge that the Over-Allotment Closing Selling Stockholder Amount shall not exceed the product of (i) the total number of shares of Common Stock sold in the Initial Closing (including any additional shares of Common Stock sold pursuant to Rule 462(b)), multiplied by (ii) 15%. The parties to this Amendment acknowledge and agree that the Over-Allotment Closing Selling Stockholder Amount may be less than the amount described in the previous sentence, and also that the Over-Allotment Closing may not occur at all, depending on market circumstances.

G. The Existing Registration Rights Holders executing this Amendment hold sixty-six percent (66%) or more of the Registrable Shares (as defined in the Rights Agreement) held by all Existing Registration Rights Holders and, therefore, have the power under Section 9 of the Rights Agreement to amend the Rights Agreement.

## AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the undersigned holders of capital stock of the Company hereby agree that the Rights Agreement shall be amended as follows:

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1. **Adding Parties to Rights Agreement.** The undersigned Existing Registration Rights Holders hereby agree that Madeleine Pickens, each of the Company Designees who have signed this Amendment and such Pickens Transferees who sign the Adoption Agreement attached hereto as Exhibit A shall be added as a "Holder" under the Rights Agreement and shall be subject to such terms, conditions, restrictions and obligations as set forth in the Rights Agreement; *provided, however*, that the rights of Madeleine Pickens, the Company Designees and the Pickens Transferees rights shall be limited as follows:

(a) Subject to Section 1(e) of this Amendment, Madeleine Pickens, the Company Designees and the Pickens Transferees shall have such rights, restrictions and obligations under the Rights Agreement only in connection with the Company's IPO and the shares of Common Stock they may sell in the IPO.

(b) In the Initial Closing:

(i) the Company Designees as a group shall have the right to sell up to the number of shares of Common Stock equal to the product of (X) the "Pro Rata Percentage" attributable to the Company Designees as set forth on Table 1 of Exhibit C, multiplied by (Y) the Initial Closing Selling Stockholder Amount, rounded to the nearest whole share (the "**Company Designee Permitted Shares**");

(ii) Catherine M. Weaver shall have the right to sell up to 4,500 shares of Common Stock and Barbara A. Johnson shall have the right to sell up to 8,000 shares of Common Stock (such shares collectively, the "**Company Designee Fixed Shares**");

(iii) each Company Designee (other than Catherine M. Weaver and Barbara A. Johnson) shall have the right to sell up to the number of shares of Common Stock equal to the product of (X) the "Pro Rata Percentage" of such Company Designee as set forth across such Company Designee's name on Table 2 of Exhibit C, multiplied by (Y) the difference of (1) the Company Designee Permitted Shares, less (2) the Company Designee Fixed Shares, rounded to the nearest whole share; and

(iv) Madeleine Pickens shall have the right to sell up to a number of shares of Common Stock equal to the lesser of (X) 1,000,000 shares of Common Stock, and (Y) the number of shares of Common Stock Boone Pickens is permitted to sell in the Initial Closing as determined pursuant to Section 3(a) of this Amendment (the "**Madeleine Pickens Initial Closing Adjustment**"); *provided, however*, that the number of shares of Common Stock to be sold by Boone Pickens in the Initial Closing shall be decreased by the Madeleine Pickens Initial Closing Adjustment.

The shares of Common Stock to be sold by Madeleine Pickens and the Company Designees in the Initial Closing shall be deemed "**Registrable Shares**" under the Rights Agreement.

(c) Except for such shares of Common Stock as may be sold by Boone Pickens in accordance with the Madeleine Pickens Over-Allotment Closing Adjustment (defined below), Boone Pickens (including family trusts and other entities controlled by him) has waived the right to sell all of the shares of Common Stock he is otherwise permitted to sell in the Over-Allotment Closing (such shares, the "**Pickens Shares**"). Each Pickens Transferee (including Madeleine Pickens) was given the right to sell in the Over-Allotment Closing up to that number of shares equivalent to (i) such Pickens Transferee's "Pro Rata Percentage" set forth on Exhibit B multiplied by (ii) the total number of Pickens Shares. Some Pickens Transferees declined to sell any shares in the Over-Allotment Closing, and those Pickens Shares were re-allocated pro rata to those Pickens Transferees desiring to sell more shares in the Over-Allotment Closing. The final allocation of Pickens Shares (by percentage) amongst the Pickens Transferees is set forth on

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Exhibit D. In the Over-Allotment Closing, each of the Pickens Transferees shall have the right to sell up to the number of shares of Common Stock equal to the product of (i) the "Pro Rata Percentage" of such Pickens Transferee as set forth across such Pickens Transferee's name on the table set forth on Exhibit D, multiplied by (ii) the Over-Allotment Closing Selling Stockholder Amount, rounded to the nearest whole share; *provided, however*, that: (X) Boone Pickens shall have the right to sell in the Over-Allotment Closing a number of shares of Common Stock equal to the product of (1) the "Pro Rata Percentage" of Madeleine Pickens as set forth across her name on the table set forth on Exhibit D, multiplied by (2) the Over-Allotment Closing Selling Stockholder Amount; and (Y) Madeleine Pickens shall have no right to sell shares of Common Stock in the Over-Allotment Closing (such transactions as described in "(X)" and "(Y)" above, the "**Madeleine Pickens Over-Allotment Closing Adjustment**"). The Pickens Shares shall be deemed "Registrable Shares" for all purposes under the Rights Agreement.

(d) Madeleine Pickens, the Company Designees and Pickens Transferees shall have no right to transfer or assign any rights under the Rights Agreement.

(e) Upon consummation of the IPO, the rights of Madeleine Pickens, the Company Designees and Pickens Transferees under the Rights Agreement, including the right to require the Company to register Registrable Shares held by them, shall automatically terminate and Madeleine Pickens, the Company Designees and Pickens Transferees shall have no further rights under the Rights Agreement other than as set forth in Sections 8 (a), (c), and (d); *provided, however*, that Madeleine Pickens, each Company Designee and each Pickens Transferee shall continue to be bound by such obligations and liabilities under the Rights Agreement in connection with their participation in the Company's IPO, including, but not limited to, the indemnification obligations of Madeleine Pickens, the Company Designees and the Pickens Transferees under Section 8 of the Rights Agreement.

(f) If the IPO is not consummated for any reason by December 31, 2007, then the rights and obligations of Madeleine Pickens, the Company Designees and Pickens Transferees under the Rights Agreement effected by this Amendment shall automatically terminate on that date, they shall no longer be parties to the Rights Agreement and they shall not have the right to sell any of their shares in a Company offering.

2. **Assumption of Obligations.** Madeleine Pickens and each undersigned Company Designee by his or her signature to this Amendment, and each Pickens Transferee by such Pickens Transferee's signature to the Adoption Agreement, agrees to be bound by the terms, conditions, restrictions and obligations as a Holder under the Rights Agreement with the same force and effect as if Madeleine Pickens such Company Designee, or such Pickens Transferee were originally a party thereto, including, but not limited to the requirements set forth in Sections 5 and 6 of the Rights Agreement and the indemnification obligations set forth in Section 8 of the Rights Agreement. Madeleine Pickens, each Company Designee and each Pickens Transferee acknowledges, however, that their rights under the Rights Agreement are subject to the restrictions and limitations set forth in Section 1 of this Amendment.

3. **Resulting Participation Rights in IPO for Existing Registration Rights Holders.** In light of the registration rights granted to Madeleine Pickens, the Company Designees and the Pickens Transferees pursuant to Section 1, the Existing Registration Rights Holders acknowledge and agree as follows with respect to their participation rights in the IPO:

(a) In the Initial Closing, each Existing Registration Rights Holder shall have the right to sell up to the number of shares of Common Stock equal to the product of (i) the "Pro Rata Percentage" attributable to such Existing Registration Rights Holder as set forth across such Existing Registration Rights Holder's name on Table 1 set forth on Exhibit C, multiplied by (ii) the Initial Closing Selling Stockholder Amount, rounded to the nearest whole share.

(b) In the Over-Allotment Closing, each Existing Registration Rights Holder shall have the right to sell up to the number of shares of Common Stock equal to the product of (i) the "Pro Rata Percentage" attributable to such Existing

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Registration Rights Holder as set forth across such Existing Registration Rights Holder's name on the table set forth on Exhibit D, multiplied by (ii) the Over-Allotment Closing Selling Stockholder Amount, rounded to the nearest whole share.

4. **Cutbacks.** Notwithstanding anything in this Amendment to the contrary, if the number of shares of Common Stock the Holders may sell overall is cut back in the Initial Closing or the Over-Allotment Closing, as applicable, pursuant to Section 5 of the Rights Agreement, each Holder shall be cut back pro rata in accordance with such Holder's "Pro Rata Percentage," as shown on Exhibit C and Exhibit D; *provided, however*, that, regardless of any such cutback (so long as the Holders are not cut back completely), (i) Catherine M. Weaver and Barbara A. Johnson shall continue to be able to sell in the Initial Closing a number of shares equal to the Company Designee Fixed Shares, and (ii) the Madeleine Pickens Initial Closing Adjustment shall continue to be made.

5. **Termination of Voting Proxy.** Boone Pickens agrees that the irrevocable voting proxies he received pursuant to Section 5 of that certain Stock Purchase and Buy-Sell Agreement, dated February 1, 2006 ("Buy-Sell Agreement"), shall, contingent and effective upon the occurrence of the Initial Closing, automatically and forever terminate with respect to all shares of Common Stock that are subject to such irrevocable voting proxies, with the effect that those shares of Common Stock shall thereafter be free from any voting restrictions imposed by the Buy-Sell Agreement and the irrevocable voting proxies.

6. **Amendment to Rights Agreement.** Section 2 of the Rights Agreement is amended to read in its entirety as follows:

**Company Registration.** If (but without any obligation whatsoever to do so) the Company in its sole discretion proposes to register any of its Common Stock under the Securities Act in connection with the public offering of such securities solely for cash (other than (i) a registration relating to the sale of securities to participants in a Company stock or other compensation plan, or (ii) a Commission Rule 145 transaction), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company, the Company shall cause to be registered under the Securities Act all of the Registrable Shares that each such Holder has requested to be registered subject to the underwriter cutback and other provisions of Section 5 hereof and elsewhere in this Agreement; *provided, however*, that, with respect to the Company's first Qualified Public Offering, the Holders, as a group, shall have the right to sell in such offering only such number of Registered Shares as may be permitted by the Company, in its discretion, in consultation with the underwriters, and that such aggregate amount available for sale by the Holders shall be allocated among them as set forth in Amendment No. 2 to this Agreement.

7. **Remainder of Rights Agreement Unchanged.** Except as amended by this Amendment, the Rights Agreement shall otherwise remain in full force and effect. Any further amendment to the Rights Agreement or this Amendment shall require the consent of the Existing Registration Rights Holders holding sixty-six percent (66%) or more of the Registrable Shares per Section 9 of the Rights Agreement, and any such amendment shall be binding on the Company Designees and Pickens Transferees.

8. **Governing Law.** This Amendment shall be governed by and construed under the laws of the State of Delaware, without regard to its conflicts of laws provisions.

9. **Counterparts.** This Amendment may be executed in two or more original, facsimile or .PDF counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10. **Entire Agreement.** This Amendment, including the exhibits and the "Background" section, all of which are incorporated herein by reference, together with the Rights Agreement, constitute the entire agreement and understanding of the parties hereto in respect of the subject matter hereof or thereof and supersede all prior agreements and undertakings by or among the parties, both written and oral, among the parties, or any of them, with respect to the subject matter hereof or thereof.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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IN WITNESS OF WHICH, the undersigned Holders and the Company have executed this Amendment as of the day and year first above written.

CLEAN ENERGY FUELS CORP.,  
a Delaware corporation

By \_\_\_\_\_  
Andrew J. Littlefair  
President and Chief Executive Officer

**EXISTING REGISTRATION RIGHTS HOLDERS:**

**PERSEUS ENRG INVESTMENT, L.L.C**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Boone Pickens**

**WESTPORT INNOVATIONS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Alan P. Basham**

\_\_\_\_\_  
**Madeleine Pickens**

**COMPANY DESIGNEES:**

\_\_\_\_\_  
**Andrew J. Littlefair**

\_\_\_\_\_  
**Peter J. Grace**

\_\_\_\_\_  
**James N. Harger**

\_\_\_\_\_  
**Dennis Ding**

\_\_\_\_\_  
**Richard R. Wheeler**

\_\_\_\_\_  
**Barbara Johnson**

\_\_\_\_\_  
**Mitchell W. Pratt**

\_\_\_\_\_  
**Catherine Weaver**

\_\_\_\_\_  
**Warren Mitchell**

\_\_\_\_\_  
**John Herrington**

\_\_\_\_\_  
**Joseph B. Powers**

**EXHIBIT A**

**ADOPTION AGREEMENT**

(for Pickens Transferees)

This Adoption Agreement (“Adoption Agreement”) is executed by the undersigned transferee of stock of Clean Energy Fuels Corp. (the “Company”). The undersigned agrees that the undersigned is being granted certain registration rights to sell shares of Company stock received from Mr. Pickens in the Company’s IPO and that these rights are subject to the terms and conditions of the Registration Rights Agreement dated as of December 31, 2002 (the “Registration Rights Agreement”), among the Company and certain other stockholders of the Company, and the Amendment No. 2 to the Registration Rights Agreement dated as of May 1, 2007 (“Amendment No. 2”), and attached to this Adoption Agreement. The undersigned acknowledges receipt of a copy of the Registration Rights Agreement and Amendment No. 2, and agrees to be bound by them in accordance with their terms.

EXECUTED AND DATED \_\_\_\_\_, 2007.

\_\_\_\_\_  
Print name of stockholder as it appears on certificate

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Title, if applicable

Address: \_\_\_\_\_  
\_\_\_\_\_

Telephone \_\_\_\_\_

Facsimile \_\_\_\_\_

E-mail \_\_\_\_\_

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Exhibit B

Pickens Transferees

<u>Name</u>	<u>Shares Held</u>	<u>Pro Rata %*</u>
Littlefair, Andrew J.	150,000	2.49%
Harger, James N.	200,000	3.32%
Pratt, Mitchell W.	55,000	0.91%
Mitchell, Warren I.	100,000	1.66%
J & L Herrington 2002 Family Tr.	250,000	4.15%
Boone Pickens Interests Ltd.	1,000,000	—
Assheim, Glen David	5,000	0.08%
Bassett, Ronald D.	100,000	1.66%
G. Michael Boswell IRA - FCC Cus.	50,000	0.83%
Bradshaw, Brian	50,000	0.83%
Campbell, Drew A.	25,000	0.42%
Carlin, Marti J.	25,000	0.42%
Delile, Denise	2,000	0.03%
Ding, Denis C.K.	10,000	0.17%
Geymuller, Sally	25,000	0.42%
Glover, Garnet D.	8,000	0.13%
Grant, Dick	25,000	0.42%
M & R Ventures, LLC	1,000,000	16.61%
Lindholm, Chad M.	2,500	0.04%
Meaney, David W.	5,000	0.08%
Oberg, Eric	100,000	1.66%
Perkins, Stephen R.	25,000	0.42%
Pickens, Madeleine	3,000,000	49.84%
Powers, Joseph B.	2,500	0.04%
Price, Bretta	500	0.01%
Riley, Mark J.	1,000	0.02%
Ross, Michael	50,000	0.83%
Rosser, Jack E.	25,000	0.42%
Stillwell, Robert L.	100,000	1.66%
Szewczyk, Aleksander A.	100,000	1.66%
Tillett, Danny	25,000	0.42%
Whisler, Jon N.	2,600	0.04%
Plewes, John	50,000	0.83%
Plewes, Dominique	50,000	0.83%

Stovall, Deborah	100,000	1.66%
Zoller, Pamela Pickens	100,000	1.66%
Cordia, Elizabeth P.	100,000	1.66%
Frenkel, Eugene	50,000	0.83%
Penrod, Christine	50,000	0.83%
TOTAL	7,019,100	
less Boone Pickens Interests	(1,000,000)	
	6,019,100	100.00%

\*Shares purchased by Boone Pickens Interests Ltd. are excluded when calculating the pro rata percentage.

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Exhibit C

Allocation of Selling Stockholder

Shares in Initial Closing

TABLE 1 – ALLOCATION OF INITIAL CLOSING SELLING STOCKHOLDER SHARES AMONG SELLING STOCKHOLDERS

<u>Name of Stockholder</u>	<u>Pro Rata Percentage</u>
<i>Existing Registration Rights Holders</i>	
Boone Pickens (1)	58.578620%
Perseus ENRG Investment, L.L.C.	22.740690%
Westport Innovations Inc.	7.205490%
Al Basham	1.258860%
<b>Sub Total:</b>	89.783660%
“Company Designees”	10.216340%
<b>GRAND TOTAL:</b>	100.000000%

TABLE 2 – ALLOCATION OF COMPANY DESIGNEE PERMITTED SHARES AMONG COMPANY DESIGNEES

<u>Name of Stockholder</u>	<u>Pro Rata Percentage</u>
<i>Company Designees</i>	
Andrew J. Littlefair	45.877055%
James N. Harger	17.542702%
Mitchell W. Pratt	9.105126%
Richard R. Wheeler	13.418080%
Catherine M. Weaver	*[4,500 shares]
Joseph B. Powers	3.514259%
Denis C. K. Ding	2.396086%
Peter J. Grace	2.396086%
Barbara A. Johnson	*[8,000 shares]
Warren I. Mitchell	5.111650%
John Herrington	0.638956%
<b>GRAND TOTAL:</b>	100.000000%

\*Catherine M. Weaver and Barbara A. Johnson are entitled to sell a number of shares equal to the Company Designee Fixed Shares. See Section 1(b) of Amendment.

(1) Madeleine Pickens

Madeleine Pickens shall have the right to sell the lesser of (i) 1,000,000 shares, and (ii) the number of shares Boone Pickens is permitted to sell in the Initial Closing; and the shares Boone Pickens shall have the right to sell



Exhibit D

Allocation of Selling Stockholder

Shares in Over-Allotment Closing

TABLE 1 – ALLOCATION OF SHARES AMONG SELLING STOCKHOLDERS

<u>Name of Stockholder</u>	<u>Pro Rata Percentage</u>
<i>Existing Registration Rights Holders</i>	
Boone Pickens(1)	73.272000%
Perseus ENRG Investment, L.L.C.	19.478067%
Westport Innovations Inc.	6.171700%
Al Basham	1.078233%
<b>Total:</b>	100.000000%
<i>Pickens Transferees(2)</i>	
Andrew J. Littlefair	1.976367%
James N. Harger	2.635167%
Mitchell W. Pratt	0.724667%
Warren I. Mitchell	1.317567%
J.L. Herrington 2002 Family Trust	3.293967%
Glen David Aasheim	0.065867%
Ronald D. Bassett	1.317567%
G. Michael Boswell IRA — FCC Cust.	0.658800%

(1) Shares allocated to Pickens Transferees, as set forth below.

(2) The allocation of shares amongst Pickens Transferees reflects that certain Pickens Transferees declined to sell in the Over Allotment the pro rata amount of shares available to them (as set forth on Exhibit B); and these shares were re-allocated pro rata to Pickens Transferees desiring to sell more shares.

<u>Name of Stockholder</u>	<u>Pro Rata Percentage</u>
Brian Bradshaw	0.658800%
Drew A. Campbell	0.329400%
Marti J. Carlin	0.329400%
Denise Delile	0.026367%
Denis C. K. Ding	0.131767%
Sally Geymuller	0.329400%
Dick Grant	0.329400%
M&R Ventures, LLC	13.175800%
Chad M. Lindholm	0.032933%
David W. Meaney	0.065867%

Eric Oberg	1.317567%
Stephen R. Perkins	0.329400%
Madeleine Pickens(3)	39.527433%
Joseph B. Powers	0.032933%
Bretta Price	0.006600%
Mark J. Riley	0.013167%
Michael Ross	0.658800%
Jack E. Rosser	0.329400%
Robert L. Stillwell	1.317567%
Aleksander A. Szewczyk	1.317567%
Danny Tillett	0.329400%
Jon N. Whisler	0.034267%
<u>Eugene Frenkel</u>	0.658800%
<b>TOTAL:</b>	73.272000%

(3) Shares allocated to Boone Pickens pursuant to Madeleine Pickens Over-Allotment Closing Adjustment. See Section 1(c) of Amendment.



May 4, 2007

Clean Energy Fuels Corp.  
3020 Old Ranch Parkway, Suite 200  
Seal Beach, CA 90740

**Re: Registration Statement on Form S-1 (File No. 333-137124)**

Ladies and Gentlemen:

You have requested our opinion with respect to certain matters in connection with the filing by Clean Energy Fuels Corp., a Delaware corporation (the "**Company**"), of a Registration Statement on Form S-1 (the "**Registration Statement**") with the Securities and Exchange Commission, including a related prospectus filed with the Registration Statement (the "**Prospectus**") covering the offering for sale of an aggregate of up to 23,000,000 shares of the Company's Common Stock, \$0.0001 par value (the "**Shares**"), of which up to 10,000,000 shares will be sold by the Company and up to 13,000,000 shares will be sold by the selling stockholders named therein (the "**Selling Stockholders**"). Of the shares to be sold by the Selling Stockholders, 282,795 shares will be purchased by the Selling Stockholders prior to their sale under outstanding stock options (the "**Stockholder Option Shares**"), and 12,717,205 shares are currently outstanding (the "**Stockholder Outstanding Shares**").

This opinion is being furnished in accordance with the requirements of Item 601(b)(5)(i) of Regulation S-K.

In connection with this opinion, we have reviewed the Registration Statement, the Company's charter documents, resolutions adopted by the Board of Directors of the Company and such other documents, records, certificates, memoranda and other instruments as we deem necessary as a basis for this opinion. With respect to the foregoing documents, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to originals of all documents submitted to us as certified or reproduced copies. We have also obtained from officers of the Company certificates as to certain factual matters and, insofar as this opinion is based on matters of fact, we have relied on such certificates without independent investigation.

Based on the foregoing review, and in reliance thereon, we are of the opinion that (i) the Stockholder Outstanding Shares are duly authorized, validly issued, fully paid and non-assessable; (ii) the Shares to be sold by the Company, when issued and sold in the manner contemplated in the Registration Statement, will be validly issued, fully paid and non-assessable; and (iii) the Stockholder Option Shares, when issued and paid for as contemplated in the applicable stock option or warrant agreements and sold as contemplated in the Registration Statement, will be duly authorized, validly issued, fully paid and non-assessable.

We consent to the filing of this opinion letter as Exhibit 5.1 to the Registration Statement and the naming of our firm in the "Legal Matters" portion of the Registration Statement.

We express no opinion as to matters governed by any laws other than California and Delaware general corporate law.

This opinion letter is rendered as of the date first written above and we disclaim any obligation to advise you of facts, circumstances, events or developments that hereafter may be brought to our attention and that may alter, affect or modify the opinion expressed herein. Our opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters relating to the Company or the Shares.

Respectfully submitted,

/s/ Sheppard, Mullin, Richter & Hampton LLP

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SHEPPARD, MULLIN, RICHTER & HAMPTON LLP



*Subsidiaries*

- Clean Energy Fueling Services Corp.
- Clean Energy
- Clean Energy Construction
- Clean Energy Finance, LLC
- Blue Energy General, LLC
- Blue Energy Limited, LLC
- Clean Energy & Technologies LLC
- Clean Energy LNG, LLC
- Clean Energy Texas LNG, LLC
- Blue Fuels Group, LP
- DFW Airport CNG Partnership, LLP
- TranStar Energy Company, LP



**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Clean Energy Corp.:

We consent to the use of our report dated March 23, 2007, with respect to the consolidated balance sheets of Clean Energy Fuels Corp. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2006, and the related financial statement schedule, included herein and to the reference to our firm under the heading "Experts" in the prospectus.

Our report dated March 23, 2007 refers to the adoption of the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

/s/ KPMG LLP

Los Angeles, California  
May 2, 2007

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**VIA ELECTRONIC TRANSMISSION**

May 4, 2007

H. Christopher Owings  
Assistant Director  
Division of Corporation Finance  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-6010

Re: Clean Energy Fuels Corp.  
Amendment No. 2 to Registration Statement on Form S-1  
Filed May 4, 2007  
File No. 333-137124

Dear Mr. Owings:

On behalf of Clean Energy Fuels Corp. (the "Company"), we enclose for filing under the Securities Act of 1933, as amended, Amendment No. 2 to the above-referenced registration statement (the "Registration Statement") together with exhibits thereto.

The Amendment No. 2 to Registration Statement (the "Form S-1/A") contains revisions that have been made in response to comments received from the staff (the "Staff") of the Securities and Exchange Commission in the Staff's comment letter dated April 25, 2007. Set forth below are the Company's responses to the Staff's comments. The numbers of the responses and headings set forth below correspond to the numbered comments and headings on the letter from the Staff. For convenience, the text of the Staff's comments appears in italics in each item below. Concurrently with the transmission of this correspondence via EDGAR, we are providing the Staff hard copies of this letter and marked copies of Amendment No. 2, together with supplemental information and documents referenced in the letter.

Outside Front Cover Page of Prospectus

1. *We note your response to comment 2 in our letter dated October 3, 2006. Please remove the page immediately prior to the table of contents because it repeats the same information that is in the captions to your pictures.*

**Response:** The Company has removed the page immediately before the table of contents in response to the Staff's comment.

Prospectus Summary, page 1

2. *We note your response to comment 4 in our letter dated October 3, 2006. In the body of your document, please identify the source on which you base your factual statements by including a citation to that source.*

*Also, we note your statement in your Emission Reduction subsection on page 55 in which you state the following: "In order to comply with the 2007 standards, we expect 2007 and later engine models to employ significant new emissions control technologies..., which are expect to increase the cost of a diesel vehicle manufactured in 2006 by as much as \$10,000 to \$20,000 per vehicle." However, the article you provided in Tab 6 of your Supplemental Binder states that the 2007 models "will cost around \$10,000 more and, combined with the usual concern over new technologies, fleets have been*

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**Response:** In response to the Staff's comment, to the extent the Company has relied on third parties for factual statements provided in the Form S-1/A, the Company has identified the sources on which it has based such factual statements in the body of the document. See pages 52 to 74 (Business section) of the Form S-1/A. With respect to the specific disclosure noted by the Staff regarding increased costs of diesel vehicles, the Company has revised the statement in its "Emission Reduction" subsection on page 57 of the Form S-1/A to read as follows:

*"In order to comply with the 2007 to 2010 standards, we expect 2007 and later engine models to employ significant new emissions control technologies..., which are expected to increase the cost of a diesel vehicle manufactured in 2006 by as much as \$10,000 to \$20,000 per vehicle or more, according to estimates by industry sources."*

The Company supplementally advises the Staff that the EPA emissions standards referenced in the statement above must be phased in at least 50% between 2007 and 2009, and must be fully achieved by 2010. Much of the emissions control technology that will enable heavy-duty diesel engines to meet the EPA's standards in 2010 is still in development. Consequently, little pricing information about this technology is publicly available, and the range of estimates varies widely, as set forth in more detail below:

- A January 2005 DieselNet Technical Report entitled, "Economics of Emission Reduction For Heavy Duty Truck," a copy of which is supplementally provided for the Staff's review, states that the Selective Catalytic Reduction (SCR) system, a method expected to meet the new emissions standards, has a cost that varies between \$11,000 and \$50,000 per engine.
- An emissions research source quoted in a March 2004 Canadian Forest Industries article ("Clean at a cost: new lower-emission diesel engines are nice, but they cost more..."), a copy of which is supplementally provided for the Staff's review, suggests that diesel truck engines could cost \$18,000 more in 2010 than in 2004.
- A May 2006 report by NGV America ("The Great Discontinuity: Why Historical Studies Are Not a Useful Guide in Making Current and Future Heavy-Duty Vehicle Purchase Decisions"), a copy of which is provided supplementally for the Staff's review, states that the price of meeting the emissions standards could add up to \$10,000 per new 2007 heavy-duty truck, and that some transit agencies had "already been quoted increases as much as \$15,000" for 2007 buses that complied with emissions standards.

The Company has also conducted telephonic inquiries with other industry sources, including individuals within the South Coast Air Quality Management District and the Mobile Source Air Pollution Review Committee, and those individuals have informally advised the Company that the initial cost of compliance in 2007 may range from \$15,000 to \$20,000, which range is consistent with the published reports referenced above. Based on the foregoing, the Company believes the revised statement that diesel engine costs may increase "by as much as \$10,000 to \$20,000 per vehicle or more" is accurate and, under the circumstances, a conservative statement in light of the DieselNet Technical Report, which states that diesel engine costs may increase up to \$50,000 per vehicle. As the Company (1) is unable to identify a specific source that discloses the \$20,000 cost figure, and (2) is using a number of sources to support the "10,000 to \$20,000 per vehicle or more" statement, the Company has disclosed generally that it is relying on "industry sources" for the revised statement, rather than list out the published reports referenced above, given that none of these reports contain the precise range of costs set forth in the revised statement.

3. We note your response to comment 6 in our letter dated October 3, 2006. Presently, you state that the number of shares of your common stock that will be outstanding after this offering is based on the number of shares of capital stock that was outstanding as of December 31, 2006. Again, please estimate the number of shares of your common stock that will be outstanding after this offering using a more recent date. Also, please be sure to update this date in subsequent amendments as appropriate.

**Response:** In the Form S-1/A, the number of shares of common stock that will be outstanding after the offering is based on the number of shares outstanding on March 31, 2007, the end of the Company's last fiscal quarter. See page 3 of the Form S-1/A.

Risk Factors, page 6

4. We note your response to comment 9 in our letter dated October 3, 2006. Please consider using the first sentence of your second risk factor on page 7 as the heading of that risk factor, because it seems to describe more accurately the risk to you.

Also, in the first risk factor on page 10, you state that if there are interruptions in field productions, pipeline capacity, equipment failure, liquefaction production or delivery, you may experience supply stoppages. Please tell us whether there are any specific material risks to you in these areas. If so, please disclose them as separate risk factors.

Further, in the second-to-last risk factor on page 13, you state that you depend on Boone Pickens for advice regarding energy markets and derivative activities, but you cannot guarantee that you will be able to retain his services. In this regard, on the bottom of page 11, you state that Mr. Pickens has cancelled his guarantee with Sempra Energy Trading Corporation, which will cause you to have significantly larger requirements for upfront margin deposits. If material, please discuss in your second-to-last risk factor on page 13, and throughout your document as appropriate, whether Mr. Pickens' guarantee cancellation is any indication that BP Capital, L.P., his firm, will terminate its current investment advisory agreement with you.

Finally, in the first full risk factor on page 16, you state that your quarterly results of operations "have fluctuated significantly" in the past. Specifically, you state that your net losses were \$3.0 million, \$1.1 million, \$41.2 million, and \$30.0 million for the quarters ended March 31, 2006, June 30, 2006, September 30, 2006, and December 31, 2006, respectively. Instead of "fluctuations," these losses appear to be a trend, specifically based on the fact that your losses dropped dramatically from between \$1.1 million and \$3.0 million in the first half of 2006 to between \$30.0 million and \$41.2 million in the second half of 2006. Please revise or advise.

**Response:** In response to the Staff's comment, the Company notes the following:

- The title of the second risk factor on page 8 of the Form S-1/A has been revised to read as follows: "The infrastructure to support gasoline and diesel consumption is vastly more developed than the infrastructure for natural gas vehicles."
- With respect to the first risk factor on page 11, the Company supplementally advises the Staff that it has not experienced and does not believe there are any specific material risks to its business, results of operation, financial condition or prospects related to interruptions in field productions, pipeline capacity, equipment failure, liquefaction production or delivery. Therefore, the Company does not believe a separate risk factor for any of the aforementioned items is necessary.
- With respect to the second-to-last risk factor on page 14, the Company supplementally advises the Staff that it does not believe Mr. Pickens' guarantee cancellation is an indication that BP Capital, L.P. will terminate its current investment advisory agreement with the

Company. The Company notes that the investment advisory agreement was amended in March 2007 (contemporaneously with the termination of the guarantee), and that BP Capital continues to provide advice to the Company. See page 96 of the Form S-1/A.

- With respect to the first full risk factor on page 17, the Company supplementally advises the Staff that its losses in the third and fourth quarter of 2006 were higher than normal because of unusually large derivative losses in those quarters related to the Company's futures activities. The Company had no outstanding futures positions at December 31, 2006 or March 31, 2007 (and at no time in between), and consequently had no derivatives losses (or gains) for the first quarter of 2007. As a result, the Company's net loss decreased significantly in the first quarter of 2007 compared to the preceding two quarters. Based on the foregoing, the Company believes it is accurate to state that it has a history of losses which fluctuates; however, the Company does not believe it has a trend of significantly increasing losses, as evidenced by the Company's substantially lower net loss figure for the first quarter of 2007.

August 2006 Purchase of Future Contracts and December 2006 Assumption ... page 33

5. *You state that in December 2006, Boone Pickens assumed all of your futures contracts, which had lost \$78.7 million in value at that time, in exchange for a five-year warrant to purchase up to 15,000,000 shares of your common stock at a purchase price of \$10 per share. Please discuss the dilution effect that exercising this warrant could have on your common stock. Also, please consider including this dilution effect as a risk factor. We may have further comments based upon your response.*

**Response:** In response to the Staff's comment, the Company (1) has discussed the dilution effect that exercising the aforementioned warrant could have on its common stock, and (2) has added a separate risk factor on that topic. See pages 19 and 34 of the Form S-1/A.

Adoption of Revised Nature Gas Hedging Policy in February 2007, page 33

6. *Please discuss the impact you anticipate, if any, that your revised hedging policy will have on your operations beyond mitigating the volatility of your earnings related to your futures contracts and your risks related to fixed-price sales contracts.*

**Response:** In response to the Staff's comment, the Company has expanded the disclosure regarding its revised hedging policy. See page 36 of the Form S-1/A.

Improvements in Internal Control over Financial Reporting, page 40

7. *We note your response to comment 13 in our letter dated October 3, 2006. You state that you need to "automate several processes, hire additional personnel with finance and accounting expertise and add additional policies and procedures to bolster [your] control and disclosure environments." Please expand upon the specific steps you must take in these three endeavors, including an estimate of the time it will take until your controls and procedures are effective, and discuss the remaining areas of risk to your financial reporting obligations.*

**Response:** In response to the Staff's comment, the Company has expanded the disclosure regarding the specific steps it must take to improve its internal control over financial reporting. See page 41 of the Form S-1/A.

Results of Operations, page 41

8. *We note your response to comment 19 in our letter dated October 3, 2006 and the revisions to your disclosure. By providing the change in gallons and the effective price between periods, an investor should be able to determine the extent to which price versus volume contributed to the overall changes*

between periods. Yet, based on the change in gallons and the effective price disclosed, plus the changes to revenue due to fuel tax credits and station construction, it is unclear how to recompute the revenue increase. Therefore, please tell us how to recompute the revenue increase or specifically disclose the extent to which price versus volume contributed to the overall change in revenues.

**Response:** The Company supplementally advises the Staff as follows regarding the Company's methodology for recomputing the revenue increase based on the factors noted above (using, as an example, revenue for the year ended December 31, 2006 compared to revenue for the year ended December 31, 2005 (in millions)):

Revenue change between periods:	\$	13.5	(disclosed in Results of Operation)
Station installation impact:		5.0	(disclosed in Results of Operation)
Tax credit impact:		(3.8)	(disclosed in Results of Operation)
		14.7	
Remaining change related to gas sales:		14.7	
Price component of gas sales change:		(5.5)	68.4 million gasoline gallon equivalents delivered (disclosed in Results of Operation), multiplied by \$0.08 increase per gasoline gallon equivalent, the price increase between periods (disclosed in Results of Operation)
		9.2	
Volume component of gas sales change		9.2	

Our Station Network, page 62

9. We note your response to comment 33 in our letter dated October 3, 2006. Please expand upon your disclosure regarding your station network. For example, please clarify the reasons that some of your stations delivered in excess of 100,000 gallons in December 2006 and others delivered at least 25,000 gallons during that same time. As another example, please discuss whether these delivery amounts are typical for your stations from month-to-month or year-to-year. As a final example, please disclose the number of stations located in busy metropolitan areas that experience higher traffic and deliver higher volumes of fuel than stations in less populated areas.

**Response:** In response to the Staff's comment, the Company has revised the disclosure of its station network. Please see page 65 of the Form S-1/A. With respect to the statement that the Company delivers more fuel at stations that experience higher traffic in busy metropolitan areas, the Company respectfully submits to the Staff that this general statement is sufficiently informative to give investors an intuitive sense of where the Company sells more fuel to vehicle fleets (i.e., stations located at airports sell more fuel than satellite stations located between busy metropolitan areas). The Company believes that disclosure of the specific number of stations located in "less populated areas" or "busy metropolitan areas," for example, does not give an investor material insight into why particular stations sell more or less fuel, as the circumstances for each station, and the needs of each vehicle fleet which fuels at a particular station, are different. Instead, by way of a different example, the Company has disclosed, by number and customer type, the numbers of stations which delivered in excess of both 100,000 and 25,000 (but less than 100,000) gasoline gallon equivalents for the month of March 2007. The Company believes this information is more useful to investors in explaining which types of stations deliver high volumes of CNG and LNG (e.g., stations located at airports and stations servicing transit fleets), and therefore which customers and markets the Company is targeting for growth.

10. We note your response to comment 44 in our letter dated October 3, 2006. Please include that response in your document.

**Response:** The Company notes the Staff's comment and has revised its disclosure accordingly. See footnote 3 to the table on page 98 of the Form S-1/A.

Consolidated Statements of Cash Flows, page F-6

11. Please tell us how you classified the following items on your statement of cash flows, including why this classification is appropriate:

- Borrowings under the line of credit;
- Payments to Sempra to satisfy excess margin calls;
- Receipt by Boone Pickens of all margin deposits related to contracts funded using the line of credit; and
- Cancellation of all amounts owed under the line of credit.

**Response:** The Company supplementally advises the Staff as follows:

- The Company has adjusted its cash flow statement for 2006 to reflect the gross borrowings and repayments under the line of credit. The Company has classified these payments as financing activities in its 2006 cash flow statement as the borrowings and repayments are made from/to the lender.
- The Company's derivative activities were an important component to its core operations. As a result, the Company records margin deposit activities as operating cash flows in its statements of cash flows.
- The amounts the Company owed to Boone Pickens under the line of credit have been paid in full with proceeds from the return of certain margin deposits the Company made using money borrowed under the line of credit. The Company has added disclosure related to the foregoing in the Form S-1/A. See pages 48 and 96 of the Form S-1/A.

12. You disclose on page 45 that cash used in operating activities increased in 2006 partially due to the payment of \$22.9 million in margin deposits that were not returned to you until January 2007. Yet, the change in "Margin deposits on future contracts" is minimal on your statement of cash flows in 2006. Due to the large increase in other receivables in 2006, we assume the payment of margin deposits in 2006 is reflected in "Accounts and other receivables." If so, please tell us why you did not include the payment and receipt of all margin deposits in the "Margin deposits on future contracts" line item. If not, please tell us why "Accounts and other receivables" increased significantly and "Margin deposits on futures contracts" changed only slightly in 2006.

**Response:** The Company supplementally advises the Staff that payments made to Sempra during 2006 were shown in its cash flow statement as increases to "Margin deposits on futures contracts" through December 28, 2006. On December 28, 2006, the Company transferred the amounts to "Accounts and other receivables" in connection with its transfer of the underlying futures contracts to Boone Pickens on this date. The Company transferred the deposits in the cash flow statement as they were no longer margin deposits at December 31, 2006, as the Company no longer owned the underlying futures contracts. The Company received payment on the receivable in January 2007.

Note (1) Summary of Significant Accounting Policies, page F-7

13. We note your response to comment 51 in our letter dated October 3, 2006. As there is diversity in how companies classify "freight out," please disclose your policy for classifying costs incurred to transport natural gas from your facilities to the customer in the statement of operations in accordance with APB 22 unless clearly immaterial.

**Response:** In response to the Staff's comment, the Company has disclosed its policy for classifying costs incurred to transport natural gas from its facilities to the customer. See page F-14 of the Form S-1/A.

Note (5) Stockholders' Equity, page F-15

(b) Stock Option Plan, page F-16

14. Please provide all disclosures required by paragraph A240 of SFAS 123R.

**Response:** In response to the Staff's comment, the Company has provided the disclosures required by paragraph A240 of SFAS No. 123(R). See pages F-11 and F-16 of the Form S-1/A.

Note (16) Earnings Per Share, page F-28

15. Please revise your calculation of diluted earnings per share to exclude only those securities for which the exercise price was equal to or greater than the average market price of your stock over the period, rather than the market price on the date of the calculation. See paragraph 18 of SFAS 128.

**Response:** The Company supplementally advises the Staff that it computed diluted earnings per share numbers on the average market price of its stock during that period and has revised its disclosure to state that fact. See page F-29 of the Form S-1/A.

Schedule II, page S-1

16. We note your response to comment 63 in our letter dated October 3, 2006 and the revisions to your disclosure. Please note that Schedule II should be covered by an audit report. See Rule 5-04(c) of Regulation S-X.

**Response:** The audit report of KPMG LLP has been revised to cover the Company's consolidated financial statements and related schedule. Please see page F-2 of the Form S-1/A.

Item 15. Recent Sales of Unregistered Securities, page II-1

(a) Issuances of Common Stock and Warrants, page II-1

17. As the issuance of securities under the Equity Option Agreement was at your "sole and exclusive option," please tell us the business reasons behind your decision to issue securities to Boone Pickens under this agreement in April 2006 when it appears the price per share you received was significantly lower than your estimated market price of \$10 a share, as disclosed in your response to comment 55 in our letter dated October 3, 2006. Furthermore, due to the difference in price per share and market price, please explain to us how you concluded that you were not required to record compensation expense in connection with this issuance.

**Response:** The Company supplementally advises the Staff that it entered into Equity Option Agreements in April 2005 with each of Boone Pickens and Perseus ENRG Investment, L.L.C. (Perseus) for purposes of raising capital on an expedited basis. In April 2005, the Company's board



of directors determined the fair market value of the Company's common stock to be \$2.96 per share, which is the exercise price under the Equity Option Agreements. The Company made capital calls under the Equity Option Agreements in May 2005 and November 2005 for proceeds of \$7 million and \$7 million, respectively, in each case for the purpose of meeting the Company's current capital needs. In January 2006, the Company's board of directors made an additional capital call pursuant to the Equity Option Agreements requesting that Mr. Pickens and Perseus invest \$18 million and \$3 million, respectively. In response to the capital call, Perseus funded \$3 million in February 2006 and Boone Pickens funded \$18 million in April 2006. The proceeds from the capital call were used for improvements at the Pickens Plant, the construction of fueling stations and other working capital needs. Based on the foregoing, the Company respectfully submits to the Staff that the issuances of shares to Perseus and Mr. Pickens in February 2006 and April 2006, respectively, were for capital raising purposes and were not compensatory in nature; and therefore the Company believes it is not required to record any compensation expense related to the issuance of shares to Boone Pickens in April 2006, particularly given that shares were issued to Perseus pursuant to the same capital call. Perseus provides no services to the Company.

Questions or comments regarding any matters with respect to the Form S-1/A may be directed to the undersigned at (858) 720-8942, or Robert L. Wernli, Jr. at (858) 720-8941. Comments may also be sent via facsimile to (858) 847-4865.

Very truly yours,

John J. Hentrich

for SHEPPARD, MULLIN, RICHTER & HAMPTON LLP

Enclosures

cc: Andrew J. Littlefair  
Richard R. Wheeler  
Stephen A. Massad  
Felix P. Phillips

