

AVENTINE RENEWABLE ENERGY HOLDINGS INC  
Form 10-Q  
November 09, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**for the quarterly period ended September 30, 2011**

**OR**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**for the transition period from            to            .**

**COMMISSION FILE NUMBER 001-32922**

**AVENTINE RENEWABLE ENERGY HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of Incorporation)

**05-0569368**  
(IRS Employer Identification No.)

**One Lincoln Centre**  
**5400 LBJ Freeway, Suite 450**  
**Dallas, TX**  
(Address of Principal Executive Offices)

**75240**  
(Zip Code)

**(214) 451-6750**

(Registrant's Telephone Number, including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Indicate by checkmark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. YES  NO

Indicate the number of shares outstanding of each class of Common Stock, as of the latest practicable date.

**Class**  
Common Stock, \$0.001 Par Value

**Outstanding as of October 28, 2011**  
7,489,666 Shares



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**FORM 10-Q**

**QUARTERLY REPORT**

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Table of Contents**Aventine Renewable Energy Holdings, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended September 30, 2011	Successor Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Seven Months Ended September 30, 2010	Predecessor Two Months Ended February 28, 2010
(In thousands, except per share amounts)					
Net sales	\$ 221,604	\$ 97,460	\$ 632,727	\$ 231,338	\$ 77,675
Cost of goods sold	(212,486)	(90,251)	(624,705)	(222,951)	(66,686)
Gross profit	9,118	7,209	8,022	8,387	10,989
Selling, general and administrative expenses	(7,389)	(9,243)	(26,431)	(23,595)	(4,608)
Start-up activities		(175)		(175)	
Other expenses	(736)	399	(2,678)	(1,260)	(515)
Operating income (loss)	993	(1,810)	(21,087)	(16,643)	5,866
Interest income	8	52	51	67	
Interest expense	(7,107)	(2,051)	(18,449)	(5,151)	(1,422)
(Loss) gain on derivative transactions, net	(6,303)	(233)	(6,627)	206	
Loss on available for sale securities		(1,753)		(1,753)	
Loss on early retirement of debt	(639)		(10,038)		
Other non-operating income	1,945	35	1,875	245	
Income (loss) before reorganization items and income taxes	(11,103)	(5,760)	(54,275)	(23,029)	4,444
Reorganization items					(20,282)
Gain due to plan effects					136,574
Loss due to fresh start accounting adjustments					(387,655)
Loss before income taxes	(11,103)	(5,760)	(54,275)	(23,029)	(266,919)
Income tax expense (benefit)	74	881	45	(29)	(626)
Net loss	\$ (11,177)	\$ (6,641)	\$ (54,320)	\$ (23,000)	\$ (266,293)
Loss per common share basic	\$ (1.23)	\$ (0.76)	\$ (6.13)	\$ (2.63)	\$ (6.14)
Basic weighted-average number of shares	9,114	8,585	8,855	8,583	43,401
Loss per common share diluted	\$ (1.23)	\$ (0.76)	\$ (6.13)	\$ (2.63)	\$ (6.14)
Diluted weighted-average number of common and common equivalent shares	9,114	8,585	8,855	8,583	43,401

*See notes to condensed consolidated financial statements.*

Table of Contents**Aventine Renewable Energy Holdings, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

	September 30, 2011 (Unaudited) (In thousands, except share and per share amounts)	Successor December 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 22,101	\$ 34,533
Restricted cash	5,752	164,765
Short-term investments	429	
Accounts receivable, net of allowance for doubtful accounts of \$51 in 2011 and \$75 in 2010	12,701	11,571
Inventories	52,039	44,179
Income taxes receivable	917	954
Prepaid expenses and other current assets	9,336	14,185
Total current assets	103,275	270,187
Property, plant and equipment, net	297,608	296,289
Restricted cash		16,211
Other assets	14,969	11,291
Total assets	\$ 415,852	\$ 593,978
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 2,282	\$ 157,718
Current obligations under capital leases	282	789
Accounts payable	18,471	23,311
Short term borrowings	6,000	
Accrued liabilities	3,193	4,906
Other current liabilities	15,308	10,589
Total current liabilities	45,536	197,313
Long-term debt	214,284	190,239
Deferred tax liabilities	2,027	2,026
Other long-term liabilities	2,641	2,742
Total liabilities	264,488	392,320
Stockholders' equity:		
Common stock, par value \$0.001 per share (15,000,000 shares authorized; 7,489,666 shares outstanding, net of 28,771 shares held in treasury at September 30, 2011; 7,448,916 shares outstanding, net of 7,791 shares held in treasury at December 31, 2010)	8	8
Preferred stock (5,000,000 shares authorized; no shares issued or outstanding)		
Additional paid-in-capital	231,653	227,360
Retained deficit	(79,784)	(25,464)
Accumulated other comprehensive loss, net	(513)	(246)
Total stockholders' equity	151,364	201,658
Total liabilities and stockholders' equity	\$ 415,852	\$ 593,978

*See notes to condensed consolidated financial statements.*

Table of Contents**Aventine Renewable Energy Holdings, Inc. and Subsidiaries****Condensed Consolidated Statements of Stockholders Equity (Deficit)****(Unaudited)**

	Treasury Shares	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit) (In thousands)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders Equity
Predecessor balance at January 1, 2010	21,548,640	43,048,158	\$ 44	\$ 294,297	\$ (28,421)	\$ 1,612	\$ 267,532
Stock option exercises				330			330
Stock-based compensation				43			43
Comprehensive loss:							
Net loss					(266,293)		(266,293)
Pension and postretirement liability adjustment, net of tax						(3)	(3)
Unrealized holding gain on available-for-sale securities, net of tax						765	765
Total comprehensive loss							(265,531)
Cancellation of Predecessor common stock	(21,548,640)	(43,048,158)	(44)				(44)
Reorganization and fresh start accounting adjustments				(294,670)	294,714	(2,374)	(2,330)
Predecessor balance at February 28, 2010			\$	\$	\$	\$	\$
Issuance of equity in connection with emergence from bankruptcy		6,614,882	8	219,916			219,924
Successor balance at February 28, 2010		6,614,882	\$ 8	\$ 219,916	\$	\$	\$ 219,924
Stock option exercises				558			558
Stock-based compensation		98		1,172			1,172
Comprehensive loss:							
Net loss					(7,100)		(7,100)
Unrealized holding loss on available-for-sale securities, net of tax						(985)	(985)
Total comprehensive loss							(8,085)
Balance at March 31, 2010		6,614,980	\$ 8	\$ 221,646	\$ (7,100)	\$ (985)	\$ 213,569
Stock option exercises							
Stock-based compensation		230,078		1,152			1,152
Warrants exercised		144		6			6
Purchase of treasury stock	7,791			(355)			(355)
Comprehensive loss:							
Net loss					(9,259)		(9,259)
Unrealized holding loss on available-for-sale securities, net of tax						(1,482)	(1,482)
Total comprehensive loss							(10,741)
Balance at June 30, 2010	7,791	6,845,202	\$ 8	\$ 222,449	\$ (16,359)	\$ (2,467)	\$ 203,631
Stock option exercises							
Stock-based compensation		563,202		1,262			1,262
Warrants exercised							
Purchase of treasury stock							
Comprehensive loss:							
Net loss					(6,641)		(6,641)



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Unrealized holding gain on available-for-sale securities, net of tax										2,469	2,469
<b>Total comprehensive loss</b>											<b>(4,172)</b>
Balance at September 30, 2010	7,791	7,408,404	\$	8	\$	223,711	\$	(23,000)	\$	2	\$ 200,721

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	Treasury Shares	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit) (In thousands)	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders Equity
Balance at January 1, 2011	7,791	7,456,707	\$ 8	\$ 227,360	\$ (25,464)	\$ (246)	\$ 201,658
Stock-based compensation		32,536		1,702			1,702
Warrants exercised		130		5			5
Repurchases of common stock	20,980			(557)			(557)
Comprehensive loss:							
Net loss					(19,261)		(19,261)
Total comprehensive loss							(19,261)
Balance at March 31, 2011	28,771	7,489,373	\$ 8	\$ 228,510	\$ (44,725)	\$ (246)	\$ 183,547
Stock-based compensation				2,905			2,905
Stock option exercises		29,064		339			339
Issuance of stock units				183			183
Comprehensive loss:							
Net loss					(23,882)		(23,882)
Total comprehensive loss							(23,882)
Balance at June 30, 2011	28,771	7,518,437	\$ 8	\$ 231,937	\$ (68,607)	\$ (246)	\$ 163,092
Stock-based compensation				(284)			(284)
Warrants exercised							
Comprehensive loss:							
Net loss					(11,177)		(11,177)
Pension and post retirement adjustment						5	5
Unrealized holding loss on available for sale Securities						(272)	(272)
Total comprehensive loss							(11,444)
Balance at September 30, 2011	28,771	7,518,437	\$ 8	\$ 231,653	\$ (79,784)	\$ (513)	\$ 151,364

*See notes to condensed consolidated financial statements.*

Table of Contents**Aventine Renewable Energy Holdings, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	Successor Nine Months Ended September 30, 2011	Successor Seven Months Ended September 30, 2010 (In thousands)	Predecessor Two Months Ended February 28, 2010
<b>Operating Activities</b>			
Net loss	\$ (54,320)	\$ (23,000)	\$ (266,293)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for rejected executory contracts and leases			9,590
Depreciation and amortization	21,609	6,411	2,795
Stock-based compensation expense	4,845	4,144	277
Deferred income tax		(910)	
Loss on Renewable Identification Numbers (RINs)	99		
Non-cash gain due to plan effects			(136,574)
Non-cash loss due to fresh start accounting adjustments			387,655
Loss on early retirement of debt	10,038		
Non-cash loss on available-for-sale securities		1,753	
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,130)	(209)	2,560
Income tax receivable	37		
Inventories	(7,860)	2,164	1,543
Prepaid expenses and other current assets	882	1,713	
Other assets	569	(2,517)	1,339
Accounts payable	(4,839)	(6,049)	7,061
Other liabilities	2,487	1,854	(21,640)
Net cash used in operating activities	(27,583)	(14,646)	(11,687)
<b>Investing Activities</b>			
Additions to property, plant and equipment, net	(20,171)	(50,537)	(2,086)
Canton, Illinois facility acquisition		(18,613)	
Net cash used in investing activities	(20,171)	(69,150)	(2,086)
<b>Financing Activities</b>			
Proceeds from the issuance of debt	25,000		
Repayment of senior secured notes	(155,000)		
Payment of term loan	(1,625)		
Draw on revolving facility	6,000		
Repayment of short-term note payable	(21)	(5,252)	
Restricted cash	175,225	(3,783)	(7,833)
Penalty on early retirement of debt	(8,350)		
Payments on capital lease obligations	(646)	(153)	
Long-term liabilities assumed on Canton, Illinois facility		1,745	
Proceeds from issuance of senior secured notes		50,750	98,119
Debt issuance costs	(5,266)	(2,546)	(1,190)
Net repayments on revolving credit facilities			(27,765)

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Repayments of debtor-in-possession debt facility				(15,000)
Repurchase of treasury shares			(355)	
Proceeds from warrants exercised	5		6	
Proceeds from stock option exercises				96
Net cash provided by financing activities	35,322		40,412	46,427
Net increase (decrease) in cash and equivalents	(12,432)		(43,384)	32,654
Cash and equivalents at beginning of the period	34,533		85,239	52,585
Cash and equivalents at end of the period	\$ 22,101	\$	41,855	\$ 85,239

*See notes to condensed consolidated financial statements.*

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**Aventine Renewable Energy Holdings, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**1. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements include the accounts of Aventine Renewable Energy Holdings, Inc. and its subsidiaries, which are collectively referred to as "Aventine" or the "Company", unless the context otherwise requires. All significant intercompany transactions have been eliminated in consolidation.

The Company has prepared the unaudited condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. As of September 30, 2011, the Company's Summary of Critical Accounting Policies for the year ended December 31, 2010, which are detailed in the Company's Annual Report on Form 10-K, have not changed.

On February 28, 2010, the Company applied fresh start accounting which requires assets and liabilities to be reflected at fair value. The financial information set forth in this report, unless otherwise expressly set forth or as the context otherwise indicates, reflects the consolidated results of operations and financial condition of Aventine and its subsidiaries on a fresh start basis for the period following February 28, 2010 ("Successor"), and of Aventine and its subsidiaries on a historical basis for the periods through February 28, 2010 ("Predecessor").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Areas involving significant judgments and estimates include depreciation, income taxes, fresh start accounting, and fair value measurements. Actual results could differ from those estimates.

The accompanying unaudited condensed consolidated financial statements for the prior period contain certain reclassifications to conform to the presentation used in the current period. At September 30, 2011, the Company reclassified \$1.6 million of debt related fees from "Current maturities of long-term debt" into "Long-term debt" on the condensed consolidated balance sheet for December 31, 2010. Additionally, at September 30, 2011, the Company reclassified a portion of depreciation expense from "Cost of goods sold" during the three months and seven months ended September 30, 2010 into "Selling, general and administrative expenses" on the condensed consolidated statements of operations. Such reclassification resulted in an increase in gross profit of \$187 thousand and \$253 thousand, respectively, for the three months and seven months ended September 30, 2010. The reclassifications had no impact on stockholders' equity or net income.

The accompanying unaudited condensed consolidated financial statements presented herewith reflect all adjustments (consisting of only normal and recurring adjustments unless otherwise disclosed) which, in the opinion of management, are necessary for a fair presentation of the results of operations for the three months ended September 30, 2011 and 2010, nine months ended September 30, 2011, seven months ended

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September 30, 2010 and two months ended February 28, 2010. The results of operations for interim periods are not necessarily indicative of results to be expected for an entire year.

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**2. BANKRUPTCY PROCEEDINGS AND RELATED EVENTS**

On April 7, 2009 (the *Petition Date*), Aventine and all of its direct and indirect subsidiaries (collectively, the *Debtors*), filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the *Bankruptcy Code*) with the United States Bankruptcy Court for the District of Delaware (the *Bankruptcy Court*). The Debtors filed their First Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code on January 13, 2010 (as modified, the *Plan*). The Plan was confirmed by order entered by the Bankruptcy Court on February 24, 2010 (the *Confirmation Order*) and became effective on March 15, 2010 (the *Effective Date*), the date on which the Company emerged from protection under Chapter 11 of the Bankruptcy Code. Accounting Standards Codification (ASC) 852, *Reorganizations* (ASC 852), which is applicable to companies in Chapter 11 proceedings, generally does not change the manner in which financial statements are prepared while the company remains in Chapter 11 proceedings. However, ASC 852 does require that the financial statements for periods subsequent to the *Petition Date* and prior to the *Effective Date* distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses (including professional fees), realized gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business must be reported separately as reorganization items in the condensed consolidated statements of operations. The condensed consolidated balance sheet must distinguish pre-petition liabilities subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities that may be affected by the Plan must be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. In addition, cash provided by reorganization items must be disclosed separately in the condensed consolidated statement of cash flows. ASC 852 became effective for Aventine on April 7, 2009, and Aventine segregated those items for all applicable reporting periods subsequent to such date through the *Effective Date*.

Until emergence on the *Effective Date*, the Debtors were operating as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. In general, as debtors-in-possession, the Debtors were authorized to continue to operate as ongoing businesses, but could not engage in transactions outside the ordinary course of business without the approval of the Bankruptcy Court.

The consolidated financial statements prior to March 1, 2010 reflect results based upon the historical cost basis of the Company while the post-emergence consolidated financial statements reflect the new basis of accounting incorporating the fair value adjustments made in recording the effects of fresh start reporting. Therefore, the post-emergence periods are not comparable to the pre-emergence periods. As a result of the application of fresh start accounting, the Company's consolidated financial statements prior to and including February 28, 2010 represent the operations of its pre-reorganization predecessor company and are presented separately from the consolidated financial statements of its post-reorganization successor company.

The term *Predecessor* refers only to the Company and its subsidiaries prior to the *Effective Date*, and the term *Successor* refers only to the Company and its subsidiaries subsequent to the *Effective Date*. Unless the context indicates otherwise, the terms *Aventine* and the *Company* are used interchangeably in this Quarterly Report on Form 10-Q to refer to both the *Predecessor* and *Successor Company*.

***Fresh Start Accounting and Selection of Convenience Date***

The Company emerged from bankruptcy on March 15, 2010. In accordance with ASC 852, the Company adopted fresh start accounting and adjusted the historical carrying value of its assets and liabilities to their respective fair values at the *Effective Date*. Simultaneously, the Company determined the fair value of its equity at the *Effective Date*. The Company selected an accounting convenience date (the *Convenience Date*) proximate to the *Effective Date* for purposes of making the aforementioned





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adjustments to historical carrying values, because the activity between the Effective Date and the Convenience Date does not result in a material difference in the results. The Company selected a Convenience Date of February 28, 2010. As a result, the Company recorded fresh start accounting adjustments to historical carrying values of assets and liabilities as of February 28, 2010 using market prices, discounted cash flow methodologies based primarily on observable market information and, to a lesser extent, on unobservable market information, and other techniques. The fresh start accounting adjustments are reflected in the condensed consolidated balance sheet at February 28, 2010 and in the condensed consolidated statement of operations for the two months ended February 28, 2010. The Company's condensed consolidated statement of operations for the seven months ended September 30, 2010 reflect the results of successor operations.

The Company's adoption of fresh start accounting resulted in the Company becoming a new entity as of the Effective Date, with a new capital structure, a new accounting basis in the identifiable assets and liabilities assumed and no retained earnings or accumulated losses. The condensed consolidated financial statements on or after March 1, 2010 are not comparable to the condensed consolidated financial statements prior to that date. The condensed consolidated financial statements for the periods ended prior to February 28, 2010 do not include the effect of any changes in the Company's capital structure or changes in the fair value of assets and liabilities as a result of fresh start accounting.

A full discussion of the determination of the value assigned to the equity of the emerging company as of the Effective Date, the balance sheet reorganization adjustments, the impact of the Plan and the adoption of fresh start accounting is contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**3. RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-05, *Presentation of Comprehensive Income* ( ASU 2011-05 ), which changes the presentation requirements of comprehensive income to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-05 will have a material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards* ( IFRS ) ( ASU 2011-04 ), which changes certain fair value measurement and disclosure requirements, clarifies the application of existing fair value measurement and disclosure requirements and provides consistency to ensure that GAAP and IFRS fair value measurement and disclosure requirements are described in the same way. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company does not anticipate that the adoption of ASU 2011-04 will have a material impact on its consolidated financial statements.

**4. NET LOSS PER SHARE**

Basic loss per share excludes any dilution and is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other

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contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity unless inclusion of such securities or contracts would be antidilutive. The dilution from each of these instruments is calculated using the treasury stock method.

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The weighted average outstanding equity instruments that could potentially dilute basic loss per share in the future but were not included in the computation of diluted loss per share because they were antidilutive are as follows:

	<b>Three Months Ended September 30, 2011</b>	<b>Successor Three Months Ended September 30, 2010</b>	<b>Nine Months Ended September 30, 2011 (In thousands)</b>	<b>Seven Months Ended September 30, 2010</b>	<b>Predecessor Two Months Ended February 28, 2010</b>
Stock options	113		110		2,585
Restricted stock units	126		126		
Totals	239		236		2,585

The Company used the two-class method to compute basic and diluted loss per share for all periods presented. The reconciliation of the net loss, net loss attributable to common shareholders and the weighted average number of share and share equivalents used in the computations of basic and diluted loss per share for the three months ended September 30, 2011 and 2010, nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010 are as follows:

	<b>Three Months Ended September 30, 2011</b>	<b>Successor Three Months Ended September 30, 2010</b>	<b>Nine Months Ended September 30, 2011 (In thousands, except per share amounts)</b>	<b>Seven Months Ended September 30, 2010</b>	<b>Predecessor Two Months Ended February 28, 2010</b>
Net loss	\$ (11,177)	\$ (6,641)	\$ (54,320)	\$ (23,000)	\$ (266,293)
Less net loss allocated to participating securities		(132)		(419)	
Net loss attributable to common shareholders	\$ (11,177)	\$ (6,509)	\$ (54,320)	\$ (22,581)	\$ (266,293)
Weighted average shares and share equivalents outstanding:	9,114	8,585	8,855	8,583	43,401
Basic and diluted shares	\$ (1.23)	\$ (0.76)	\$ (6.13)	\$ (2.63)	\$ (6.14)

For the three and nine months ended September 30, 2011, 1.2 million shares contemplated by the Plan to be distributed to holders of allowed general, unsecured claims are included in the calculation of basic loss per share. For the three and seven months ended September 30, 2010, 1.9 million shares contemplated by the Plan to be distributed to holders of allowed general, unsecured claims are included in the calculation of basic loss per share.

## 5. FAIR VALUE MEASUREMENTS

In accordance with ASC 820, *Fair Value Measurements and Disclosures*, the Company categorizes its investments and certain other assets and liabilities recorded at fair value into a three-level fair value hierarchy as follows:

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- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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Table of Contents***Fair Value Hierarchy on a Recurring Basis***

The following tables summarize the valuation of the Company's financial instruments which are carried at fair value as of September 30, 2011 and December 31, 2010.

	Fair Value	Fair Value Measurements at September 30, 2011		
		Level 1	Level 2	Level 3
(In thousands)				
Cash and cash equivalents	\$ 22,101	\$ 22,101	\$	\$
Derivative contracts	\$ 536	\$ 536	\$	\$
Available for sale securities	\$ 429	\$ 429	\$	\$
Renewable Identification Numbers	\$ 44	\$ 44	\$	\$

	Fair Value	Fair Value Measurements at December 31, 2010		
		Level 1	Level 2	Level 3
(In thousands)				
Cash and cash equivalents	\$ 34,533	\$ 34,533	\$	\$
Derivative contracts	\$ 1,081	\$ 1,081	\$	\$
Renewable Identification Numbers	\$ 138	\$ 138	\$	\$

The Company did not hold any financial assets requiring the use of Level 2 or Level 3 inputs at September 30, 2011 and December 31, 2010.

***Realized and unrealized gains (losses)***

For the three months and nine months ended September 30, 2011, the Company recorded net losses of \$6.3 million and \$6.6 million, respectively, related to the change in the fair value of its derivative transactions. For the three months ended September 30, 2010, the seven months ended September 30, 2010 and the two months ended February 28, 2010, the Company recorded a net loss of \$0.2 million, and net gains of \$0.2 million and \$0, respectively, related to the change in the fair value of its derivative transactions. Such losses and gains were recorded in (Loss) gain on derivative transactions, net on the condensed consolidated statements of operations. In the second quarter of 2011, we entered into commodity transactions using financial instruments, including futures and swaps, to lock in future margin which was present for July to December. As the broader industry margins expanded, we experienced losses on these positions in our brokerage account. We did not have the same opportunity to lock in positive margins in 2010, and therefore did not have the same exposure in the brokerage account.

At September 30, 2011 and December 31, 2010, the Company had short-term investments in Renewable Identification Numbers ( RINs ), which were held for investment purposes. In order to monitor the mandated increase in renewable energy production, the Environmental Protection Agency (the EPA ) requires each gallon of renewable fuel produced to have a unique serial number, a RIN, attached to it. Petroleum refiners then turn these RINs in to the EPA each year to prove that the petroleum refiners have blended the required amount of renewable fuel into their gasoline. For the three months and nine months ended September 30, 2011, the Company recorded net realized losses on RINs held for trading purposes of \$21.7 thousand and \$99.8 thousand, respectively, which were recorded in Other non-operating income (expense) on the Company's condensed consolidated statement of operations. There were \$274.4 thousand of losses on RINs for the nine months ended September 30, 2010.

At September 30, 2011, available for sale securities consisted of 425,000 shares of Imperial stock received in a legal settlement and were presented in the balance sheet at fair market value. Cumulative unrealized holding losses of \$272 thousand were presented in Accumulated other comprehensive income (loss) ( OCI ) on the consolidated balance sheet. These OCI adjustments are reported before tax effect

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due to a valuation allowance fully offsetting the tax effect of these adjustments. The Company recorded a gain of \$2 thousand for the seven months ended September 30, 2010 and a gain of \$765 thousand for the two months ended February 28, 2010 in Accumulated other comprehensive loss on the condensed consolidated balance sheet for changes in the fair value of its available for sale securities. At each reporting date, the Company performed an evaluation of impaired equity securities to determine if the unrealized loss was other-than-temporary. Such evaluation consisted of a number of factors including, but not limited to, the length of time and extent to which the fair value had been less than cost, the financial condition and near term prospects of the issuer and management's ability and intent to hold the securities until fair value recovered. The assessment of the ability and intent of to hold these securities to recovery focused on liquidity needs, asset/liability management objectives and security portfolio objectives. Based on the results of the evaluation, management concluded that as of September 30, 2011, the unrealized losses related to such equity securities were temporary.

*Financial instruments not reported at fair value*

The carrying value of other financial instruments, including restricted cash, accounts receivable and accounts payable and accrued liabilities approximate fair value due to their short maturities or variable-rate nature of the respective balances. The term loan is at a variable rate and therefore the carrying value approximates the fair value. The fair value of the Company's \$105 million principal amount of 13% senior secured notes due 2015 (the Notes) approximated fair value at December 31, 2010 based on notification of redemption on December 22, 2010. The Notes were redeemed on January 21, 2011 at 105% of their carrying value, including a prepayment penalty.

**6. INVENTORY**

Inventories primarily consist of agricultural and energy-related commodities, including corn, ethanol, and coal, and were as follows at September 30, 2011 and December 31, 2010:

	September 30, 2011	Successor December 31, 2010
	(In thousands)	
Finished products	\$ 34,314	\$ 27,984
Work-in-process	6,873	6,008
Raw materials	10,852	10,187
Total	\$ 52,039	\$ 44,179

**7. DERIVATIVE INSTRUMENTS AND HEDGING**

The Company's operations and cash flows are subject to fluctuations due to changes in commodity prices. As such, the Company has historically used various derivative financial instruments to minimize the effects of the volatility of commodity price changes primarily related to corn, natural gas, and ethanol. The Company monitors and manages its exposure as part of its overall risk management policy. As such, the Company seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results. The Company may take derivative positions in these commodities as one way to mitigate risk.

The Company is subject to market risk with respect to the price and availability of corn, the principal raw material it uses to produce ethanol and ethanol by-products. In general, rising corn prices result in lower profit margins and, therefore, represent unfavorable market conditions. This is especially true when market conditions do not allow the Company to pass along increased corn costs to its customers. The availability and price of corn is subject to wide fluctuations due to unpredictable factors such as weather conditions, farmer planting decisions, governmental policies with respect to agriculture and international



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trade and global supply and demand. From time to time, the Company may have firm-price purchase commitments with some of its corn suppliers under which the Company agrees to buy corn at a price set in advance of the actual delivery of that corn. Under these arrangements, the Company assumes the risk of a price decrease in the market price of corn between the time this price is fixed and the time the corn is delivered. The Company accounts for these transactions as normal purchases under ASC 815, *Derivatives and Hedging* (ASC 815), and accordingly, it does not mark these transactions to market.

The Company is also subject to market risk with respect to ethanol pricing. The Company's ethanol sales are priced using contracts that can either be fixed, based upon an index price of ethanol plus or minus a fixed amount or based upon a market price at the time of shipment. The Company sometimes fixes the price at which it sells ethanol using fixed price physical delivery contracts. The Company has elected to account for these transactions as normal sales transactions under ASC 815, and accordingly, it has not marked these transactions to market.

Derivative instruments not designated as hedging instruments under ASC 815 at September 30, 2011 and December 31, 2010:

Type	Balance Sheet Classification	Successor	
		September 30, 2011	December 31, 2010
(In thousands)			
Corn and ethanol futures positions	Other current assets	\$ (2,252)	\$ 1,081

The realized and unrealized effect on the Company's condensed consolidated statement of operations for derivatives not designated as hedging instruments under ASC 815 for the three months ended September 30, 2011 and 2010, nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010 were as follows:

		Successor				Predecessor
		Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Seven Months Ended September 30, 2010	Two Months Ended February 28, 2010
Corn	(Loss) gain on derivative transactions	\$ (2,154)	\$ 2,397	\$ (4,571)	\$ 2,722	\$
Ethanol	(Loss) gain on derivative transactions	(4,149)	(2,630)	(2,056)	(2,516)	
	(Loss) gain on derivative transactions, net	\$ (6,303)	\$ (233)	\$ (6,627)	\$ 206	\$

**8. SHORT-TERM BORROWINGS**

*Senior Secured Revolving Credit Facility with PNC Bank*

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Pursuant to the Plan, on the Effective Date, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit and Security Agreement (the Revolving Credit Agreement ) with PNC Bank, National Association, as lender and as agent ( PNC ), providing for a \$20 million revolving credit facility (the Revolving Facility ). On February 28, 2011, the Company amended the Revolving Facility which increased the maximum loan amount to \$30.0 million.

On July 20, 2011, the Revolving Credit Agreement with PNC was terminated and replaced with a revolving credit facility (the New Revolving Facility ) with Wells Fargo Capital Finance, LLC ( Wells Fargo ). Although the Revolving Facility was terminated, as of September 30, 2011 not all of the outstanding letters of credit had been transferred to Wells Fargo Capital Finance, LLC, under the New Revolving Facility. At September 30, 2011, the Company had \$5.5 million in letters of credit outstanding under the Revolving Facility with PNC, which were collateralized by \$5.8 million in a restricted cash

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account.

*Revolving Credit Facility with Wells Fargo*

On July 20, 2011, Aventine and each of its subsidiaries, as co-borrowers (collectively, the Borrowers), entered into the New Revolving Facility with the lenders party thereto (the Lenders), and Wells Fargo as Lender and as agent for the Lenders (the New Revolving Facility Agreement) with a \$50.0 million commitment (the Commitments). Borrowings under the New Revolving Facility will be used for general corporate purposes, and are limited to eligible accounts receivable and eligible inventory. The Company terminated the Revolving Credit Agreement with PNC and paid a \$600 thousand early termination fee. In addition, the Company expensed \$39 thousand in related unamortized debt issuance costs. Both items are included in debt extinguishment costs for the three and nine months ended September 30, 2011. The Company capitalized \$2.3 million in debt issuance costs for the three and nine months ended September 30, 2011 related to the New Revolving Facility Agreement. These costs will be amortized using the straight-line method over the term of the New Revolving Facility Agreement. The Company recognized \$114 thousand of expense for the amortization of debt issuance costs related to the New Revolving Facility Agreement during the three and nine months ended September 30, 2011.

The loans under the New Revolving Facility will mature on the earlier of (a) July 20, 2015 and (b) the date that is six (6) months before the maturity date of the indebtedness under the Term Loan Agreement (as defined below) (or if the indebtedness under the Term Loan Agreement is fully refinanced or replaced, the maturity date of such refinanced or replaced indebtedness). The New Revolving Facility has a borrowing base principally supported by the inventory and accounts receivable of the Borrowers.

The rights and obligations of the lenders under the Revolving Credit Agreement have been assigned from PNC to Wells Fargo under the New Revolving Facility Agreement. The New Revolving Facility Agreement includes a grant of liens on substantially all of the assets of the Borrowers. The security interests granted under the New Revolving Facility in the assets (including inventory and accounts receivable) other than substantially all of Borrowers' fixed assets will be first priority in nature, subject to customary exceptions, and the security interests in the collateral constituting substantially all of the Borrowers' fixed assets will be second priority in nature, and subject to customary liens and the first priority lien on such assets under Aventine's senior secured term loan credit agreement dated as of December 22, 2010 by and among Aventine, as borrower, Citibank, N.A., as administrative agent and collateral agent (in such capacity, the Term Loan Agent), the lenders party thereto and certain other persons (as amended, and as may be amended, supplemented or otherwise modified from time to time, the Term Loan Agreement).

Borrowings under the New Revolving Facility Agreement will bear interest at (i) the London Interbank Offered Rate (LIBOR) plus 3.0% to 3.5% or (ii) the alternate base rate plus 2.0% to 2.5%. The applicable margin on loans under the New Revolving Facility will be re-determined on the first day of each fiscal quarter of Aventine by calculating the average amount that the Borrowers are entitled to borrow under the New Revolving Facility (after giving effect to any outstanding borrowings thereunder) as a proportion of the Commitments (as decreased by the amount of reductions in the Commitments pursuant to the New Revolving Facility). The alternate base rate will be calculated based on the greater of (A) the Federal funds rate plus 1/2 of 1.0%, (B) the LIBOR rate (calculated based upon an interest period of three months and determined on a daily basis), plus 1.0% and (C) the rate of interest announced, from time to time, by Wells Fargo Bank, National Association, as its prime rate.

The New Revolving Facility Agreement requires mandatory prepayment of the obligations thereunder in the event that the amount of (i) outstanding revolving loans under the New Revolving Facility plus (ii) the aggregate undrawn amount of all outstanding letters of credit issued by certain Lenders exceeds the Borrowing Base (as defined in the New Revolving Facility Agreement).



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The New Revolving Facility Agreement contains customary affirmative and negative covenants concerning the conduct of Aventine's business operations, such as limitations on the incurrence of indebtedness, the granting of liens, maintenance of operations, mergers, consolidations and dispositions of assets, restricted payments and the payment of dividends, investments and transactions with affiliates.

The New Revolving Facility Agreement contains a financial covenant that will require Aventine to maintain minimum liquidity levels of \$15.0 million. The New Revolving Facility Agreement also includes customary events of default, including, but not limited to, failure to pay principal or interest, failure to pay or default under other material debt, misrepresentation or breach of warranty, violation of certain covenants, a change of control, the commencement of a bankruptcy proceeding, Aventine or its subsidiaries' insolvency and the rendering of a judgment or judgments against Aventine or its subsidiaries in excess of a specified amount individually or in the aggregate. Upon the occurrence of an event of default, Aventine's obligations under the New Revolving Facility Agreement may be accelerated and all indebtedness thereunder would become immediately due and payable.

At September 30, 2011, the Company had short term borrowings and letters of credit outstanding of \$6.0 million and \$3.9 million, respectively, under the New Revolving Facility.

## 9. LONG-TERM DEBT

The following table summarizes the Company's outstanding debt:

	September 30, 2011	Successor December 31, 2010
	(In thousands)	
Senior secured term loan credit agreement due December 2015 (net of discount of \$7,013 and \$8,000, respectively, in 2011 and 2010)	\$ 216,362	\$ 192,042
Senior secured notes due March 2015 (including unamortized premium of \$689 at December 31, 2010)		155,689
Other	204	226
	\$ 216,566	\$ 347,957
Less: current maturities of long-term debt	(2,282)	(157,718)
Total long-term debt, net	\$ 214,284	\$ 190,239

### *Senior Secured Term Loan Credit Agreement*

On December 22, 2010, the Company entered into the Term Loan Agreement with the Term Loan Agent, the lenders party thereto, Citigroup Global Markets Inc. and Jefferies Finance LLC, as joint lead arrangers and joint book-runners, and Citibank, N.A. and Jefferies Finance LLC, as co-syndication agents. Under the Term Loan Agreement, the lenders provided to the Company an aggregate principal amount \$200 million term loan facility (the Term Loan Facility). The Term Loan Facility was issued net of original issue discount of \$8.0 million.

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Also on December 22, 2010, the Company gave notice of redemption pursuant to the indenture dated as of the Effective Date among the Company, each of the Company's direct and indirect wholly-owned subsidiaries, as guarantors, and Wilmington Trust FSB, as trustee and collateral agent, providing that it would redeem all \$155.0 million aggregate principal amount of Notes at a redemption price of 105% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the redemption date. Concurrently with the closing of the Term Loan Agreement, the Company irrevocably deposited in trust with the trustee for the Notes, \$164.8 million of the proceeds from the Term Loan Facility, funds sufficient to pay the redemption price for all \$155.0 million aggregate principal amount of the Notes. Accordingly, the Notes and the restricted cash for payment of the Notes were included in current liabilities and current

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assets, respectively, in the condensed consolidated balance sheet at December 31, 2010. The Company redeemed such Notes on January 21, 2011. In connection with the redemption, the Company paid \$164.8 million, of which \$155.0 million related to the principal amount of the Notes, \$7.8 million related to a prepayment penalty on the Notes and \$2.0 million related to interest on the Notes.

On April 7, 2011, the Company entered into an incremental amendment (the Incremental Amendment) with the Term Loan Agent and Macquarie Bank Limited, as lender (Macquarie), to the Company's Term Loan Agreement. Pursuant to the Incremental Amendment, Macquarie loaned an aggregate principal amount equal to \$25.0 million, before fees of \$1.3 million in fees, to the Company. The loan under the Incremental Amendment has substantially the same terms as the existing loans under the Term Loan Agreement, including seniority, ranking in right of payment and of security, maturity date, applicable margin and interest rate floor. The Company continues to be subject to all other terms and restrictions contained in the original Term Loan Agreement.

Borrowings under the Term Loan Agreement bear interest at (i) LIBOR plus 8.5% per annum or (ii) the alternate base rate plus 7.5% per annum. The LIBOR rate is subject to a 2% floor. The alternate base rate will be calculated based on the greater of (i) 3% per annum and (ii) the highest of (A) the Federal funds rate plus 1/2 of 1%, (B) the LIBOR rate for an interest period of one month plus 1%, (C) the three-month certificate of deposit rate plus 1/2 of 1%, and (D) Citibank, N.A.'s prime rate.

On July 20, 2011, Aventine entered into an amendment (Citi Amendment) to the Term Loan Agreement with the lenders party thereto and the Term Loan Agent. Under the terms of the Citi Amendment, the amount of indebtedness that Aventine is permitted to incur under the New Revolving Facility (including bank products and hedging obligations) is capped at \$58.0 million. The Citi Amendment reduces Aventine's minimum liquidity covenant for 2012 from \$25.0 million to \$15.0 million. The Citi Amendment also includes certain technical amendments to permit the New Revolving Facility.

**10. INTEREST EXPENSE**

The following table summarizes interest expense:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Successor Nine Months Ended September 30, 2011	Seven Months Ended September 30, 2010	Predecessor Two Months Ended February 28, 2010
	(In thousands)				
Term loan facility	\$ 6,009	\$	\$ 17,174	\$	\$
Senior secured notes		4,171	1,119	8,190	
Revolving credit facility	38		38		600
Debtor-in-possession debt facility					502
Amortization of original issue discount and deferred debt issuance costs	852	57	2,157	57	313
Other	265	5	827	108	7
Capitalized interest	(57)	(2,182)	(2,866)	(3,204)	
Interest expense, net	\$ 7,107	\$ 2,051	\$ 18,449	\$ 5,151	\$ 1,422

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During the three months and nine months ended September 30, 2011, the Company recorded \$0.1 million and \$2.9 million, respectively, of capitalized interest related to its capacity expansion projects. During the three months ended September 30, 2010 and the seven months ended September 30, 2010, the Company recorded \$2.2 million and \$3.2 million, respectively, of capitalized interest related to its capacity expansion projects. The Company did not record capitalized interest during the two months ended February 28, 2010.

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**11. COMMITMENTS AND CONTINGENCIES**

*Environmental Remediation and Contingencies*

The Company is subject to extensive federal, state and local environmental laws, regulations and permit conditions (and interpretations thereof), including those relating to the discharge of materials into the air, water and ground, the generation, storage, handling, use, transportation and disposal of hazardous materials, and the health and safety of the Company's employees. These laws, regulations, and permits require the Company to incur significant capital and other costs, including costs to obtain and maintain expensive pollution control equipment. They may also require the Company to make operational changes to limit actual or potential impacts to the environment. A violation of these laws, regulations or permit conditions can result in substantial fines, natural resource damages, criminal sanctions, permit revocations and/or facility shutdowns. In addition, environmental laws and regulations (and interpretations thereof) change over time, and any such changes, more vigorous enforcement policies or the discovery of currently unknown conditions may require substantial additional environmental expenditures. As such, the Company has not accrued any amounts for environmental matters as of September 30, 2011.

Federal and state environmental authorities have been investigating alleged excess volatile organic compounds emissions and other air emissions from many U.S. ethanol plants, including the Company's Illinois facilities. The investigation relating to the Illinois wet mill facility is still pending, and the Company could be required to install additional air pollution control equipment or take other measures to control air pollutant emissions at that facility. If authorities require such controls to be installed, the Company anticipates that costs would be approximately \$6.5 million, which would be considerably higher than the approximately \$3.4 million incurred in connection with a similar matter at the Nebraska facility due to the larger size of the Illinois wet mill facility. The Company has not yet established reserves for possible costs it may incur in connection with the Illinois facility investigation. In addition, if the authorities determine the Company's emissions were in violation of applicable law, it would likely be required to pay fines. With respect to the investigation of its Nebraska facility, the Company was required to pay a fine of \$40 thousand. Due to the larger capacity of the Illinois facilities, the fine could possibly be larger. However, at this time, the Company is unable to reasonably estimate the amount of loss or range of reasonably possible loss.

The Company has made, and expects to continue making, significant capital expenditures on an ongoing basis to comply with increasingly stringent environmental laws, regulations and permits, including compliance with the EPA National Emission Standards for Hazardous Air Pollutants ( NESHAP ) for industrial, commercial and institutional boilers and process heaters. This NESHAP was issued in 2004 but subsequently vacated in 2007. The vacated version of the rule required the Company to implement maximum achievable control technology at its Illinois wet mill facility to reduce hazardous air pollutant emissions from its boilers. The EPA is currently rewriting the NESHAP, which is expected to be more stringent than the vacated version. In the absence of a final NESHAP for industrial, commercial and institutional boilers and process heaters, the Company is working with state authorities to determine what technology will be required at its Illinois wet mill facility and when such technology must be installed. The Company currently cannot estimate the amount that will be needed to comply with any future federal or state technology requirement regarding air emissions from its boilers.

*Litigation Matters*

On November 6, 2008, the Company commenced an action against JP Morgan Securities, Inc. and JP Morgan Chase Bank, N.A. (hereinafter collectively referred to as JP Morgan ) in the Tenth Judicial Circuit in Tazewell County, Illinois. The Company's complaint relates to losses incurred of approximately \$31.6 million as a result of investments in Student Loan Auction Rate Securities purchased through JP Morgan. This state court litigation is currently under a stay by the Circuit Court, which has prevented further prosecution of this dispute in that forum. On

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June 10, 2011 the Company filed a request for arbitration with FINRA. The request has been granted and the matter will move forward under FINRA

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Code of Arbitration Proceedings. At this time, the Company is unable to determine the impact such litigation will have on our business, operating results, financial condition and cash flows.

On April 7, 2009, the Debtors filed voluntary petitions with the Bankruptcy Court to reorganize under Chapter 11 of the Bankruptcy Code. The Plan was confirmed by order entered by the Bankruptcy Court on February 24, 2010 and became effective on March 15, 2010, the date on which the Company emerged from protection under Chapter 11 of the Bankruptcy Code. Since March 15, 2010, certain of the Debtors' cases have been closed by order of the Bankruptcy Court, effective December 20, 2010; however, the cases of Aventine Renewable Energy, Inc. and Nebraska Energy, L.L.C. remain open, wherein certain creditor claims remain subject to dispute and further adjudication, as do certain claims and potential claims by the Debtors against various third parties. At this time, the Company is unable to determine the impact such litigation will have on its business, operating results, financial condition and cash flows.

On April 19, 2011, the Company was notified of the EPA's intent to file an administrative complaint against Aventine Renewable Energy, Inc. for a release which occurred in March 2008. The EPA noted that they would be seeking a penalty of approximately \$0.2 million. The Company has responded stating that its position is that such claims are barred by the bankruptcy proceedings. At this time, the Company is unable to determine the impact such litigation will have on its business, operating results, financial condition and cash flows.

The Company initiated a civil action against E-Biofuels in 2009 related to breach of agreement, and asked for not less than \$3.0 million in compensation. This suit was later transferred to the Bankruptcy Court and subsequently settled in the Company's favor on July 6, 2011. Under the terms of the settlement, the Company received \$0.2 million in cash and 425,000 shares of Imperial (E-Biofuels' parent company) stock. The stock was valued at \$0.7 million on the date of receipt of July 6, 2011. The Company also had previously recorded a liability related to tax credits of \$0.7 million which was relieved by the settlement. The net gain of \$1.6 million is included in other non-operating income for both the three months and the nine months ended September 30, 2011 on the statement of operations. The stock was booked as short-term investments which are classified as available for sale securities on the balance sheet. For the three and nine months ended September 30, 2011, the Company booked a loss on available for sale securities of \$0.3 million related to the decrease in the current trading price of the stock which is included in other comprehensive income on the statements of stockholders' equity. These OCI adjustments are reported before tax effect due to a valuation allowance fully offsetting the tax effect of these adjustments.

On September 3, 2009, Union Tank Car Company filed notice of a claim against the Company with the Bankruptcy Court for a general unsecured claim in the amount of \$82.6 million for certain estimated end charges including railcar cleaning cost and unpaid rental payments for leased railcars. Union Tank also filed an administrative claim against the Company in the amount of \$0.1 million for the alleged use of railcars after the effective date of the rejection of the leases for such railcars. The Company disputed both of these claims. On September 30, 2011, the Court ruled that the claim shall be allowed in the amount of \$27.6 million. Partial distribution of shares on account was made October 31, 2011 in accordance with the terms of the Plan and at such time as the distribution was made to other holders of claims in classes five and six that were allowed as of September 30, 2011. As a result of the settlement on September 30, 2011, the Company reversed the related reserve for this matter of \$0.1 million through non-operating income on the statements of operations.

From time to time, the Company is involved in various legal proceedings, including legal proceedings relating to the extensive environmental laws and regulations that apply to the Company's facilities and operations. The Company is not involved in any legal proceedings, other than those described herein, that it believes could have a material adverse effect upon the Company's business, operating results, financial condition or cash flows.



Table of Contents**12. RETIREMENT AND PENSION PLANS**

The Company has a defined benefit pension plan (the Retirement Plan) that is noncontributory, and covers unionized employees at its Pekin, Illinois facility who fulfill minimum age and service requirements. Benefits are based on a prescribed formula based upon the employee's years of service. On October 29, 2010, the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industry and Service Workers International Union, Local 7-662 (the Union) ratified a new collective bargaining agreement with the Company for its hourly production workers in Pekin, Illinois. This new agreement was effective November 1, 2010. The agreement states that, among other things, employees hired after November 1, 2010 will not be eligible to participate in the Retirement Plan. The Company uses a December 31 measurement date for its Retirement Plan.

A summary of the components of net periodic pension cost for the Retirement Plan is as follows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Successor Nine Months Ended September 30, 2011	Seven Months Ended September 30, 2010	Predecessor Two Months Ended February 28, 2010
	(In thousands)				
Service cost	\$ 80	\$ 84	\$ 269	\$ 196	\$ 56
Interest cost	153	135	429	315	87
Expected return on plan assets	(200)	(173)	(604)	(404)	(115)
Amortization of net actuarial loss					7
Amortization of prior service cost					14
Net periodic pension cost	\$ 33	\$ 46	\$ 94	\$ 107	\$ 49

**13. POSTRETIREMENT BENEFIT OBLIGATION**

The Company sponsors a health care plan and life insurance plan (Postretirement Plan) that provides postretirement medical benefits and life insurance to certain grandfathered unionized employees. Employees hired after December 31, 2000 are not eligible to participate in the Postretirement Plan. The plan is contributory, with contributions required at the same rate as active employees. Benefit eligibility under the plan reduces at age 65 from a defined benefit to a defined dollar cap based upon years of service.

A summary of the components of net periodic postretirement cost for the Postretirement Plan is as follows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Successor Nine Months Ended September 30, 2011	Seven Months Ended September 30, 2010	Predecessor Two Months Ended February 28, 2010
	(In thousands)				
Service cost	\$ 38	\$ 16	\$ 75	\$ 38	\$ 12

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Interest cost		38		29		97		66		20
Amortization of net actuarial loss		7				7				(4)
Net periodic postretirement cost	\$	83	\$	45	\$	179	\$	104	\$	28

**14. INCOME TAXES**

The provision for income taxes for the three months ended September 30, 2011 and 2010, nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010 consists of the following:

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	Three Months Ended September 30, 2011	Successor Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011 (In thousands)	Seven Months Ended September 30, 2010	Predecessor Two Months Ended February 28, 2010
Current benefit (expense)	\$ (74)	\$ (881)	\$ (45)	\$ (881)	\$ 626
Deferred (expense) benefit				910	
Interest income (expense)					
Total income tax benefit (expense)	\$ (74)	\$ (881)	\$ (45)	\$ 29	\$ 626

The difference between the tax rate accrued and the statutory rate is principally due to the impact of increases in valuation allowances and other permanent differences between book and tax.

The Company records a valuation allowance on its deferred tax assets to reduce the deferred tax assets to the amount that management believes is more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Management considered the scheduled reversal of deferred tax liabilities and tax planning strategies in making this assessment. Due to the Company's history of losses, allowances have been established for all deferred benefits except for deferred benefits available to offset certain deferred tax liabilities that will reverse over time.

In connection with the consummation of the Plan in 2010, the Company generated an ownership change as defined in Section 382 of the Internal Revenue Code, which limits the Company's ability to utilize certain carryover tax attributes. The Company's net unrealized built in losses may be limited by Section 382 which could potentially result in the significant acceleration of tax payments. The Company's state net operating loss carryforwards are also subject to similar, but varying, restrictions on their future use.

As of September 30, 2011, the Company had \$0.1 million of unrecognized tax benefits. All of the Company's unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate. At September 30, 2011, the Company's liability for unrecognized tax benefits is included in other long-term liabilities on the condensed consolidated balance sheet. There is a reasonable possibility that these unrecognized tax benefits could reverse within the next 12 months.

## 15. STOCK-BASED COMPENSATION PLANS

Pre-tax stock-based compensation expense for the three and nine months ended September 30, 2011 was a reduction of expense of \$0.3 million and expense of \$4.8 million, respectively, which was charged to selling, general and administrative expense. During the third quarter of 2011, an executive left the Company. As part of the executive's release agreement, the executive became fully vested in various modified equity awards. As a result of the executive's departure, the Company recognized a benefit of approximately \$1.1 million in pre-tax equity-based compensation expense during the three and nine months ended September 30, 2011. The credit to expense is due to a shorter exercise period and decline in stock value relative to the original grant date.

Pre-tax stock-based compensation expense for both the three and seven months ended September 30, 2010 was approximately \$1.3 million, which was charged to selling, general and administrative expense. For the two months ended February 28, 2010, the Predecessor recognized

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\$0.3 million of pre-tax stock-based compensation expense, of which \$0.1 million was charged to cost of sales and \$0.2 million was charged to selling, general and administrative expense.

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**Equity Awards**

During the three months and nine months ended September 30, 2011, the Company awarded 17,914 restricted share unit awards to directors. These awards will vest if the directors remain through the required service period. As such, the Company has recognized \$0.1 million for both the three and nine months ended September 30, 2011, which is included in pre-tax equity-based compensation expense. The Company will recognize the remaining aggregate grant date fair value over the vesting period.

During the three months and nine months ended September 30, 2011, the Company awarded 276,482 hybrid equity unit awards. Under the terms of such equity awards, 50% vested on the grant date, while the remaining awards vest equally over the remaining service period. As such, the Company has recognized \$0.1 million and \$2.7 million, respectively, for the three and nine months ended September 30, 2011 which is included in pre-tax equity-based compensation expense. The Company will recognize the remaining aggregate grant date fair value over the vesting period.

**16. SUBSEQUENT EVENTS**

On October 31, 2011, the Company commenced a pro-rata distribution, consisting of 774,425 shares of common stock, to holders of the Company's pre-petition notes and to holders of allowed general unsecured claims, with 399,993 shares distributed to holders of pre-petition notes and 374,432 shares to holders of allowed general unsecured claims. Approximately 0.4 million shares of common stock are reserved for future distributions to these holders.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that do not relate solely to current or historical fact, but address events or developments that we anticipate will occur in the future. Forward-looking statements include statements regarding our goals, beliefs, plans or current expectations, taking into account the information currently available to our management. When we use words such as anticipate, intend, expect, believe, plan, may, should or would or other words that convey uncertainty of future events or outcome, we are making forward-looking statements. Statements relating to future sales, earnings, operating performance, restructuring strategies, plant expansions, capital expenditures and sources and uses of cash, for example, are forward-looking statements.*

*These forward-looking statements are subject to various risks and uncertainties which could cause actual results to differ materially from those stated or implied by such forward-looking statements. We undertake no obligation to publicly release any revision of any forward-looking statements contained herein to reflect events and circumstances occurring after the date hereof, or to reflect the occurrence of unanticipated events. Information concerning risk factors is contained under Part I, Item 1A of the Annual Report on Form 10-K for the year ended December 31, 2010. You should carefully consider all of the risks and all other information contained in or incorporated by reference in this report and in our filings with the Securities and Exchange Commission (the SEC). These risks are not the only ones we face. Additional risks and uncertainties not presently known to us, or which we currently consider immaterial, also may adversely affect us. If any of these risks actually occur, our business, financial condition and results of operations could be materially and adversely affected.*

**Business Summary**

Aventine Renewable Energy Holdings, Inc. and its subsidiaries, which are collectively referred to as Aventine or the Company, unless the context otherwise requires, are producers and marketers of ethanol. Through our production facilities, we market and distribute ethanol to many of the leading energy companies in the United States (the U.S.). Our revenues are principally derived from the sale of ethanol and from the sale of co-products and bio-products that we produce as by-products during the production of ethanol at our plants.

**Recent Developments**

On January 21, 2011, we redeemed our \$155.0 million 13% senior secured notes due 2015 (the Notes) at a redemption price of 105% of the principal amount, plus accrued and unpaid interest.

On February 28, 2011, we amended our revolving credit facility (the Revolving Facility) with PNC Bank National Association (PNC), which increased our maximum loan amount from \$20.0 million to \$30.0 million. The amendment requires us to provide cash as security for all outstanding and undrawn letters of credit but allows us to utilize the existing \$5.0 million pledged to PNC as part of the cash required to secure our letters of credit.

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On April 7, 2011, we entered into an incremental amendment (the Incremental Amendment ) with Citibank, N.A., as administrative agent for the lenders under the senior secured term loan agreement, dated as of December 22, 2010 (the Term Loan Agreement ), and Macquarie Bank Limited, as lender ( Macquarie ), to the Term Loan Agreement. Pursuant to the Incremental Amendment, Macquarie loaned us an aggregate principal amount equal to \$25.0 million, before \$1.3 million in fees. The loan under the Incremental Amendment has substantially the same terms as the existing loans under the Term Loan Agreement, including seniority ranking in right of payment and of security, maturity date, applicable margin and interest rate floor. We continue to be subject to all other terms and restrictions contained in the original Term Loan Agreement.

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On April 27, 2011, we temporarily shut down our dry mill plant in Aurora, Nebraska to make some improvements to the fermentation process at the facility. This work was completed by the third week of May 2011, and we began grinding corn again during the week of July 25, 2011.

On May 13, 2011, the Company commenced a pro-rata distribution, consisting of 19,414 shares of common stock, to holders of the Company's pre-petition notes and to holders of allowed general unsecured claims, with 9,806 shares distributed to holders of pre-petition notes and 9,608 shares to holders of allowed general unsecured claims. Approximately 1.2 million shares of common stock are reserved for future distributions to these holders.

On July 20, 2011, Aventine and each of its subsidiaries, as co-borrowers (collectively, the Borrowers), entered into a revolving credit facility (the New Revolving Facility) with the lenders party thereto (the Lenders), and Wells Fargo Capital Finance, LLC, as Lender and as agent for the Lenders (in such capacity, Wells Fargo) (the New Revolving Facility Agreement) with a \$50.0 million commitment. Borrowings under the New Revolving Facility are limited to eligible accounts receivable and eligible inventory. At September 30, 2011, there was \$16.1 million available under the New Revolving Facility Agreement. The proceeds of loans under the New Revolving Facility were used to (1) repay the Borrowers obligations under the Revolving Facility, (2) pay related transaction costs, fees and expenses, and (3) for general corporate purposes. Future borrowings under the New Revolving Facility will be used for general corporate purposes. In connection with the New Revolving Facility, the rights and obligations of the lenders under the Revolving Facility have been assigned from PNC to Wells Fargo. The Company terminated the Revolving Credit Agreement with PNC and paid a \$600 thousand early termination fee. In addition, the Company expensed \$39 thousand in related unamortized debt issuance costs. Both items are included in debt extinguishment costs for the three and nine months ended September 30, 2011. The Company capitalized \$2.3 million in debt issuance costs for the three and nine months ended September 30, 2011 related to the New Revolving Facility Agreement. These costs will be amortized using the straight-line method over the term of the New Revolving Facility Agreement. The Company recognized \$114 thousand of expense in debt issuance costs related to the New Revolving Facility Agreement during the three and nine months ended September 30, 2011.

On July 20, 2011, Aventine entered into an amendment (Citi Amendment) to the Term Loan Agreement with the lenders party thereto and Citibank, N.A., as administrative agent and collateral agent (the Term Loan Agent). Under the terms of the Citi Amendment, the amount of indebtedness that Aventine is permitted to incur under the New Revolving Facility (including bank products and hedging obligations) is capped at \$58.0 million. The Citi Amendment reduces Aventine's minimum liquidity covenant for 2012 from \$25.0 million to \$15.0 million. The Citi Amendment also includes certain technical amendments to permit the New Revolving Facility.

On August 19, 2011, Thomas Manuel (Mr. Manuel) retired as Chief Executive Officer of the Company. Mr. Manuel and the Company entered into a mutual release agreement, dated August 19, 2011 (the Release Agreement), whereby the parties acknowledged that Mr. Manuel would no longer serve as Chief Executive Officer of the Company. Mr. Manuel also retired from his position as a director of the Company, effective the same date. Pursuant to the terms of the Release Agreement, Mr. Manuel received, among other things, (i) a separation payment of \$1,000,000; (ii) the vesting of his outstanding equity awards, effective as of August 19, 2011; and (iii) his outstanding restricted stock units. Mr. Manuel's options and hybrid equity units will remain exercisable until August 19, 2012.

On September 3, 2009, Union Tank Car Company (Union Tank) filed notice of a claim against the Company with the U.S. Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for a general unsecured claim in the amount of \$82.6 million for certain estimated end charges including railcar cleaning cost and unpaid rental payments for leased railcars. Union Tank also filed an administrative claim against the Company in the amount of \$0.1 million for the alleged use of railcars after the effective date of the rejection of the leases for such railcars. The Company disputed both of these claims. On September 30,



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2011, the Court ruled that the claim shall be allowed in the amount of \$27.6 million. Partial distribution of shares on account was made October 31, 2011 in accordance with the terms of the First Amended Joint Plan of Reorganization under Chapter 11 of Title 11 of the U.S. Code (as modified, the Plan ) and at such time as the distribution was made to other holders of claims in classes five and six that were allowed as of September 30, 2011. As a result of the settlement on September 30, 2011, the Company reversed the related reserve for this matter of \$0.1 million through non-operating income on the statement of operations.

The Company initiated a civil action against E-Biofuels in 2009 related to breach of agreement, and asked for not less than \$3.0 million in compensation. This suit was later transferred to the Bankruptcy Court and subsequently settled in the Company's favor on July 6, 2011. Under the terms of the settlement, the Company received \$0.2 million in cash and 425,000 shares of Imperial (E-Biofuels' parent company) stock. The stock was valued at \$0.7 million on the date of receipt of July 6, 2011. The Company also had previously recorded a liability related to E-Biofuels taxes of \$0.7 million which was relieved by the settlement. The net gain of \$1.6 million is included in other non-operating income on the statement of operations. The stock was booked as short-term investments which are classified as available for sale securities on the balance sheet. For the three and nine months ended September 30, 2011, the Company booked a loss on available for sale securities of \$0.3 million related to the decrease in the current trading price of the stock which is included in other comprehensive income on the statements of stockholders' equity. These Accumulated other comprehensive income (loss) (OCI) adjustments are reported before tax effect due to a valuation allowance fully offsetting the tax effect of these adjustments.

On October 31, 2011, the Company commenced a pro-rata distribution, consisting of 774,425 shares of common stock, to holders of the Company's pre-petition notes and to holders of allowed general unsecured claims, with 399,993 shares distributed to holders of pre-petition notes and 374,432 shares to holders of allowed general unsecured claims. Approximately 0.4 million shares of common stock are reserved for future distributions to these holders.

**Business Environment**

The following discussion includes trends and factors that may affect future operating results.

**Commodity Pricing**

Our operations are highly dependent on commodity prices, especially prices for ethanol, corn and natural gas.

*Ethanol.* The average price of a gallon of ethanol per the OPIS indices was \$2.83 during the third quarter of 2011 compared to \$1.80 per gallon during the third quarter of 2010, an increase of approximately 57.2%. During the first nine months of 2011, ethanol prices per the OPIS indices averaged approximately \$2.63 per gallon compared to an average of \$1.75 per gallon during the first nine months of 2010, an increase of approximately 50.3%. At September 30, 2011, we had contracts for delivery of ethanol totaling 52.3 million gallons through May 31, 2012, of which 2.5 million gallons were based on fixed-price contracts and 49.7 million gallons were at spot prices using Platts and OPIS indices.

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*Corn.* During the third quarter of 2011, the Chicago Board of Trade ( CBOT ) corn futures prices averaged approximately \$6.96 per bushel compared to an average price of \$3.83 per bushel during the third quarter of 2010, an increase of approximately 70.5%. During the first nine months of 2011, the CBOT corn futures prices averaged approximately \$6.99 per bushel compared to an average price of \$3.67 per bushel during the first nine months of 2010, an increase of approximately 90.5%. The price fluctuations in corn over 2010 and 2011, based on the CBOT corn futures, has ranged from a low of \$3.25 per bushel at the end of June 2010 to a high of \$7.87 per bushel in mid June 2011. We continue to believe that corn prices are likely to remain above historical levels for the foreseeable future.

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We continuously purchase corn for physical delivery from suppliers using forward purchase contracts in order to assure supply. As we do this, we have in the past often shorted a like amount of CBOT corn futures with similar dates to lock in the basis differential. We have also occasionally used CBOT futures contracts to lock in the price of corn by taking long positions in CBOT contracts in order to reduce our risk of price increases. Exchange traded futures contracts for commodities are marked to market each period. Our forward physical purchases of corn are not marked to market. At September 30, 2011, we had fixed price purchase contracts for 1.7 million bushels of corn through January 31, 2012 and we had futures contracts to purchase 2.8 million bushels of corn through December 31, 2011.

*Natural Gas.* Natural gas is an important input in our ethanol and co-product production process. We use natural gas primarily to dry distillers grains for storage and transportation over longer distances. This allows us to market distillers grains to broader livestock markets in the U.S. The price fluctuation in natural gas prices over the first nine months of 2011, based on the New York Mercantile Exchange daily futures data, has ranged from a high of \$4.85 per MMBtu at the beginning of June to a low of \$3.67 per MMBtu at the end of September, with an average price of \$4.21 per MMBtu. During the third quarter of 2011, natural gas prices, based on the New York Mercantile Exchange daily futures data, have ranged from a high of \$4.55 per MMBtu at the middle of July to a low of \$3.67 per MMBtu at the end of September, with an average price of \$4.06 per MMBtu. Our current natural gas usage is approximately 492,000 MMBtu s per month.

**Financial Statement Overview**

The following general factors should be considered in analyzing our results of operations:

***Fresh Start Accounting***

We emerged from bankruptcy on March 15, 2010 (the Effective Date ). In accordance with Accounting Standards Codification ( ASC ) 852, *Reorganizations* ( ASC 852 ), we adopted fresh start accounting and adjusted the historical carrying value of our assets and liabilities to their respective fair values at the Effective Date. Simultaneously, we determined the fair value of our equity at the Effective Date. We selected an accounting convenience date proximate to the Effective Date for purposes of making the aforementioned adjustments to historical carrying values (the Convenience Date ) because the activity between the Effective Date and the Convenience Date did not result in a material difference in the results. We selected a Convenience Date of February 28, 2010. As a result, we recorded fresh start accounting adjustments to historical carrying values of assets and liabilities as of February 28, 2010 using market prices, discounted cash flow methodologies based primarily on observable market information and, to a lesser extent, on unobservable market information, and other techniques.

In implementing fresh start accounting, we re-measured our asset values and stated all liabilities, other than deferred taxes, at fair value or at present values of the amounts to be paid using appropriate market interest rates. Our reorganization value was determined based on consideration of numerous factors and various valuation methodologies, including discounted cash flows, believed by management to be representative of our business and industry. Information regarding the determination of the reorganization value and application of fresh start accounting is included in Note 2 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. In addition, under fresh start accounting, accumulated deficit and accumulated other comprehensive income were eliminated.

**Results of Operations**



The following discussion summarizes the significant factors affecting the consolidated operating results of the Company for the three months ended September 30, 2011 and 2010, nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010.

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This discussion should be read in conjunction with our condensed consolidated financial statements and notes to our condensed consolidated financial statements contained herein and the consolidated financial statements and related notes for the year ended December 31, 2010 in the Company's Annual Report on Form 10-K.

**Overview**

For the three months ended September 30, 2011 and 2010, we generated net losses of \$11.2 million and \$6.6 million, respectively. The loss in the three months ended September 30, 2011 is primarily due to increased corn costs relative to ethanol values and elevated conversion costs at Mt. Vernon due to downtime for scheduled maintenance. The Mt. Vernon facility operated at 59.9% of capacity during the quarter. The under absorption of fixed costs negatively impacted the quarter. Contributing to the loss in the three months ended September 30, 2010 was higher selling, general and administrative ( SG&A ) expenses associated with the hiring of new executive management in connection with our emergence from bankruptcy (see SG&A expenses discussion below).

For the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010, we generated net losses of \$54.3 million, \$23.0 million and \$266.3 million, respectively. The loss in the nine months ended September 30, 2011 is primarily due to increased corn costs relative to ethanol values and elevated conversion costs at Mt. Vernon due to start-up inefficiencies, as well as a \$9.4 million loss incurred on the early extinguishment of the Notes. Contributing to the loss in the seven months ended September 30, 2010 was higher SG&A expenses associated with the hiring of new executive management in connection with our emergence from bankruptcy (see SG&A expenses discussion below). The loss in the two months ended February 28, 2010 is primarily attributable to adjustments of \$387.7 million required to report assets and liabilities at fair value under fresh start accounting and \$20.3 million of reorganization items resulting from our Chapter 11 bankruptcy filing, which were offset by a gain due to plan effects of \$136.6 million.

Total gallons of ethanol marketed and distributed were as follows:

	Three Months Ended September 30, 2011	Successor		Seven Months Ended September 30, 2010	Predecessor Two Months Ended February 28, 2010
		Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011 (In millions)		
Equity production	60.4	40.8	177.3	102.5	32.0
Purchase/resale	2.8	.4	6.7	.9	.2
(Increase)/decrease in inventory	(3.7)	.3	1.6	2.2	(.7)
Total gallons	59.5	41.5	185.6	105.6	31.5

The increase in equity production of 19.6 million gallons for the three months ended September 30, 2011 compared to the same period in 2010 and the increase of 42.8 million gallons for the nine months ended September 30, 2011 compared to the same period in 2010 is primarily the result of the start-up of the Mt. Vernon facility in late 2010. The increase in gallons marketed and distributed of 18.0 million gallons for the three months ended September 30, 2011 compared to the same period in 2010 and the increase of 48.5 million gallons for the nine months ended September 30, 2011 compared to the same period in 2010 is primarily attributable to the start-up of our Mt. Vernon facility.



Table of Contents*The Three Months Ended September 30, 2011 Compared To The Three Months Ended September 30, 2010*

	Successor	
	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
	(In millions)	
Net sales	\$ 221.6	\$ 97.5
Cost of goods sold	(212.5)	(90.3)
Gross profit (loss)	9.1	7.2
Selling, general and administrative expenses	(7.4)	(9.2)
Start-up activities		(0.2)
Other operating expense	(.7)	.4
Operating income (loss)	1.0	(1.8)
Other income (expense):		
Interest expense, net of interest income	(7.1)	(2.0)
(Loss) gain on derivative transactions	(6.3)	(.2)
Loss on early extinguishment of debt	(.6)	(1.8)
Other non-operating income (loss)	1.9	
Income tax expense	.1	.9
Net loss	\$ (11.2)	\$ (6.7)

Net sales were generated from the following products:

	Successor	
	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
	(In millions)	
Ethanol	\$ 170.6	\$ 74.9
By-Products	51.0	22.6
Total	\$ 221.6	\$ 97.5

The overall increase in net sales from the third quarter of 2010 to the third quarter of 2011 is primarily the result of increased sales volumes from our increased production, as well as an increase in the sales price per gallon of ethanol. During the third quarter of 2011, we produced 60.4 million gallons of ethanol compared to 40.8 million gallons during the third quarter of 2010, an increase of 19.6 million gallons, or 48.0%. We marketed and sold 59.5 million gallons of ethanol during the three months ended September 30, 2011 for an average sales price of \$2.87 per gallon compared to 41.5 million gallons at an average sales price of \$1.80 per gallon during the three months ended September 30, 2010. These average prices exclude freight charges which are included in cost of sales.

The increase in by-product revenues is primarily a result of an increase in the price per ton sold, as well as an increase in the volume sold. We sold 257.0 thousand tons during the three months ended September 30, 2011 for an average price of \$198.31 per ton compared to 197.6 thousand tons during the three months ended September 30, 2010 for an average price of \$114.39 per ton. By-product revenues, as a percentage of corn costs, fell to 31.2% during the three months ended September 30, 2011 compared to 37.5% during the three months ended September 30, 2010.

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Co-products sold by the dry mill process have less value historically than those sold by the wet mill process. As a result of the addition of the Mt. Vernon dry mill, our overall product mix between wet and dry co-products sold changed from 60% higher value wet mill products and 40% lower value dry mill products during the third quarter of 2010, to roughly 48% higher value wet mill products and 52% lower value dry mill products during the third quarter of 2011.

Cost of goods sold consists of corn costs, conversion costs (the cost to produce ethanol at our own facilities), the cost of purchased ethanol, the cost changes in our inventory, freight and logistics to ship ethanol and co-products, and depreciation and amortization which are discussed in detail below.

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	<b>Three Months Ended September 30, 2011</b>	<b>Percentage of Net sales (In millions, except percentages)</b>	<b>Successor Three Months Ended September 30, 2010</b>	<b>Percentage of Net sales</b>
Cost of goods sold	\$ 212.5	95.9%	\$ 90.3	92.6%

The increase in cost of goods sold from the three months ended September 30, 2010 compared to the three months ended September 30, 2011 is the result of higher volumes of ethanol produced and sold during the third quarter of 2011, as well as an increase in corn costs. The increase in cost of goods sold as a percentage of net sales is principally the result of increased corn costs, freight costs and depreciation (discussed below).

Corn costs for the three months ended September 30, 2011 and 2010 were \$163.1 million and \$60.3 million, respectively. The increase in corn costs is due to an increase in the number of bushels used in production, as well as an increase in the price per bushel. We used 22.7 million bushels of corn in production during the third quarter of 2011 compared to 15.7 million bushels during the third quarter of 2010. Additionally, during the three months ended September 30, 2011, corn used in production was approximately \$7.19 per bushel compared to \$3.83 per bushel for the three months ended September 30, 2010. Our average corn costs during the third quarter of 2011 were slightly higher than the CBOT average price of \$6.96 during the same period.

Conversion costs for the three months ended September 30, 2011 and 2010 were as follows:

	<b>Three Months Ended September 30, 2011</b>	<b>Successor Three Months Ended September 30, 2010</b>
	<b>(In millions)</b>	
Utilities	\$ 15.0	\$ 8.5
Salary and benefits	5.9	5.1
Materials and supplies	6.9	4.6
Denaturant	3.1	1.5
Outside services	5.0	1.4
Other	.6	.6
	\$ 36.5	\$ 21.7

The increases in utilities, materials and supplies, and outside services are primarily attributable to the start-up of our Mt. Vernon facility. Conversion costs per gallon were \$0.60 for the third quarter of 2011, including \$1.0 million for the planned shutdown of the Pekin operation, compared to \$0.53 for the third quarter of 2010. The planned shutdown at Pekin cost the Company approximately \$.02 per gallon. Inefficiencies from lower operating capacity at the Mt. Vernon facility contributed approximately \$0.09 per gallon to the total conversion costs for the quarter ended September 30, 2011.

Depreciation and amortization expense for the three months ended September 30, 2011 was \$6.1 million compared to \$2.3 million in the three months ended September 30, 2010. Depreciation expense increased primarily as a result of the start-up of the Mt. Vernon facility.

Purchased ethanol is included in our cost of goods sold. For the third quarter of 2011, we purchased 2.8 million gallons for a total of \$8.0 million compared to 0.4 million gallons during the third quarter of 2010 for a total of \$0.7 million. The cost per gallon purchased during the three months ended September 30, 2011 was \$2.85 compared to \$1.66 during the three months ended September 30, 2010.

As stated above, cost of goods sold includes the cost changes in our inventory. Our direct materials, labor and overhead costs in the condensed consolidated statements of operations are based on production

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amounts. The change in inventory included in cost of goods sold adjusts our statements of operations from cost of production to cost of sales. During the three months ended September 30, 2011, changes in inventory resulted in a reduction to cost of goods sold of \$11.2 million compared to an expense of \$0.1 million in the three months ended September 30, 2010. The reduction in cost of goods sold for the three months ended September 30, 2011 was primarily the result of the quantity and value of ethanol produced and sold during the quarter.

Freight and logistics costs for the three months ended September 30, 2011 were \$8.0 million compared to \$6.4 million during the three months ended September 30, 2010. The increase is due to higher volumes shipped. During the third quarter of 2011, we marketed and distributed approximately 59.5 million gallons of ethanol compared to 41.5 million gallons during the three months ended September 30, 2010. On a per gallon basis, freight and logistics costs were \$0.08 per gallon for ethanol for the three months ended September 30, 2011 compared to \$0.11 per gallon for the three months ended September 30, 2010.

Commodity spread, defined as gross ethanol selling price per gallon less net corn cost per gallon, was \$1.01 for the three months ended September 30, 2011 compared to \$0.88 for the three months ended September 30, 2010.

	Successor	
	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
Commodity spread	\$ 1.01	\$ 0.88
Average sales price per gallon of ethanol	\$ 2.87	\$ 1.80
Average purchase price per bushel of corn	\$ 7.19	\$ 3.83
Co-product revenue as a percentage of corn costs	31.2%	37.5%

SG&A expenses were \$7.4 million during the third quarter of 2011 compared to \$9.2 million during the third quarter of 2010. SG&A expenses in the three months ended September 30, 2011 were primarily comprised of \$3.5 million of salary and benefits expense, \$(0.3) million of stock compensation expense, \$1.7 million of outside services expenses, \$0.5 million of depreciation expense, \$0.4 million of expense related to materials and supplies, and \$1.5 million of other expenses. Included in the three months ended September 30, 2011 totals are carrying costs related to our Canton and Aurora West facilities of \$0.9 million. During the third quarter of 2011, the Company recognized a net benefit of \$0.3 million in equity compensation expense. This net benefit is primarily the result of the modification of various equity awards granted to our Chief Executive Officer, who left the company in August 2011. The Company recognized a net benefit of \$1.1 million as a result of the equity award modifications. The Company also recognized expense of \$1.0 million related to payments made to the former Chief Executive Officer upon his departure. SG&A expenses in the three months ended September 30, 2010 were primarily comprised of \$2.8 million of salary and benefits expense, \$1.3 million of stock compensation expense, \$3.1 million of outside services expenses, \$0.4 million of expense related to materials and supplies and \$1.6 million of other expenses.

Interest expense for the three months ended September 30, 2011 was \$7.1 million compared to \$2.1 million for the three months ended September 30, 2010. Interest expense for the three months ended September 30, 2011 includes \$6.0 million related to the term loan facility under the Term Loan Agreement (the Term Loan Facility), \$0.3 million of other interest expense, and \$0.9 million of amortization of deferred financing fees and original issue discount, reduced by capitalized interest of \$0.1 million. Interest expense for the three months ended September 30, 2010 includes \$4.2 million of interest expense related to the Notes, reduced by capitalized interest of \$2.2 million.



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Loss on derivative transactions, net for the three months ended September 30, 2011 includes \$6.3 million of net realized and unrealized losses on corn and ethanol derivative contracts versus net realized and

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unrealized losses in the three months ended September 30, 2010 of \$0.2 million. In the second quarter of 2011, we entered into commodity transactions using financial instruments, including futures and swaps, to lock in future margin which was present for July to December. As the broader industry margins expanded, we experienced losses on these positions in our brokerage account. We did not have the same opportunity to lock in positive margins in 2010, and therefore did not have the same exposure in the brokerage account. We do not mark to market forward physical contracts to purchase corn or sell ethanol as we account for these transactions as normal purchases and sales under ASC 815, *Derivatives and Hedging* ( ASC 815 ).

Other non-operating income of \$1.9 million for the three months ended September 30, 2011 compared to none for the three months ended September 30, 2010 is primarily related to gains on legal settlements with E-BioFuels and Union Tank. See the discussion under *Recent Developments* .

Our tax rate for the three months ended September 30, 2011 was 0.7% of pre-tax loss compared to a tax rate for the three months ended September 30, 2010 of 15.3% of pre-tax loss. Our effective tax rate differs from the statutory tax rate primarily due to valuation allowances on our deferred taxes.

**Facility Operating Data**

The following table provides selected key operating statistics for our operating facilities.

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(In millions)			
<b>Pekin:</b>				
Ethanol Gallons Produced	36.1	35.1	108.4	107.6
Corn Consumed (bushels)	13.8	13.6	41.1	41.0
<b>Nebraska Energy:</b>				
Ethanol Gallons Produced	7.7	5.7	18.0	26.9
Corn Consumed (bushels)	2.9	2.1	6.8	10.2
<b>Mt. Vernon:</b>				
Ethanol Gallons Produced	16.6		50.9	
Corn Consumed (bushels)	6.0		18.7	

***The Nine Months Ended September 30, 2011 Compared to the Seven Months Ended September 30, 2010 and Two Months Ended February 28, 2010***

On March 15, 2010, we emerged from bankruptcy and implemented fresh start accounting in accordance with ASC 852 using a Convenience Date of February 28, 2010. Therefore, the condensed consolidated financial statements prior to March 1, 2010 reflect results based upon the historical cost basis of the Company while the post-emergence consolidated financial statements reflect the new basis of accounting

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incorporating the fair value adjustments made in recording the effects of fresh start reporting. Therefore, the post-emergence periods are not comparable to the pre-emergence periods. As a result of the application of fresh start accounting, our condensed consolidated financial statements prior to and including February 28, 2010 represent the operations of our pre-reorganization predecessor company and are presented separately from the condensed consolidated financial statements of our post-reorganization successor company.

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	Successor Nine Months Ended September 30, 2011	Successor Seven Months Ended September 30, 2010 (In millions)	Predecessor Two Months Ended February 28, 2010
Net sales	\$ 632.7	\$ 231.3	\$ 77.7
Cost of goods sold	(624.7)	(222.9)	(66.7)
Gross profit (loss)	8.0	8.4	11.0
Selling, general and administrative expenses	(26.4)	(23.6)	(4.6)
Other operating expense	(2.7)	(1.4)	(0.5)
Operating income (loss)	(21.1)	(16.6)	5.9
Other income (expense):			
Interest expense, net of income	(18.4)	(5.1)	(1.4)
(Loss) gain on derivative transactions	(6.6)	.2	
Loss on early retirement of debt	(10.0)	(1.8)	
Other non-operating income	1.9	.3	
Reorganization items			(20.3)
Gain due to plan effects			136.6
Loss due to fresh start accounting adjustments			(387.7)
Income tax benefit (expense)			.6
Net loss	\$ (54.3)	\$ (23.0)	\$ (266.3)

Net sales were generated from the following products:

	Successor Nine Months Ended September 30, 2011	Successor Seven Months Ended September 30, 2010 (In millions)	Predecessor Two Months Ended February 28, 2010
Ethanol	\$ 486.4	\$ 179.4	\$ 60.1
By-Products	146.3	51.9	17.6
Total	\$ 632.7	\$ 231.3	\$ 77.7

The overall increase in net sales from the seven months ended September 30, 2010 and two months ended February 28, 2010 to the nine months ended September 30, 2011 is primarily the result of increased sales volume from our increased production, as well as an increase in the sales price per gallon of ethanol. During the first nine months of 2011, we produced 177.3 million gallons of ethanol compared to 102.5 million gallons and 32.0 million gallons of ethanol, respectively, during the seven months ended September 30, 2010 and two months ended February 28, 2010. We marketed and sold 185.6 million gallons of ethanol during the nine months ended September 30, 2011 for an average sales price of \$2.62 per gallon compared to 105.6 million gallons at an average sales price of \$1.70 per gallon during the seven months ended September 30, 2010 and 31.5 million gallons at an average sales price of \$1.91 per gallon during the two months ended February 28, 2010.

The increase in by-product revenues is primarily a result of an increase in the price per ton sold, as well as an increase in the volume sold. We sold 794.2 thousand tons during the nine months ended September 30, 2011 for an average price of \$184.27 per ton compared to 506.7 thousand tons during the seven months ended September 30, 2010 for an average price of \$102.44 per ton and 154.0 thousand tons during the two months

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ended February 28, 2010 for an average price of \$114.12 per ton. By-product revenues, as a percentage of corn costs, fell to 31.3% during the nine months ended September 30, 2011 compared to 36.0% and 39.8%, respectively, during the seven months ended September 30, 2010 and two months ended February 28, 2010. Co-products sold by the dry mill process have less value historically than those sold by the wet mill process. As a result of the addition of the Mt. Vernon dry mill, our overall product mix between wet and dry co-products produced changed from 60% higher value wet mill products

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and 40% lower value dry mill products during the first nine months of 2010, to roughly 47% higher value wet mill products and 53% lower value dry mill products during the first nine months of 2011.

Cost of goods sold consists of corn costs, conversion costs (the cost to produce ethanol at our own facilities), the cost of purchased ethanol, the cost changes in our inventory, freight and logistics to ship ethanol and co-products, and depreciation and amortization which are discussed in detail below.

	Successor		Predecessor			
	Nine Months Ended September 30, 2011	Percentage of Net sales	Seven Months Ended September 30, 2010	Percentage of Net sales	Two Months Ended February 28, 2010	Percentage of Net sales
Cost of goods sold	\$ 624.7	98.7%	\$ 223.0	96.4%	\$ 66.7	85.9%

The increase in cost of goods sold from the seven months ended September 30, 2010 and two months ended February 28, 2010 compared to the nine months ended September 30, 2011 is principally the result of higher volumes of ethanol produced and sold during the first nine months of 2011, as well as an increase in corn costs. The increase in cost of goods sold as a percentage of net sales is principally the result of increased corn costs, freight costs and depreciation (discussed below).

Production costs include corn costs, conversion costs, and depreciation and amortization, which are discussed below.

Corn costs for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010 were \$467.1 million, \$144.0 million, and \$44.2 million, respectively. The increase in corn costs is due to an increase in the number of bushels used in production, as well as an increase in the price per bushel. We used 66.6 million bushels of corn in production during the first nine months of 2011 compared to 39.2 million bushels and 12.1 million bushels, respectively, used during the seven months ended September 30, 2010 and two months ended February 28, 2010. Additionally, during the nine months ended September 30, 2011, corn used in production was approximately \$7.01 per bushel compared to \$3.68 per bushel for the seven months ended September 30, 2010 and \$3.66 per bushel for the two months ended February 28, 2010. Our average corn costs during the first nine months of 2011 were slightly higher than the CBOT average price of \$6.99 during the same period.

Conversion costs for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010 were as follows:

	Successor		Predecessor
	Nine Months Ended September 30, 2011	Seven Months Ended September 30, 2010	Two Months Ended February 28, 2010
	(In millions)		

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Utilities	\$	43.3	\$	20.7	\$	7.6
Salary and benefits		17.7		11.9		3.3
Materials and supplies		19.9		11.4		3.2
Denaturant		9.3		3.9		1.4
Outside services		10.2		4.1		0.5
Other		1.5		1.7		0.6
	\$	101.9	\$	53.7	\$	16.6

The increases in utilities, materials and supplies, and outside services are primarily attributable to the start-up of our Mt. Vernon facility. Conversion costs per gallon were \$0.57 for the nine months ended

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September 30, 2011, \$0.52 for the seven months ended September 30, 2010, and \$0.52 for the two months ended February 28, 2010. Inefficiencies from lower operating capacity at the Mt. Vernon facility contributed approximately \$0.08 per gallon to the total conversion costs for 2011.

Depreciation and amortization expense for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010 was \$17.4 million, \$5.5 million and \$2.3 million, respectively. Depreciation expense increased primarily as a result of the start-up of the Mt. Vernon facility.

Purchased ethanol is included in our cost of goods sold. For the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010, we purchased 6.7 million gallons, 0.9 million gallons and 0.2 million gallons, respectively. Purchased ethanol totaled \$18.5 million, \$1.5 million, and \$0.4 million, respectively, for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010. The average cost per gallon purchased was \$2.77 during the nine months ended September 30, 2011 compared to \$1.64 during the seven months ended September 30, 2010 and \$1.88 during the two months ended February 28, 2010. This increase is consistent with the overall increase in ethanol spot prices using OPIS indices to an average price of \$2.63 per gallon during the first nine months of 2011 from an average of \$1.72 per gallon during the first nine months of 2010.

As stated above, cost of goods sold includes the cost changes in our inventory. Our direct materials, labor and overhead costs in the condensed consolidated statements of operations are based on production amounts. The change in inventory included in cost of goods sold adjusts our statements of operations from cost of production to cost of sales. During the nine months ended September 30, 2011, changes in inventory resulted in a reduction in cost of goods sold of \$7.4 million compared to reduction in cost of goods sold of \$0.4 million in the seven months ended September 30, 2010 and expense of \$0.2 million in the two months ended February 28, 2010. The expense for the nine months ended September 30, 2011 was primarily the result of the quantity and value of ethanol produced and sold during the first nine months of 2011.

Freight and logistics costs for the nine months ended September 30, 2011 were \$25.5 million compared to \$14.1 million and \$3.4 million, respectively, for the seven months ended September 30, 2010 and two months ended February 28, 2010. The increase is due to higher volumes shipped. During the first nine months of 2011, we marketed and distributed approximately 185.6 million gallons of ethanol compared to 105.6 million gallons and 31.5 million gallons, respectively, during the seven months ended September 30, 2010 and two months ended February 28, 2010. On a per gallon basis, freight and logistics costs were \$0.09 per gallon, \$0.10 per gallon and \$0.08 per gallon, respectively, for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010.

Commodity spread, defined as gross ethanol selling price per gallon less net corn cost per gallon, was \$0.81, \$0.80 and \$1.08, respectively, for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010. The increase in commodity spread was due to an increase in the average sales price per gallon of ethanol being less than the increase in the average corn cost per bushel, as well as a decrease in co-product revenue as a percentage of corn costs in each period as follows:

	Nine Months Ended September 30, 2011	Successor Seven Month Ended September 30, 2010	Predecessor Two Months Ended February 28, 2010
Commodity spread	\$ .81	\$ .80	\$ 1.08
Average sales price per gallon of ethanol	\$ 2.62	\$ 1.70	\$ 1.91



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Average purchase price per bushel of corn	\$	7.01	\$	3.68	\$	3.66
Co-product revenue as a percentage of corn costs		31.3%		36.0%		39.8%

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SG&A expenses were \$26.4 million, \$23.6 million, and \$4.6 million, respectively, for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010. SG&A expenses in the nine months ended September 30, 2011 were primarily comprised of \$8.2 million of salary and benefits expense, \$4.8 million of stock compensation expense, \$5.0 million of outside services expenses, \$1.5 million of depreciation expense, \$1.2 million of expense related to materials, and \$5.7 million of other expenses. Included in the nine months ended September 30, 2011 totals are carrying costs related to our Canton and Aurora West facilities of \$3.3 million. SG&A expenses for the seven months ended September 30, 2010 were primarily comprised of \$6.9 million of salary and benefits expense, \$4.1 million of stock compensation expense, \$7.8 million of outside services expenses, and \$4.8 million of other expenses. SG&A expenses in the two months ended February 28, 2010 were primarily comprised of \$0.8 million of salary and benefits expense, \$0.2 million of stock compensation expense, \$1.7 million of outside services expenses, and \$1.9 million of other expenses.

Interest expense for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010 was \$18.4 million, \$5.2 million, and \$1.4 million, respectively. Interest expense for the nine months ended September 30, 2011 includes \$17.2 million related to the Term Loan Facility, \$1.1 million related to the Notes, \$0.8 million of other interest expense, and \$2.2 million of amortization of deferred financing fees, reduced by capitalized interest of \$2.9 million. Interest expense for the seven months ended September 30, 2010 includes \$8.2 million of interest expense related to the Notes and \$0.2 million of other interest expense, reduced by capitalized interest of \$3.2 million. Interest expense for the two months ended February 28, 2010 includes pre-petition amended secured revolving credit facility interest expense of \$0.6 million, interest expense on our debtor-in-possession debt facility of \$0.5 million, and \$0.3 million of amortization of deferred financing fees.

Loss on derivative transactions, net for the nine months ended September 30, 2011 includes \$6.6 million of net realized and unrealized losses on corn and ethanol derivative contracts versus net realized and unrealized gains in the seven months ended September, 2010 of \$0.2 million. We recorded no realized or unrealized gains or losses on derivative contracts during the two months ended February 28, 2010. We do not mark to market forward physical contracts to purchase corn or sell ethanol as we account for these transactions as normal purchases and sales under ASC 815.

On January 21, 2011, we redeemed our \$155.0 million Notes at a redemption price of 105% of the principal amount, plus accrued and unpaid interest. In connection with the redemption, we recognized a \$9.4 million loss on the early extinguishment of debt.

Other non-operating income of \$1.9 million for the nine months ended September 30, 2011 compared to \$0.3 million for the nine months ended September 30, 2010 is primarily related to gains on legal settlements with E-BioFuels and Union Tank.

During the two months ended February 28, 2010, we recognized reorganization expenses of \$20.3 million, of which \$9.6 million related to provision for rejected executory contracts and other accruals, \$8.8 million related to professional fees directly related to reorganization and \$1.9 million related to other expenses.

The loss due to fresh start accounting adjustments of \$387.7 million in the two months ended February 28, 2010 consisted of adjustments required to report assets and liabilities upon emergence from bankruptcy at fair value. See our discussion of fresh start accounting above. Gain due to plan effects in the two months ended February 28, 2010 of \$136.6 million related to implementation of our Plan and consisted of \$193.5 million of liabilities subject to compromise which were discharged upon emergence less \$5.8 million of unamortized debt issuance costs on our pre-petition notes, \$1.6 million related to the write-off of predecessor prepaid directors and officer insurance, \$5.3 million of successor-based professional fees



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awarded under the Plan, \$42.6 million related to loss on shares granted in connection with the Notes and \$1.6 million of other miscellaneous costs.

Our tax rate for the nine months ended September 30, 2011 was 0.1% of pre-tax loss compared to a tax benefit rate for the seven months ended September 30, 2010 of 0.1% of pre-tax loss and a tax benefit rate for the two months ended February 28, 2010 of 0.2% of pre-tax loss. Our effective tax rate differs from the statutory tax rate primarily due to valuation allowances on our deferred taxes.

**Liquidity and Capital Resources**

The following table sets forth selected information concerning our financial condition:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 22.1	\$ 34.5
Net working capital	\$ 57.7	\$ 72.9
Total debt (1)	\$ 222.8	\$ 348.7
Current ratio	2.27	1.37

(1) Concurrent with the closing of our Term Loan Agreement in December 2010, we irrevocably deposited in trust with the trustee for the Notes, \$164.8 million of the proceeds from the Term Loan Facility, funds sufficient to pay the redemption price for all \$155.0 million aggregate principal amount of the Notes. We redeemed such Notes on January 21, 2011.

At emergence from bankruptcy on March 15, 2010, we obtained approximately \$98.0 million of proceeds through the issuance of \$105.0 million principal amount of the Notes and 1,710,000 shares of common stock. In addition, on August 19, 2010, the Company issued and sold an additional \$50 million in aggregate principal amount of Notes, resulting in gross proceeds of approximately \$51 million (excluding accrued interest on the Notes through the issue date). Such Notes were redeemed on January 21, 2011 at a redemption price of 105% of the principal amount of \$155.0 million, plus accrued and unpaid interest.

On December 22, 2010, we entered into the Term Loan Agreement with the Term Loan Agent, the lenders party thereto, Citigroup Global Markets Inc. and Jefferies Finance LLC, as joint lead arrangers and joint book-runners, and Citibank, N.A. and Jefferies Finance LLC, as co-syndication agents. Under the Term Loan Agreement, the lenders provided to us an aggregate principal amount \$200 million Term Loan Facility. The Term Loan Facility was issued net of original issue discount of \$8.0 million.

On April 7, 2011, we entered into the Incremental Amendment with Citibank, N.A., as administrative agent for the lenders under the Term Loan Agreement, and Macquarie, as lender, to the Company's Term Loan Agreement. Pursuant to the Incremental Amendment, Macquarie loaned to us an aggregate principal amount equal to \$25.0 million, net of \$1.3 million in fees. The loan under the Incremental Amendment has substantially the same terms as the existing loans under the Term Loan Agreement, including seniority, ranking in right of payment and of

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security, maturity date, applicable margin and interest rate floor. We continue to be subject to all other terms and restrictions contained in the original Term Loan Agreement.

On July 20, 2011, Aventine entered into the Citi Amendment to the Term Loan Agreement with the lenders party thereto and the Term Loan Agent. Under the terms of the Citi Amendment, the amount of indebtedness that Aventine is permitted to incur under the New Revolving Facility (including bank products and hedging obligations) is capped at \$58.0 million. The Citi Amendment modifies Aventine's minimum liquidity covenant for 2012 reducing it from \$25.0 million to \$15.0 million. The Citi Amendment also includes certain technical amendments to permit the New Revolving Facility.

On July 20, 2011, we entered into the \$50.0 million New Revolving Facility with Wells Fargo. The proceeds of loans under the New Revolving Facility were used to (1) repay the Borrowers' obligations

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under the Revolving Credit Facility, (2) pay related transaction costs, fees and expenses, and (3) for general corporate purposes. In connection with the New Revolving Facility, the rights and obligations of the lenders under the Revolving Facility have been assigned from PNC to Wells Fargo. Future borrowings under the New Revolving Facility will be used for general corporate purposes. The Company terminated the Revolving Credit Agreement with PNC and paid a \$600 thousand early termination fee. In addition, the Company expensed \$39 thousand in related unamortized debt issuance costs. Both items are included in debt extinguishment costs for the three and nine months ended September 30, 2011. The Company capitalized \$2.3 million in debt issuance costs for the three and nine months ended September 30, 2011 related to the New Revolving Facility Agreement. These costs will be amortized using the straight-line method over the term of the New Revolving Facility Agreement. The Company recognized \$114 thousand of expense in debt issuance costs related to the New Revolving Facility Agreement during the three and nine months ended September 30, 2011.

As of September 30, 2011, approximately 5.6 million of the 6.8 million new common equity shares reserved for distribution to general, unsecured claimholders under the Plan have been distributed. On October 31, 2011, the Company commenced a pro-rata distribution, consisting of 774,425 shares of common stock, to holders of the Company's pre-petition notes and to holders of allowed general unsecured claims, with 399,993 shares distributed to holders of pre-petition notes and 374,432 shares to holders of allowed general unsecured claims. Approximately 0.4 million shares of common stock are reserved for future distributions to these holders. However, because our ability to distribute shares held in reserve depends on resolving outstanding claims currently in dispute, it is difficult to predict the amount of each quarterly distribution, if any, or when all the remaining shares will be distributed.

*Sources of Liquidity*

Our principal sources of liquidity are cash and cash equivalents, cash provided by our borrowing facility, and cash provided by operations. If our future cash flow is insufficient to meet our debt obligations and commitments, we may be required to undertake alternative financing plans, such as: (i) refinancing or restructuring our debt, (ii) selling assets, (iii) reducing or delaying capital investments, or (iv) seeking to raise additional capital. There can be no assurance, however, that undertaking alternative financing plans would allow us to meet our debt obligations. Our inability to meet our debt obligations and commitments could lead to an event of default under the Term Loan Agreement or the New Revolving Facility. If an event of default occurs under the Term Loan Agreement, then the Term Loan Facility may become immediately due and payable and the holders could accelerate repayment of the obligations under the Term Loan Facility or foreclose on the collateral granted to them. If an event of default occurs under the New Revolving Facility, then the lenders may terminate their commitments, accelerate repayment of the obligations, or foreclose on the collateral granted to them. In addition, an event of default under any of the Term Loan Agreement or the New Revolving Facility may lead to an event of default under the Term Loan Agreement or the New Revolving Facility, as the case may be, under certain circumstances.

In addition, our ability to execute on our growth strategy will be determined, in large part, by the availability of debt and equity capital, and we continuously evaluate our financing opportunities. Any decision regarding a financing transaction, and our ability to complete such a transaction, will depend on prevailing market conditions and other factors. Our ability to meet our liquidity requirements and execute on our growth strategy can be impacted by economic conditions outside of our control, such as the disruption in the capital and credit markets that occurred in 2008 and 2009, as well as commodity price volatility. We may be required to seek sources of capital earlier than anticipated, although the restrictions in our New Revolving Facility and Term Loan Agreement may impair our ability to access other sources of capital, and access to additional capital may not be available on terms acceptable to us or at all.

*Cash and cash equivalents.* Cash and cash equivalents decreased by \$12.4 million during the nine months ended September 30, 2011. Cash and cash equivalents at September 30, 2011 and December 31, 2010 were \$22.1 million and \$34.5 million, respectively.



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*Cash available under our liquidity facility.* Pursuant to the Plan, on the Effective Date, the Company and its subsidiaries, as borrowers, entered into the Revolving Facility providing for a \$20.0 million Revolving Facility, which was increased to \$30.0 million in February 2011. Amounts under the Revolving Facility could have been borrowed, repaid and reborrowed and all amounts outstanding were due and payable on March 15, 2013. The maximum amount outstanding under the Revolving Facility was limited by the amount of eligible receivables and eligible inventory of the borrowers. The Revolving Facility contained mandatory prepayment requirements in certain circumstances upon the sale of certain collateral, subject to the ability to reborrow revolving advances. Termination of the Revolving Facility was subject to a prepayment premium if terminated more than 90 days prior to the third anniversary of the Revolving Facility. This facility was terminated on July 20, 2011 and replaced by the New Revolving Facility with Wells Fargo.

On July 20, 2011, we entered into the \$50.0 million New Revolving Facility with Wells Fargo. The proceeds of loans under the New Revolving Facility were used to (1) repay the Borrowers' obligations under the Revolving Credit Facility, (2) pay related transaction costs, fees and expenses, and (3) for general corporate purposes. Future borrowings under the New Revolving Facility will be used for general corporate purposes. In connection with the New Revolving Facility, the rights and obligations of the lenders under the Revolving Facility have been assigned from PNC to Wells Fargo. See Note 8 to our condensed consolidated financial statements for additional information regarding the New Revolving Facility. The Company terminated the Revolving Credit Agreement with PNC and paid a \$600 thousand early termination fee. In addition, the Company expensed \$39 thousand in related unamortized debt issuance costs. Both items are included in debt extinguishment costs for the three and nine months ended September 30, 2011. The Company capitalized \$2.3 million in debt issuance costs for the three and nine months ended September 30, 2011 related to the New Revolving Facility Agreement. These costs will be amortized using the straight-line method over the term of the New Revolving Facility Agreement. The Company recognized \$114 thousand of expense in debt issuance costs related to the New Revolving Facility Agreement during the three and nine months ended September 30, 2011.

Total liquidity at September 30, 2011 was \$38.2 million, comprised of \$22.1 million in cash and cash equivalents and \$16.1 million availability under the New Revolving Facility. As of September 30, 2011, there was \$6.0 million drawn against the New Revolving Facility, and there were \$3.9 million of outstanding letters of credit issued against New Revolving Facility. In addition, there were \$5.5 million of outstanding letters of credit under the previously replaced Revolving Facility. The outstanding letters of credit under the previous Revolving Facility were collateralized by \$5.8 million in a restricted cash account.

On December 22, 2010, we entered into the Term Loan Agreement. Under the Term Loan Agreement, the lenders provided us an aggregate principal amount \$200.0 million Term Loan Facility. The proceeds of loans under the Term Loan Agreement of \$192.0 million, net of \$8.0 million of original issuance discount, were or will be, as the case may be, used (1) to redeem the Notes in the aggregate principal amount of \$155.0 million at a redemption price of 105% of the principal amount, plus accrued and unpaid interest, (2) to pay related transaction costs, fees and expenses of \$5.6 million, and (3) for general corporate purposes.

On April 7, 2011, we entered into the Incremental Amendment to the Term Loan Agreement, pursuant to which Macquarie loaned us an aggregate principal amount equal to \$25.0 million, net of \$1.3 million in fees.

On July 20, 2011, Aventine entered into the Citi Amendment to the Term Loan Agreement with the lenders party thereto and the Term Loan Agent. Under the terms of the Citi Amendment, the amount of indebtedness that Aventine is permitted to incur under the New Revolving Facility (including bank products and hedging obligations) is capped at \$58.0 million. The Citi Amendment modifies Aventine's





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minimum liquidity covenant for 2012. The Citi Amendment also includes certain technical amendments to permit the New Revolving Facility.

*Cash used in operations.* Net cash used in operations was \$27.6 million, \$14.6 million and \$11.7 million, respectively, for the nine months ended September 30, 2011, seven months ended September 30, 2010 and two months ended February 28, 2010. Cash used in operations during 2011 was primarily due to the start-up of our Mt. Vernon facility and a narrowing commodity spread. Cash used in operations in 2010 was negatively impacted by significant operating losses incurred due to the start-up of the Mt. Vernon facility as well as higher SG&A expenses associated with the hiring of new executive management in connection with our emergence from bankruptcy, as well as payments of secured and priority claims as we emerged from bankruptcy.

*Uses of Liquidity*

Our principal uses of liquidity are payments related to our outstanding debt and liquidity facility, working capital, funding of operations and capital expenditures.

*Payments related to our debt and liquidity facility.* During the three months and nine months ended September 30, 2011, we used \$0.6 million and \$1.6 million, respectively, of cash to make required repayments of borrowings on our Term Loan Facility. During the two months ended February 28, 2010, we used \$42.8 million of cash to make required repayments of borrowings on our prior revolving facility with JPMorgan Chase of \$27.8 million and our debtor-in-possession debt facility of \$15.0 million.

At September 30, 2011, the Company had \$9.4 million in letters of credit outstanding, which were collateralized by \$5.8 million in a restricted cash account. Of the \$9.4 million in letter of credit outstanding, \$5.5 million were related to the previous Revolving Facility and \$3.9 million to the New Revolving Facility. Availability under the Revolving Facility was \$16.1 million at September 30, 2011.

*Working capital.* Our net working capital position decreased by \$15.1 million to \$57.7 million at September 30, 2011 from \$72.9 million at December 31, 2010. Current assets decreased by \$166.9 million to \$103.3 million at September 30, 2011 from \$270.2 million at December 31, 2010 primarily related to \$164.8 of restricted cash at December 31, 2010, which was used in January 2011 to redeem the Notes. Current liabilities decreased by \$151.8 million to \$45.5 million at September 30, 2011 from \$197.3 million at December 31, 2010 primarily related to the \$155.0 million principal amount of Notes, which were redeemed in January 2011.

*Capital expenditures.* During the nine months ended September 30, 2011, we spent approximately \$20.2 million on capital projects. Of the \$20.2 million spent during the first nine months of 2011, \$6.0 million was spent on our capacity expansion project in Aurora, Nebraska, \$3.8 million was spent on our capacity expansion project in Canton, Illinois and \$4.2 million was spent on our capacity expansion project in Mt. Vernon, Indiana. During the seven months ended September 30, 2010 and the two months ended February 28, 2010, we spent \$69.2 million and \$2.1 million, respectively, on capital projects. Of the \$71.2 million spent during the first nine months of 2010, \$2.0 million was spent on maintenance and environmental projects, \$50.6 million was spent on our capacity expansion projects, and \$18.6 million was spent on acquisition of the Canton, Illinois facility.

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We expect the Canton facility to become operational in the spring of 2012 and the Aurora West facility to become operational in mid 2012, subject to weather conditions, commodity prices, and the availability of working capital. See Liquidity Outlook below. In the Canton facility, we have made several improvements including mash fermentation improvements including a dual train mash heat exchanger allowing for a clean in process approach to reduce infections and improve yields, boiler house improvements including replacement of the coal feeder screw system to improve the flow of coal into the combustor and boiler maintenance. We expect that we will have nominal additional expenditures to bring

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these plants on line in 2012.

*Liquidity Outlook*

Our ability to maintain adequate liquidity depends in part upon industry conditions and general economic, financial, competitive, regulatory, and other factors beyond our control. We expect our earnings and cash flow to vary significantly from year to year due to the cyclical nature of our industry. As a result, the amount of debt we can manage in some periods may not be appropriate for us in other periods. Additionally, our future cash flow may be insufficient to meet our debt obligations and commitments. Any insufficiency could negatively impact our business. A range of economic, competitive, business and industry factors will affect our future financial performance, and, as a result, our ability to generate cash flow from operations, and to pay our debt. Many of these factors, such as ethanol prices, corn prices, economic and financial conditions in our industry and the global economy or competitive initiatives of our competitors are beyond our control.

Our principal sources of liquidity are cash and cash equivalents, cash provided by our borrowing facility, and cash provided by operations. At September 30, 2011, we had \$22.1 million of cash and cash equivalents and \$57.7 million in net working capital. Additionally, at September 30, 2011, we had availability under the Revolving Facility of approximately \$16.1 million. However, we currently depend on the New Revolving Facility for future working capital needs. If there is an event of default by us under the New Revolving Facility that continues beyond any applicable cure period, resulting in amounts outstanding becoming immediately due and payable, or if our qualifying inventory and accounts receivable decline such that our borrowing base is limited, we may not have sufficient funds available to repay such borrowings or we may be unable to borrow a sufficient amount to fund our operations. In the event that cash flows and borrowings under the New Revolving Facility are not sufficient to meet our cash requirements, we may be required to seek additional financing.

Our liquidity position is significantly influenced by our operating results, which in turn are substantially dependent on commodity prices, especially prices for corn, ethanol, natural gas, and unleaded gasoline. As a result, adverse commodity price movements adversely impact our liquidity. Often, movements in commodity prices are well correlated such that increases or decreases in commodities movements provide a predictable change in our liquidity. However, in the last three years, there have been periods of time in which other economic factors cause a significant deterioration in commodity price correlations such that our ability to predict our liquidity level may be significantly diminished. Accordingly, we can provide no assurance that the amounts of cash available from operations, together with the New Revolving Facility, will be sufficient to fund our operations.

Our principal uses of liquidity are payments related to our outstanding debt and liquidity facility, working capital, funding of operations, and capital expenditures. Under our Term Loan Agreement, we are required to maintain a minimum liquidity position of \$15.0 million comprised of available cash and borrowing capacity under our Revolving Facility throughout 2011 and 2012, and \$25 million beginning in 2013. Based on current commodity prices and market conditions, our liquidity forecast may indicate a need to defer start-up of our Aurora West facility and our Canton facility beyond 2012. If we do not generate enough cash flow from operations to satisfy our principal uses of liquidity, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or raising additional capital. However, under our Term Loan Agreement, we are required to maintain a debt to total capitalization ratio of less than 0.65. There is no assurance that undertaking alternative financing plans, if necessary, would allow us to meet our debt obligations.

Despite the risks identified associated with our liquidity and our forecasted operating cash flows, we believe that we have sufficient liquidity through our cash and cash equivalents, cash from operations and borrowing capacity under our New Revolving Facility to meet our short-term and long-term normal recurring operating needs, debt service obligations, contingencies, and capital expenditures. We also



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believe that the additional avenues available to preserve liquidity in the event of an industry or economic downturn are adequate to allow us to continue operations.

**Financing**

*Term Loan Agreement*

On December 22, 2010, we entered into the Term Loan Agreement, under which the lenders provided us the aggregate principal amount \$200 million Term Loan Facility. Also on December 22, 2010, we gave notice of redemption pursuant to the indenture dated as of the Effective Date among the Company, each of the Company's direct and indirect wholly-owned subsidiaries, as guarantors, and Wilmington Trust FSB, as trustee and collateral agent, providing that it would redeem all \$155.0 million aggregate principal amount of Notes at a redemption price of 105% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the redemption date. Concurrently with the closing of the Term Loan Agreement, the Company irrevocably deposited in trust with the trustee for the Notes, \$164.8 million of the proceeds from the Term Loan Facility, funds sufficient to pay the redemption price for all \$155.0 million aggregate principal amount of the Notes. The Company redeemed such Notes on January 21, 2011. In connection with the redemption, the Company paid \$164.8 million, of which \$155.0 million related to the principal amount of the Notes, \$7.8 million related to a prepayment penalty on the Notes and \$2.0 million related to interest on the Notes. Accordingly, the Notes and the restricted cash for payment of the Notes were included in current liabilities and current assets, respectively, in the condensed consolidated balance sheet at December 31, 2010.

On April 7, 2011, we entered into the Incremental Amendment to our Term Loan Agreement, pursuant to which Macquarie loaned the Company an aggregate principal amount equal to \$25.0 million, net of \$1.3 million in fees.

On July 20, 2011, Aventine entered into the Citi Amendment to the Term Loan Agreement with the lenders party thereto and the Term Loan Agent. Under the terms of the Citi Amendment, the amount of indebtedness that Aventine is permitted to incur under the New Revolving Facility (including bank products and hedging obligations) is capped at \$58.0 million. The Citi Amendment modifies Aventine's minimum liquidity covenant for 2012. The Citi Amendment also includes certain technical amendments to permit the New Revolving Facility.

*Revolving Facility*

Pursuant to the Plan, on the Effective Date, the Company and its subsidiaries, as borrowers, entered into the Revolving Facility, providing for a \$20 million revolving facility. On February 28, 2011, the Company amended the Revolving Facility which increased the maximum loan amount to \$30.0 million. The amendment required the Company to provide cash as security for all outstanding and undrawn letters of credit but allowed the Company to utilize the existing \$5.0 million pledged to PNC as part of the cash required to secure the letters of credit.

In addition to a borrowing base collateralization consisting primarily of accounts receivable and inventories, the Revolving Facility was collateralized by a \$5.0 million restricted cash account less amounts used to collateralize outstanding, undrawn letters of credit. The Company

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could not count the \$5.0 million restricted cash account in its borrowing base. At September 30, 2011, the Company had \$5.5 million in letters of credit collateralized by \$5.8 million in restricted cash in the PNC Revolving Facility. This revolving facility was terminated on July 20, 2011.

On July 20, 2011, we entered into the \$50.0 million New Revolving Facility with Wells Fargo. The proceeds of loans under the New Revolving Facility were used to (1) repay the Borrowers' obligations under the Revolving Credit Facility, (2) pay related transaction costs, fees and expenses, and (3) for general

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corporate purposes. In connection with the New Revolving Facility, the rights and obligations of the lenders under the Revolving Facility were assigned from PNC to Wells Fargo and the facility was terminated.

Total liquidity at September 30, 2011 was \$38.2 million, comprised of \$22.1 million in cash and cash equivalents and \$16.1 million availability under the New Revolving Facility. As of September 30, 2011, there was \$6.0 million drawn against the New Revolving Facility, and there were \$3.9 million of outstanding letters of credit issued against New Revolving Facility. In addition, there were \$5.5 million of outstanding letters of credit under the previously replaced Revolving Facility. The outstanding letters of credit for the previously replaced Revolving Facility were collateralized by \$5.8 million in a restricted cash account. Availability under the Revolving Facility was \$16.1 million at September 30, 2011.

**Environmental Matters**

We are subject to extensive federal, state and local environmental, health and safety laws, regulations and permit conditions (and interpretations thereof), including, among other things, those relating to the discharge of hazardous and other waste materials into the air, water and ground, the generation, storage, handling, use, transportation and/or disposal of hazardous materials, and the health and safety of our employees. We are also subject to potential liability for the investigation and cleanup of environmental contamination at each of the properties that we own or operate and at off-site locations where we arranged for the disposal of hazardous wastes. We may also be subject to related claims by private parties alleging property damage or personal injury due to exposure to hazardous or other materials at or from such properties or other impacts of our operations. We may be adversely affected by environmental, health, and safety laws, regulations, and liabilities.

For more information about our environmental compliance and actual and potential environmental liabilities, see **Business Environmental and Regulatory Matters** in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to various market risks, including changes in commodity prices and changes in interest rates.

***Commodity Price Risks***

In the ordinary course of business, we may enter into various types of transactions involving financial instruments to manage and reduce the impact of changes in commodity prices, including price risk on anticipated purchases of corn, natural gas and the sale of ethanol. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

We are subject to market risk with respect to the price and availability of corn, the principal raw material we use to produce ethanol and ethanol by-products. In general, rising corn prices result in lower profit margins and, therefore, represent unfavorable market conditions. This is



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especially true when market conditions do not allow us to pass along increased corn costs to our customers. The availability and price of corn is subject to wide fluctuations due to unpredictable factors such as weather conditions, farmer planting decisions, governmental policies with respect to agriculture and international trade, and global demand and supply. Our weighted-average gross corn cost for the first nine months of 2011 was approximately 90.5% higher than the first nine months of 2010.

We have firm-price purchase commitments with some of our corn suppliers under which we agree to buy corn at a price set in advance of the actual delivery of that corn to us. Under these arrangements, we assume the risk of a decrease in the market price of corn between the time this price is fixed and the time the corn is delivered. At September 30, 2011, we had firm-price purchase commitments to purchase

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approximately 1.7 million bushels of corn at an average fixed price of \$6.44 per bushel for delivery through January 2012. At December 31, 2010, we had firm-price purchase commitments to purchase approximately 3.0 million bushels of corn at an average fixed price of \$5.62 per bushel for delivery through December 2011. We have elected to account for these transactions as normal purchases under ASC 815, and accordingly, did not mark these transactions to market.

From time to time, we enter into commodity futures contracts in connection with the purchase of corn to reduce our risk of future price increases. We account for these transactions under ASC 815. These futures contracts are not designated as hedges and, therefore, are marked to market each period, with corresponding gains and losses recorded in (Loss) gain on derivative transactions, net on the condensed consolidated statements of operations. The fair value of these derivative contracts is recognized in other current assets in the condensed consolidated balance sheet, net of any cash received from the brokers. At September 30, 2011, we had 565 long December corn futures contracts at an average price of \$6.92 per bushel. At December 31, 2010, we had 765 long March corn futures contracts at an average price of \$6.01 per bushel.

We are also subject to market risk with respect to ethanol pricing. Our ethanol sales are priced using contracts that can either be based upon a fixed price or based upon a market price at the time of shipment. We sometimes fix the price at which we sell ethanol using fixed price physical delivery contracts. At September 30, 2011, we had fixed-priced contracts to sell 2.5 million gallons of ethanol at an average price of \$2.58 per gallon. At December 31, 2010, we had fixed-priced contracts to sell 11.7 million gallons of ethanol at an average price of \$2.31 per gallon. These sale transactions would not be marked to market as they qualify for the normal sales exemption under ASC 815.

From time to time, we also sell forward ethanol using contracts where the price is determined at a point in the future based upon an ethanol index price plus or minus a fixed amount. At September 30, 2011, we had sold 49.7 million gallons of ethanol at index prices using Platt and OPIS indices. At December 31, 2010, we had sold 17.6 million gallons of ethanol at index prices using Platt and OPIS indices. When we have these arrangements, we assume the risk of a price decrease in the market price of ethanol. These sale transactions would not be marked to market as they qualify for the normal sales exemption under ASC 815.

From time to time, we enter into ethanol futures contracts and ethanol swaps contracts in connection with the sale of ethanol. We account for these transactions under ASC 815. These futures contracts are not designated as hedges and, therefore, are marked to market each period, with corresponding gains and losses recorded in (Loss) gain on derivative transactions, net on the condensed consolidated statements of operations. The fair value of these derivative contracts is recognized in other current assets in the condensed consolidated balance sheet, net of any cash received from the brokers. At September 30, 2011, we had 6.1 million gallons of Platt's swaps and 0.5 million gallons of futures sold. For the Platt's swaps, 2.3 million are expired but still subject to settlement. We did not have any futures contracts to sell ethanol at December 31, 2010.

We may also be subject to market risk with respect to our supply of natural gas which is consumed during the production of ethanol and its co-products and has historically been subject to volatile market conditions. Natural gas prices and availability are affected by weather conditions, overall economic conditions and foreign and domestic governmental regulation. At September 30, 2011, we had purchased forward 533,200 MMBtu's of natural gas at an average fixed price of \$3.84 per MMBtu through the end of 2011. At December 31, 2010, we had purchased forward 477,300 MMBtu's of natural gas at an average fixed price of \$4.30 per MMBtu through the first quarter of 2011. We have elected to account for these transactions as normal purchases under ASC 815 and, accordingly, have not marked these transactions to market.

We prepared a sensitivity analysis to estimate our exposure to market risk of our daily net commodity position. Our daily net commodity position consists of merchandisable agricultural commodity inventories,



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related purchase and sale contracts, and exchange-traded futures and exchange-traded and over-the-counter option contracts, including those contracts used to hedge portions of production requirements. The fair value of such daily net commodity position is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in such prices. Based on the analysis performed, our highest position through the quarter ending September 30, 2011 had a fair value of \$53.8 million, which would result in a \$5.4 million market risk. Our lowest position at September 30, 2011 had a fair value of \$88.8 thousand, which would result in an \$8.9 thousand market risk. Our average position at September 30, 2011 was approximately \$21.6 million, for an average market risk of \$2.2 million.

***Interest Rate Risk***

The primary market risk associated with the Term Loan Agreement is sensitivity to changes in the interest rate. Borrowings under the Term Loan Agreement bear interest at (i) LIBOR (2% floor) plus 8.5% per annum or (ii) the alternate base rate plus 7.5% per annum. The risk management strategies that we employ use various risk sensitivity metrics to measure such risks and to examine behavior under significant adverse market conditions. We performed a sensitivity analysis that measures the change in interest expense on our variable rate debt arising from a hypothetical 100 basis point adverse movement in interest rates. Based on our outstanding variable rate debt as of September 30, 2011, a hypothetical 100 basis point change in interest rates would not impact our interest expense because the adjusted LIBOR rate as of September 30, 2011 was 0.30% compared to our minimum Term Loan Facility adjusted LIBOR rate of 2.00% per annum according to the Term Loan Agreement.

***Material Limitations***

The disclosures with respect to the above noted risks do not take into account the underlying commitments or anticipated transactions. If the underlying items were included in the analysis, the gains or losses on the futures contracts may be offset. Actual results will be determined by a number of factors that are not generally under our control and could vary significantly from those results disclosed.

We are exposed to credit losses in the event of nonperformance by counterparties on the above instruments, as well as credit or performance risk with respect to our hedged commitments. Although nonperformance is possible, we do not anticipate nonperformance by any of these parties.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Under the supervision of and with the participation of management, including our Interim Chief Executive Officer, John Castle, and our Interim Chief Financial Officer, Calvin Stewart, the Company carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based upon that evaluation, Messrs. Castle and Stewart have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures have been properly designed and are effective to provide reasonable assurance

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that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to our management, including Messrs. Castle and Stewart, as appropriate to allow timely decisions regarding the required disclosure. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goal under all potential future conditions, regardless of how remote.

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**Changes in Internal Control over Financial Reporting**

Based upon evaluation by our management, which was conducted with the participation of Messrs. Castle and Stewart, there has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II.        OTHER INFORMATION**

**Item 1.        Legal Proceedings**

On November 6, 2008, the Company commenced an action against JP Morgan Securities, Inc. and JP Morgan Chase Bank, N.A. (hereinafter collectively referred to as "JP Morgan") in the Tenth Judicial Circuit in Tazewell County, Illinois. The Company's complaint relates to losses incurred of approximately \$31.6 million as a result of investments in Student Loan Auction Rate Securities purchased through JP Morgan. This state court litigation is currently under a stay by the Circuit Court, which has prevented further prosecution of this dispute in that forum. On June 10, 2011 the Company filed a request for arbitration with FINRA. The request has been granted and the matter will move forward under FINRA Code of Arbitration Proceedings. At this time, the Company is unable to determine the impact such litigation will have on our business, operating results, financial condition and cash flows.

On April 7, 2009, Aventine Renewable Energy Holdings, Inc. and all of its direct and indirect subsidiaries (collectively "the Debtors"), filed voluntary petitions with the Bankruptcy Court to reorganize under Chapter 11 of the United States Code. On January 13, 2010, the Debtors filed the Plan. The Plan was confirmed by order entered by the Bankruptcy Court on February 24, 2010 and became effective on March 15, 2010, the date on which the Company emerged from protection under Chapter 11 of the Bankruptcy Code. Since the Effective Date certain of the Debtors cases have been closed by order of the Bankruptcy Court, effective December 20, 2010; however, the cases of Aventine Renewable Energy, Inc. and Nebraska Energy, L.L.C. remain open, wherein certain creditor claims remain subject to dispute and further adjudication, as do certain claims and potential claims by the Debtors against various third parties. At this time, we are unable to determine the impact such litigation will have on our business, operating results, financial condition or cash flows.

On April 19, 2011, the Company was notified of the EPA's intent to file an administrative complaint against Aventine Renewable Energy, Inc. for a release which occurred in March 2008. The EPA noted that they would be seeking a penalty of approximately \$193 thousand. The Company has responded stating that its position is that such claims are barred by the bankruptcy proceedings. At this time, we are unable to determine the impact such litigation will have on our business, operating results, financial condition or cash flows.

The Company initiated a civil action against E-Biofuels in 2009 related to breach of agreement, and asked for not less than \$3.0 million in compensation. This suit was later transferred to the Bankruptcy Court and subsequently settled in the Company's favor on July 6, 2011. Under the terms of the settlement, the Company received \$0.2 million in cash and 425,000 shares of Imperial (E-Biofuels' parent company) stock. The stock was valued at \$0.7 million on the date of receipt of July 6, 2011. The Company also had previously recorded a liability related to tax credits of \$0.7 million which was relieved by the settlement. The net gain of \$1.6 million is included in other non-operating income on the statement of operations. The stock was booked as short-term investments which are classified as available for sale securities on the balance sheet. For the three and nine months ended September 30, 2011, the Company booked a loss on available for sale securities of \$0.3 million

related to the decrease in the current trading price of the stock

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which is included in other comprehensive income on the statements of stockholders' equity. These OCI adjustments are reported before tax effect due to a valuation allowance fully offsetting the tax effect of these adjustments.

On September 3, 2009, Union Tank filed notice of a claim against the Company with the Bankruptcy Court for a general unsecured claim in the amount of \$82.6 million for certain estimated end charges including railcar cleaning cost and unpaid rental payments for leased railcars. Union Tank also filed an administrative claim against the Company in the amount of \$0.1 million for the alleged use of railcars after the effective date of the rejection of the leases for such railcars. The Company disputed both of these claims. On September 30, 2011, the Court ruled that the claim shall be allowed in the amount of \$27.6 million. Partial distribution of shares on account was made October 31, 2011 in accordance with the terms of the Plan and at such time as the distribution was made to other holders of claims in classes five and six that were allowed as of September 30, 2011. As a result of the settlement on September 30, 2011, the Company reversed the related reserve for this matter of \$0.1 million through non-operating income on the statement of operations.

We are from time to time involved in various legal proceedings, including legal proceedings relating to the extensive environmental laws and regulations that apply to our facilities and operations. We are not involved in any legal proceedings, other than those described herein, that we believe could have a material adverse effect upon our business, operating results, financial condition or cash flows.

**Item 1A. Risk Factors**

None.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Removed and Reserved**

**Item 5. Other Information**



None.

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**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
10.1	Mutual Release between Thomas Manuel and Aventine Renewable Energy Holdings, Inc. dated August 18, 2011 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed August 22, 2011 by Aventine Renewable Energy Holdings, Inc.).
10.2	Amendment No. 3 to the Senior Secured Term Loan Credit Agreement and Consent to Amendment and Restatement of Intercreditor Agreement, dated as of July 20, 2011, by and among Aventine Renewable Energy Holdings, Inc., the lenders parties to the Senior Secured Term Loan Credit Agreement, and Citibank, N.A., as administrative agent and collateral agent for the lenders under the Senior Secured Term Loan Credit Agreement.
10.3	Amended and Restated Credit Agreement, dated as of July 20, 2011, by and among Wells Fargo Capital Finance, LLC, as agent and as lender, and Aventine Renewable Energy Holdings, Inc., Aventine Renewable Energy, Inc., Aventine Renewable Energy Aurora West, LLC, Aventine Renewable Energy Mt Vernon, LLC, Aventine Renewable Energy Canton, LLC, Aventine Power, LLC and Nebraska Energy, L.L.C., as borrowers.
31.1	Certificate of Chief Executive Officer of Aventine Renewable Energy Holdings, Inc. pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certificate of Chief Financial Officer of Aventine Renewable Energy Holdings, Inc. pursuant to Rule 13(a)-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

AVENTINE RENEWABLE ENERGY HOLDINGS, INC.

Dated: November 9, 2011

By: /s/ Calvin Stewart  
Name: Calvin Stewart  
Title: Interim Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Officer)