Green Plains Renewable Energy, Inc.
Form 10-Q
November 01, 2012

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, 2012

Commission File Number 001-32924

Green Plains Renewable Energy, Inc.

(Exact name of registrant as specified in its charter)

Iowa (State or other jurisdiction of incorporation or organization)	84-1652107 (I.R.S. Employer Identification No.)
450 Regency Parkway, Suite 400, Omaha, NE 68114 (Address of principal executive offices, including zip code)	(402) 884-8700 (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

S 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).

S Yes £ No

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

Large accelerated filer £ Accelerated filer T Non-accelerated filer £ Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

£ Yes S No

The number of shares of common stock, par value $0.001 per share, outstanding as of October 30, 2012 was 29,678,413 shares.

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GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 140,177	$ 174,988
Restricted cash	19,573	19,619
Accounts receivable, net of allowances of $488 and $263, respectively	102,565	106,198
Inventories	241,230	229,070
Prepaid expenses and other	15,344	14,289
Deferred income taxes	23,030	14,828
Derivative financial instruments	42,759	17,428
Total current assets	584,678	576,420
Property and equipment, net of accumulated depreciation of $165,132 and $125,798, respectively	761,276	776,789
Goodwill	40,877	40,877
Other assets	29,703	26,742
Total assets	$ 1,416,534	$ 1,420,828
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 147,426	$ 172,328
Accrued and other liabilities	33,508	29,825
Unearned revenue	4,302	15,453
Short-term notes payable and other borrowings	157,914	69,599
Current maturities of long-term debt	73,092	73,760
Total current liabilities	416,242	360,965
Long-term debt	457,991	493,407
Deferred income taxes	64,913	55,970
Other liabilities	5,069	5,129

Total liabilities	944,215	915,471
Stockholders' equity		
Common stock, $0.001 par value; 75,000,000 shares authorized; 36,854,628 and 36,413,611 shares issued, and 29,654,628 and 32,913,611 shares outstanding, respectively	37	36
Additional paid-in capital	443,746	440,469
Retained earnings	74,517	95,761
Accumulated other comprehensive income (loss)	19,595	(2,953)
Treasury stock, 7,200,000 and 3,500,000 shares, respectively	(65,808)	(28,201)
Total Green Plains stockholders' equity	472,087	505,112
Noncontrolling interests	232	245
Total stockholders' equity	472,319	505,357
Total liabilities and stockholders' equity	$ 1,416,534	$ 1,420,828

See accompanying notes to the consolidated financial statements.

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GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$ 947,413	$ 957,018	$ 2,593,163	$ 2,630,921
Cost of goods sold	919,516	909,725	2,538,363	2,510,742
Gross profit	27,897	47,293	54,800	120,179
Selling, general and administrative expenses	19,273	18,248	58,350	53,350
Operating income (loss)	8,624	29,045	(3,550)	66,829
Other income (expense)				
Interest income	46	59	144	222
Interest expense	(9,832)	(9,440)	(28,741)	(27,438)
Other, net	(448)	(284)	(1,859)	(470)
Total other expense	(10,234)	(9,665)	(30,456)	(27,686)
Income (loss) before income taxes	(1,610)	19,380	(34,006)	39,143
Income tax expense (benefit)	(604)	6,979	(12,749)	14,191
Net income (loss)	(1,006)	12,401	(21,257)	24,952
Net loss attributable to noncontrolling interests	4	28	13	200
Net income (loss) attributable to Green Plains	$ (1,002)	$ 12,429	$ (21,244)	$ 25,152
Earnings per share:				
Income (loss) attributable to Green Plains stockholders - basic	$ (0.03)	$ 0.35	$ (0.70)	$ 0.70
Income (loss) attributable to Green Plains stockholders - diluted	$ (0.03)	$ 0.32	$ (0.70)	$ 0.66
Weighted average shares outstanding:				
Basic	29,655	35,624	30,499	36,075
Diluted	29,655	42,151	30,499	42,611

See accompanying notes to the consolidated financial statements.

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GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net income (loss)	$ (1,006)	$ 12,401	$ (21,257)	$ 24,952
Other comprehensive income (loss):				
Unrealized gains (losses) on derivatives arising during period	26,497	(16,806)	45,538	(33,031)
Reclassification of realized (gains) losses on derivatives	(11,297)	14,950	(9,502)	22,448
Income tax (expense) benefit related to other comprehensive income (loss)	(5,712)	683	(13,488)	4,052
Other comprehensive income (loss)	9,488	(1,173)	22,548	(6,531)
Comprehensive income	8,482	11,228	1,291	18,421
Comprehensive loss attributable to noncontrolling interests	4	28	13	200
Comprehensive income attributable to Green Plains	$ 8,486	$ 11,256	$ 1,304	$ 18,621

See accompanying notes to the consolidated financial statements.

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GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	$ (21,257)	$ 24,952
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	39,922	36,848
Amortization of debt issuance costs	2,314	1,703
Deferred income taxes	741	10,467
Stock-based compensation expense	3,149	2,743
Undistributed equity in loss of affiliates	1,858	470
Allowance for doubtful accounts	225	122
Other	1,922	-
Changes in operating assets and liabilities before effects of business combinations:		
Accounts receivable	3,492	(31,949)
Inventories	(11,297)	7,210
Derivative financial instruments	(2,858)	(16,543)
Prepaid expenses and other assets	(971)	(2,324)
Accounts payable and accrued liabilities	(21,319)	(5,994)
Unearned revenues	(11,151)	(12,307)
Other	(270)	550
Net cash provided (used) by operating activities	(15,500)	15,948
Cash flows from investing activities:		
Purchases of property and equipment	(23,892)	(35,526)
Acquisition of businesses, net of cash acquired	(1,490)	(8,115)
Other	(6,513)	(1,124)
Net cash used by investing activities	(31,895)	(44,765)

Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	53,200	110,088
Payments of principal on long-term debt	(87,690)	(160,732)
Proceeds from short-term borrowings	2,457,848	2,640,404
Payments on short-term borrowings	(2,400,211)	(2,648,963)
Payments for repurchase of common stock	(10,445)	(14,201)
Change in restricted cash	46	(8,724)
Payments of loan fees	(306)	(1,702)
Other	142	(2,630)
Net cash provided (used) by financing activities	12,584	(86,460)
Net change in cash and cash equivalents	(34,811)	(115,277)
Cash and cash equivalents, beginning of period	174,988	233,205
Cash and cash equivalents, end of period	$ 140,177	$ 117,928

Continued on the following page

GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

Continued from the previous page

	Nine Months Ended September 30,	
	2012	2011
Supplemental disclosures of cash flow:		
Cash paid for income taxes	$ 495	$ 955
Cash paid for interest	$ 24,479	$ 26,078
Supplemental noncash investing and financing activities:		
Assets acquired in acquisitions and mergers	$ 1,590	$ 62,686
Less: liabilities assumed	(100)	(54,571)
Net assets acquired	$ 1,490	$ 8,115
Short-term note payable issued to repurchase common stock	$ 27,162	$ 14,000

See accompanying notes to the consolidated financial statements.

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GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

References to the Company

References to “Green Plains” or the “Company” in the consolidated financial statements and in these notes to the consolidated financial statements refer to Green Plains Renewable Energy, Inc., an Iowa corporation, and its subsidiaries.

Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and entities which it controls. All significant intercompany balances and transactions have been eliminated on a consolidated basis for reporting purposes. Unconsolidated entities are included in the financial statements on an equity basis. Results for the interim periods presented are not necessarily indicative of results to be expected for the entire year.

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The financial statements should be read in conjunction with the Company’s annual report on Form 10-K for the year ended December 31, 2011.

The unaudited financial information reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted.

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Description of Business

Green Plains is North America's fourth largest ethanol producer. The Company operates nine ethanol plants with approximately 740 million gallons per year, or mmgy, of total ethanol production capacity. The Company's in-house marketing business is responsible for the sales, marketing and distribution of all ethanol, distillers grains and corn oil produced at its nine ethanol plants. The Company also markets and distributes ethanol for third-party ethanol producers. Additionally, the Company owns and operates grain handling and storage assets and provides complementary agronomy services to local grain producers through its agribusiness segment. The Company owns and operates nine blending and terminaling facilities with approximately 625 mmgy of total throughput capacity. The Company is a partner in a joint venture that was formed to commercialize advanced photo-bioreactor technologies for growing and harvesting of algal biomass.

Revenue Recognition

The Company recognizes revenue when all of the following criteria are satisfied: persuasive evidence of an arrangement exists; risk of loss and title transfer to the customer; the price is fixed and determinable; and collectability is reasonably assured.

For sales of ethanol, distillers grains and other commodities by the Company's marketing business, revenue is recognized when title to the product and risk of loss transfer to an external customer. Revenues related to marketing operations for third parties are recorded on a gross basis as the Company takes title to the product and assumes risk of loss. Unearned revenue is reflected on the consolidated balance sheets for goods in transit for which the Company has received payment and title has not been transferred to the customer. Revenues from the Company's biofuel terminal operations, which include ethanol transload and splash blending services, are recognized as these services are rendered.

The Company routinely enters into fixed-price, physical-delivery ethanol sales agreements. In certain instances, the Company intends to settle the transaction by open market purchases of ethanol rather than by delivery from its own production. These transactions are reported net as a component of revenues. Revenues also include realized gains and losses on related derivative financial instruments, ineffectiveness on cash flow hedges, and reclassifications of realized gains and losses on effective cash flow hedges from accumulated other comprehensive income (loss).

Sales of agricultural commodities, fertilizers and other similar products are recognized when title to the product and risk of loss transfer to the customer, which is dependent on the agreed upon sales terms with the customer. These sales terms provide for passage of title either at the time shipment is made or at the time the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon with the customer. Revenues related to grain merchandising are presented gross in the statements of operations with amounts billed for shipping and handling included in revenues and also as a component of cost of goods sold. Revenues from grain storage are recognized as services are rendered.

Cost of Goods Sold

Cost of goods sold includes costs for direct labor, materials and certain plant overhead costs. Direct labor includes all compensation and related benefits of non-management personnel involved in the operation of the Company's ethanol plants. Grain purchasing and receiving costs, other than labor costs for grain buyers and scale operators, are also included in cost of goods sold. Direct materials consist of the costs of corn feedstock, denaturant, and process chemicals. Corn feedstock costs include unrealized gains and losses on related derivative financial instruments not designated as cash flow hedges, inbound freight charges, inspection costs and transfer costs. Corn feedstock costs also include realized gains and losses on related derivative financial instruments, ineffectiveness on cash flow hedges, and reclassifications of realized gains and losses on effective cash flow hedges from accumulated other comprehensive income (loss). Plant overhead costs primarily consist of plant utilities, plant depreciation and outbound freight charges. Shipping costs incurred directly by the Company, including railcar lease costs, are also reflected in cost of goods sold.

The Company uses exchange-traded futures and options contracts to minimize the effects of changes in the prices of agricultural commodities on its agribusiness segment's grain inventories and forward purchase and sales contracts. Exchange-traded futures and options contracts are valued at quoted market prices. Grain inventories, forward purchase contracts and forward sale contracts in the agribusiness segment are valued at market prices, where available, or other market quotes adjusted for differences, primarily transportation, between the exchange-traded market and the local markets on which the terms of the contracts are based. Changes in the fair value of grain inventories, forward purchase and sale contracts, and exchange-traded futures and options contracts in the agribusiness segment, are recognized in earnings as a component of cost of goods sold. These contracts are predominantly settled in cash. The Company is exposed to loss in the event of non-performance by the counter-party to forward purchase and forward sales contracts.

Derivative Financial Instruments

To minimize the risk and the effects of the volatility of commodity price changes primarily related to corn, ethanol and natural gas, the Company uses various derivative financial instruments, including exchange-traded futures, and exchange-traded and over-the-counter options contracts. The Company monitors and manages this 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 hedging positions in these commodities as one way to mitigate risk. While the Company attempts to link its hedging activities to purchase and sales activities, there are situations in which these hedging activities can themselves result in losses.

By using derivatives to hedge exposures to changes in commodity prices, the Company has exposures on these derivatives to credit and market risk. The Company is exposed to credit risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. The Company minimizes its credit risk by entering into transactions with high quality counterparties, limiting the amount of financial exposure it has with each counterparty and monitoring the financial condition of its counterparties. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in commodity prices or interest rates. The Company manages market risk by incorporating monitoring parameters within its risk management strategy that limit the types of derivative instruments and derivative strategies the Company uses, and the degree of market risk that may be undertaken by the use of derivative instruments.

The Company evaluates its contracts that involve physical delivery to determine whether they may qualify for the normal purchases or normal sales exemption and are expected to be used or sold over a reasonable period in the normal course of business. Any contracts that do not meet the normal purchase or sales criteria are recorded at fair value with the change in fair value recorded in operating income unless the contracts qualify for, and the Company elects, hedge accounting treatment.

Certain qualifying derivatives within the ethanol production segment are designated as cash flow hedges. Prior to entering into cash flow hedges, the Company evaluates the derivative instrument to ascertain its effectiveness. For cash flow hedges, any ineffectiveness is recognized in current period results, while other unrealized gains and losses are reflected in accumulated other comprehensive income until gains and losses from the underlying hedged transaction are realized. In the event that it becomes probable that a forecasted transaction will not occur, the Company would discontinue cash flow hedge treatment, which would affect earnings. These derivative financial instruments are recognized in current assets or other current liabilities at fair value.

At times, the Company hedges its exposures to changes in the value of inventories and designates certain qualifying derivatives as fair value hedges. The carrying amount of the hedged inventory is adjusted through current period results for changes in the fair value arising from changes in underlying prices. Any ineffectiveness is recognized in current period results to the extent that the change in the fair value of the inventory is not offset by the change in the fair value of the derivative.

Recent Accounting Pronouncements

Effective January 1, 2012, the Company adopted the third phase of amended guidance in ASC Topic 820, Fair Value Measurements and Disclosures. The amended guidance clarifies the application of existing fair value measurement requirements and requires additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The Company currently is not impacted by the additional disclosure requirements as it does not have any recurring Level 3 measurements.

Effective January 1, 2012, the Company adopted the amended guidance in ASC Topic 220, Comprehensive Income. This accounting standards update is aimed at increasing the prominence of other comprehensive income in the financial statements by eliminating the option to present other comprehensive income in the statement of stockholders' equity. The Company has elected to present net income and other comprehensive income in two separate but consecutive statements. The updated presentation, which has been implemented retroactively for all comparable periods presented, did not impact the Company's financial position or results of operations.

Effective January 1, 2012, the Company adopted the amended guidance in ASC Topic 350, Intangibles – Goodwill and Other. The amended guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The amended guidance did not impact the

Company's disclosure or reporting requirements.

2. FAIR VALUE DISCLOSURES

The following methods, assumptions and valuation techniques were used in estimating the fair value of the Company's financial instruments:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 unrealized gains and losses on commodity derivatives relate to exchange-traded open trade equity and option values in the Company's brokerage accounts.

Level 2 – directly or indirectly observable inputs such as quoted prices for similar assets or liabilities in active markets other than quoted prices included within Level 1; quoted prices for identical or similar assets in markets that are not active; and other inputs that are observable or can be substantially corroborated by observable market data by correlation or other means. Grain inventories held for sale in the agribusiness segment are valued at nearby futures values, plus or minus nearby basis levels.

Level 3 – unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. The Company currently does not have any recurring Level 3 financial instruments.

There have been no changes in valuation techniques and inputs used in measuring fair value. The following tables set forth the Company's assets and liabilities by level that were accounted for the periods indicated (in thousands):

	Fair Value Measurements at September 30, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Reclassification for Balance Sheet Presentation	Total
Assets:				
Cash and cash equivalents	$ 140,177	$ -	$ -	$ 140,177
Restricted cash	21,773	-	-	21,773
Margin deposits	16,924	-	(16,924)	-
Inventories carried at market	-	123,376	-	123,376
Unrealized gains on derivatives	12,787	22,027	8,116	42,930
Total assets measured at fair value	$ 191,661	$ 145,403	$ (8,808)	$ 328,256
Liabilities:				
Unrealized losses on derivatives	$ 8,875	$ 15,129	$ (8,808)	$ 15,196
Inventory financing arrangements	-	16,237	-	16,237
Other	70	-	-	70
Total liabilities measured at fair value	$ 8,945	$ 31,366	$ (8,808)	$ 31,503

	Fair Value Measurements at December 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Reclassification for Balance Sheet Presentation	Total
Assets:				
Cash and cash equivalents	$ 174,988	$ -	$ -	$ 174,988
Restricted cash	21,820	-	-	21,820

Inventories carried at market	-	112,948	-	112,948
Unrealized gains on derivatives	15,710	6,010	(4,292)	17,428
Total assets measured at fair value	$ 212,518	$ 118,958	$ (4,292)	$ 327,184
Liabilities:				
Unrealized losses on derivatives	$ 2,828	$ 5,287	$ (2,698)	$ 5,417
Margin deposits	1,594	-	(1,594)	-
Inventory financing arrangements	-	8,894	-	8,894
Other	71	-	-	71
Total liabilities measured at fair value	$ 4,493	$ 14,181	$ (4,292)	$ 14,382

The Company believes the fair values of its debt, accounts receivable and accounts payable approximate book value, which were $689.0 million $102.6 million and $147.4 million, respectively, at September 30, 2012 and $636.8 million $106.2 million and $172.3 million, respectively, at December 31, 2011.

Although the Company currently does not have any Level 3 financial measurements, the fair values of the tangible assets and goodwill acquired in previous reporting periods represent Level 3 measurements and were derived using a combination of the income approach, the market approach and the cost approach as considered appropriate for the specific assets being valued.

3. SEGMENT INFORMATION

Company management reviews financial and operating performance in the following four separate operating segments: (1) production of ethanol and distillers grains, collectively referred to as ethanol production, (2) corn oil production, (3) grain warehousing and marketing, as well as sales and related services of agronomy and petroleum products, collectively referred to as agribusiness, and (4) marketing and logistics services for Company-produced and third-party ethanol, distillers grains, corn oil and other commodities, and the operation of blending and terminaling facilities, collectively referred to as marketing and distribution. Selling, general and administrative expenses, primarily consisting of compensation of corporate employees, professional fees and overhead costs not directly related to a specific operating segment, are reflected in the table below as corporate activities.

During the normal course of business, the Company enters into transactions between segments. Examples of these intersegment transactions include, but are not limited to, the ethanol production segment selling ethanol to the marketing and distribution segment and the agribusiness segment selling grain to the ethanol production segment. These intersegment activities are recorded by each segment at prices approximating market and treated as if they are third-party transactions. Consequently, these transactions impact segment performance. However, revenues and corresponding costs are eliminated in consolidation and do not impact the Company's consolidated results.

The following are certain financial data for the Company's operating segments for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Ethanol production:				
Revenues from external customers	$ 52,982	$ 35,077	$ 149,115	$ 97,377
Intersegment revenues	439,917	551,987	1,268,851	1,501,031
Total segment revenues	492,899	587,064	1,417,966	1,598,408
Corn oil production:				
Revenues from external customers	1	393	518	1,464
Intersegment revenues	14,530	15,115	43,003	28,886
Total segment revenues	14,531	15,508	43,521	30,350
Agribusiness:				