Green Plains Renewable Energy, Inc.
Form 10-Q
May 01, 2014

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 March 31, 2014

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.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 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 No

The number of shares of common stock, par value $0.001 per share, outstanding as of April 28, 2014 was 37,406,235 shares.

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GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 207,034	$ 272,027
Restricted cash	22,893	26,994
Accounts receivable, net of allowances of $302 and $308, respectively	112,420	106,808
Inventories	179,750	158,328
Prepaid expenses and other	10,597	12,893
Deferred income taxes	46,719	7,619
Derivative financial instruments	37,221	48,636
Total current assets	616,634	633,305
Property and equipment, net of accumulated depreciation of $229,888 and $215,519, respectively	804,897	806,046
Goodwill	40,877	40,877
Other assets	49,961	51,817
Total assets	$ 1,512,369	$ 1,532,045
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 84,398	$ 112,001
Accrued and other liabilities	67,647	38,645
Unearned revenue	15,743	4,118
Short-term notes payable and other borrowings	128,429	171,500
Current maturities of long-term debt	134,639	82,933
Total current liabilities	430,856	409,197
Long-term debt	379,431	480,746
Deferred income taxes	100,650	91,294
Other liabilities	5,680	5,450

Total liabilities	916,617	986,687
Stockholders' equity		
Common stock, $0.001 par value; 75,000,000 shares authorized; 44,608,024 and 37,703,946 shares issued, and 37,408,024 and 30,503,946 shares outstanding, respectively	45	38
Additional paid-in capital	562,833	468,962
Retained earnings	190,312	148,505
Accumulated other comprehensive loss	(91,630)	(6,339)
Treasury stock, 7,200,000 shares	(65,808)	(65,808)
Total stockholders' equity	595,752	545,358
Total liabilities and stockholders' equity	$ 1,512,369	$ 1,532,045

See accompanying notes to the consolidated financial statements.

GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended March 31, 2014	2013
Revenues	$ 733,889	$ 765,476
Cost of goods sold	633,140	738,262
Gross profit	100,749	27,214
Selling, general and administrative expenses	22,406	14,510
Operating income	78,343	12,704
Other income (expense)		
Interest income	113	39
Interest expense	(9,759)	(8,070)
Other, net	1,031	(520)
Total other income (expense)	(8,615)	(8,551)
Income before income taxes	69,728	4,153
Income tax expense	26,525	1,598
Net income	$ 43,203	$ 2,555
Earnings per share:		
Basic	$ 1.30	$ 0.09
Diluted	$ 1.04	$ 0.08
Weighted average shares outstanding:		
Basic	33,153	29,933
Diluted	43,251	30,210
Cash dividend declared per share	$ 0.04	$ -

See accompanying notes to the consolidated financial statements.

GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited and in thousands)

	Three Months Ended March 31,	
	2014	2013
Net income	$ 43,203	$ 2,555
Other comprehensive loss, net of tax:		
Unrealized losses on derivatives arising during period, net of tax benefit of $86,015 and $8,502, respectively	(137,287)	(12,637)
Reclassification of realized losses on derivatives, net of tax benefit of $32,577 and $4,509, respectively	51,996	6,703
Total other comprehensive loss, net of tax	(85,291)	(5,934)
Comprehensive loss	$ (42,088)	$ (3,379)

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)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 43,203	$ 2,555
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	14,627	12,609
Amortization of debt issuance costs	966	1,055
Amortization of debt discount	1,039	34
Deferred income taxes	23,791	2,015
Stock-based compensation	2,139	883
Undistributed equity in (income) loss of affiliates	(1,031)	520
Changes in operating assets and liabilities before effects of business combinations:		
Accounts receivable	(3,764)	1,641
Inventories	(21,422)	6,628
Derivative financial instruments	(127,314)	(15,277)
Prepaid expenses and other assets	2,305	4,735
Accounts payable and accrued liabilities	2,806	(33,050)
Unearned revenues	11,625	3,365
Other	814	392
Net cash used by operating activities	(50,216)	(11,895)
Cash flows from investing activities:		
Purchases of property and equipment	(14,777)	(1,904)
Distributions from (investments in) unconsolidated subsidiaries	12	(803)
Net cash used by investing activities	(14,765)	(2,707)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	127,842	21,400
Payments of principal on long-term debt	(88,848)	(32,815)
Proceeds from short-term borrowings	802,174	847,650
Payments on short-term borrowings	(845,244)	(860,456)
Payment of cash dividends	(1,396)	-
Change in restricted cash	4,101	13,991

Payments of loan fees	(37)	(40)
Proceeds from exercises of stock options	1,396	391
Net cash used by financing activities	(12)	(9,879)
Net change in cash and cash equivalents	(64,993)	(24,481)
Cash and cash equivalents, beginning of period	272,027	254,289
Cash and cash equivalents, end of period	$ 207,034	$ 229,808

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GREEN PLAINS RENEWABLE ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

Continued from the previous page

	Three Months Ended March 31,	
	2014	2013
Supplemental disclosures of cash flow:		
Cash paid for income taxes	$ 547	$ 1,289
Cash paid for interest	$ 7,990	$ 7,880
Noncash investing and financing activities:		
Common stock issued for conversion of 5.75% Notes	$ 89,950	$ -

See accompanying notes to the consolidated financial statements.

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 and its controlled subsidiaries. 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 consolidated financial statements should be read in conjunction with the Company’s annual report on Form 10-K for the year ended December 31, 2013.

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 its business within four segments: (1) production of ethanol and distillers grains, collectively referred to as ethanol production, (2) corn oil production, (3) grain handling and storage, collectively referred to as agribusiness, and (4) marketing, merchant trading 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. The Company also is a partner in a joint venture to commercialize advanced 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 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 sale contracts. Exchange-traded futures and options contracts are valued at quoted market prices. 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 sale contracts. Grain inventories held for sale, 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 held for sale, 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.

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 purchase or normal sale 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 sale 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 related to ethanol production 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.

2. ACQUISITION

Acquisition of Fairmont and Wood River Ethanol Plants

In November 2013, the Company acquired two ethanol plants, located in Fairmont, Minnesota and Wood River, Nebraska, with a combined annual production capacity of 230 million gallons, from Ethanol Holding Company, LLC, an entity composed of the predecessor owners' lender group. Consideration of $108.0 million, which included a preliminary amount for working capital, was paid in cash and acquisition-related costs of $0.8 million were recorded in selling, general and administrative expenses. The Company issued approximately $77.0 million of short-term notes payable and term debt shortly after the acquisition, with the acquired assets serving as collateral for these loans, and entered into capital leases totaling $10.0 million for grain facilities that were previously leased by the predecessor owner of the acquired assets. At the time of acquisition, the ethanol plant in Fairmont, Minnesota was not operational; however, upon completion of certain maintenance and enhancement projects, the Company began operations at the plant in early January 2014. The following is a summary of assets acquired and liabilities assumed (in thousands):

	Amounts of Identifiable Assets Acquired and Liabilities Assumed
	$ 119

Accounts receivable	
Inventory	8,680
Prepaid expenses and other	2,696
Property and equipment, net	105,956
Other assets	4,193
Current liabilities	(4,260)
Long-term portion of capital leases and tax increment financing bond	(7,895)
Other liabilities	(1,489)
Total identifiable net assets	$ 108,000

The amounts above reflect an updated preliminary purchase price allocation, which did not change materially from the initial allocation. Later this year, upon finalization of the purchase price, including working capital adjustments, the Company will complete the allocation, which it does not expect to differ materially from the preliminary amounts shown above.

3. FAIR VALUE DISCLOSURES