GREEN PLAINS RENEWABLE ENERGY, INC.
Form 10-Q
April 09, 2008

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 February 29, 2008

Commission File Number 001-32924

GREEN PLAINS RENEWABLE ENERGY, INC.
(Exact name of registrant as specified in its charter)

Iowa	**84-1652107**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

105 North 31st Avenue, Suite 103

Omaha, NE 68131

(Address of principal executive offices and 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 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 S 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 April 4, 2008 was 7,799,528 shares.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

GREEN PLAINS RENEWABLE ENERGY, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	February 29, 2008 (Unaudited)	November 30, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 12,088	$ 11,914
Accounts receivable	4,668	3,063
Inventories	8,562	6,903
Prepaid expenses and other	1,434	1,882
Derivative financial instruments	4,651	1,417
Total current assets	31,403	25,179
Property and equipment, net	156,556	147,494
Deferred income taxes	-	143
Other assets	7,485	7,456
Total assets	$ 195,444	$ 180,272
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 11,207	$ 14,847
Derivative financial instruments	2,882	116
Deferred income taxes	108	143
Current maturities of long-term debt	9,087	9,318
Total current liabilities	23,284	24,424
Deferred income taxes	1,208	-
Long-term debt	68,806	63,756
Total liabilities	93,298	88,180

Commitments and contingencies				
Stockholders equity				
Common stock, $0.001 par value; 25,000,000 shares authorized, 7,249,176 and 7,244,784 shares issued and outstanding, respectively		7		7
Additional paid-in capital		98,874		98,753
Retained earnings (accumulated deficit)		3,265		(6,668)
Total stockholders' equity		102,146		92,092
Total liabilities and stockholders' equity	$	195,444	$	180,272

See accompanying notes to the consolidated financial statements.

GREEN PLAINS RENEWABLE ENERGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	For the Three Months Ended February 29, 2008	February 28, 2007
Revenues		
Ethanol	$ 27,988	$ -
Distillers grains	5,324	-
Grain merchandising and storage	4,532	-
Total revenues	37,844	-
Cost of goods sold	22,101	-
Gross profit	15,743	-
Operating expenses	2,924	853
Operating income (loss)	12,819	(853)
Other income (expense):		
Interest income	137	457
Interest expense, net of amounts capitalized	(929)	-
Net gains on derivative financial instruments	-	1,688
Other, net	(27)	-
Total other income (expense)	(819)	2,145
Income before income taxes	12,000	1,292
Income tax provision	2,067	515
Net income	$ 9,933	$ 777
Earnings per share:		

Basic	$ 1.37	$ 0.13
Diluted	$ 1.37	$ 0.13
Weighted average shares outstanding:		
Basic	7,245	6,003
Diluted	7,245	6,003

See accompanying notes to the consolidated financial statements.

GREEN PLAINS RENEWABLE ENERGY, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(unaudited and in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
	Shares	Amount			
Balance, November 30, 2007	7,245	$ 7	$ 98,753	$ (6,668)	$ 92,092
Employee stock-based compensation	4	-	121	-	121
Net income for the three months ended February 29, 2008	-	-	-	9,933	9,933
Balance, February 29, 2008	7,249	$ 7	$ 98,874	$ 3,265	$ 102,146

See accompanying notes to the consolidated financial statements.

GREEN PLAINS RENEWABLE ENERGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	For the Three Months Ended February 29, 2008	For the Three Months Ended February 28, 2007
Cash flows from operating activities:		
Net income	$ 9,933	$ 777
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	928	8
Unrealized gains on derivative financial instruments	(1,681)	(1,800)
Stock-based compensation expense	121	2
Deferred income taxes	1,315	562
Changes in operating assets and liabilities:		
Accounts receivable	(1,604)	-
Inventories	(1,659)	-
Prepaid expenses and other	448	(104)
Derivative financial instruments	1,213	(87)
Accounts payable and accrued liabilities	(2,252)	(103)
Net cash provided (used) by operating activities	6,762	(745)
Cash flows from investing activities:		
Purchases of property and equipment	(11,307)	(20,394)
Acquisition of business	(65)	-
Third-party deposits securing utility services	(22)	-
Net cash used by investing activities	(11,394)	(20,394)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	6,370	10,462

Payment of principal on long-term debt		(1,551)		(15)
Payment of loan fees and equity in creditors		(13)		(15)
Net cash provided by financing activities		4,806		10,432
Net change in cash and equivalents		174		(10,707)
Cash and cash equivalents, beginning of period		11,914		43,088
Cash and cash equivalents, end of period	$	12,088	$	32,381

Continued on the following page

GREEN PLAINS RENEWABLE ENERGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

Continued from the previous page

	For the Three Months Ended			
	February 29,		February 28,	
	2008		2007	
Supplemental disclosures of cash flow:				
Cash paid for income taxes	$	19	$	366
Cash paid for interest	$	1,084	$	49
Noncash additions to property and equipment:				
Transfer of site development costs to land	$	-	$	387
Land option cost transferred to land		2		10
Capitalized interest from amortization of debt issuance costs		-		3
Change in accrued construction liabilities		(601)		4,687
Change in construction retainage liabilities		(787)		4,070
Total noncash additions to property and equipment	$	(1,386)	$	9,157

See accompanying notes to the consolidated financial statements.

GREEN PLAINS RENEWABLE ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Description of Business

References to we, us, our or the Company in these notes to the consolidated financial statements refer to Green Pl Renewable Energy, Inc. and its subsidiaries. We were formed to construct and operate dry mill, fuel grade ethanol plants. Ethanol is a renewable, environmentally clean fuel source that is produced at numerous facilities in the U.S., mostly in the Midwest. In the U.S., ethanol is produced primarily from corn and then blended with unleaded gasoline in varying percentages. To add shareholder value, we are seeking to expand our business operations beyond ethanol production only to integrate strategic agribusiness and ethanol distribution services.

Construction of our first ethanol plant, located in Shenandoah, Iowa, began in April 2006, and operations commenced at the plant in August 2007. Construction began in August 2006 on a second plant, similar to the Shenandoah facility, located in Superior, Iowa, which is currently expected to be completed later this spring. Both of the above-mentioned ethanol production facilities are name-plate 50 million gallon per year (mmgy) plants. Name-plate means the plant is designed by the design builders and the process technology providers to produce at least the stated quantity of ethanol per year once it becomes operational. At name-plate capacity each plant is expected to, on an annual basis, consume approximately 18 million bushels of corn and produce approximately 50 million gallons of fuel-grade, undenatured ethanol, and approximately 160,000 tons of animal feed by-product known as distillers grains. We have contracted with Renewable Products Marketing Group, LLC, (RPMG), an independent broker, to sell the ethanol and with CHS Inc., a Minnesota cooperative corporation to sell the distillers grains produced at the plants. Our third party marketing agents will coordinate all sales, marketing, and shipping of our products.

Consolidated Financial Statements

The accompanying consolidated balance sheet as of November 30, 2007, which has been derived from our audited consolidated financial statements as filed in our annual report for the period ended November 30, 2007, and the unaudited interim consolidated financial statements, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, and include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been omitted pursuant to those rules and regulations. We moved from a development stage company to an operating entity during the quarter ended August 31, 2007. The consolidated financial statements at February 29, 2008, and for the three months ended February 29, 2008 and February 28, 2007, are unaudited and reflect all adjustments of a normal recurring nature, except as otherwise disclosed herein, which are, in the opinion of management, necessary for a fair presentation, in all material respects, of the consolidated financial position, results of operations and cash flows for the interim periods. The results of the interim periods are not necessarily indicative of the results for the full year. The consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Form 10-K as filed with the Securities and Exchange Commission and notes thereto and risk factors contained therein for the fiscal year ended November 30, 2007.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Revenue Recognition

We recognize 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.

We sell all of our ethanol and the majority of our distillers grains to third-party brokers, who are our customers for purposes of revenue recognition, pursuant to contracts with these brokers. These third-party brokers are responsible for subsequent sales, marketing, and shipping of the ethanol and distillers grains. Accordingly, once the ethanol or distillers grains are loaded into rail cars and bills of lading are generated, the criteria for revenue recognition are considered to be satisfied and sales are recorded. As part of our contracts with these third-party brokers, shipping costs are incurred by them and factored into their purchase price rather than being charged directly to us. For the small number of distillers grains products sold to local farmers, bills of lading are generated and signed by the driver for outgoing shipments, at which time sales are recorded.

Grain sales are recorded after the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon with the customer. Revenues from grain storage are recognized as services are rendered. Revenues related to grain merchandising are presented gross.

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 our 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 realized and unrealized gains and losses on related derivative financial instruments, inbound freight charges, inspection costs and internal transfer costs. Plant overhead costs primarily consist of plant utilities, sales commissions and outbound freight charges.

Operating Expenses

Operating expenses are primarily general and administrative expenses for employee salaries, incentives and benefits; office expenses; director compensation; and professional fees for accounting, legal, consulting, and investor relations activities; as well as depreciation and amortization costs.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. SFAS No. 161 achieves these improvements by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also provides more information about an entity s liquidity by requiring disclosure of derivative features that are credit risk related. Finally, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are currently evaluating the impact that this statement will have on our consolidated financial statements.

2. INVENTORIES

The components of inventories are as follows (in thousands):

	February 29, 2008	November 30, 2007
Corn	$ 5,813	$ 2,905
Grain held for sale	708	1,675
Ethanol	671	1,098
Work-in-process	803	747
Chemicals	141	150
Maintenance supplies and parts	426	328
	$ 8,562	$ 6,903

3. PROPERTY AND EQUIPMENT

The components of property and equipment are as follows (in thousands):

	February 29, 2008	November 30, 2007
Construction-in-progress	$ 81,907	$ 72,301
Plant, buildings and improvements	67,246	67,120
Land and improvements	6,997	6,987
Railroad track and equipment	1,353	1,353
Computers and software	418	305
Plant equipment	189	122
Office furniture and equipment	53	53
Leasehold improvements and other	284	284
	158,447	148,525
Less: accumulated depreciation	(1,891)	(1,031)
Property and equipment, net	$ 156,556	$ 147,494

Plant and building costs related to our Shenandoah ethanol production facilities, grain storage facilities and other related assets were put into use during fiscal 2007. We started depreciating Shenandoah ethanol production facility assets (including the plant and administration building, railroad track and equipment, land improvements, certain computer and software, and certain other assets) at the beginning of the fourth quarter of fiscal 2007. Our Superior plant is currently expected to be completed later this spring. We will start depreciating our Superior ethanol production facility assets at the time construction of the plant is completed, production of ethanol has occurred and costs are properly allocated to their specific asset category.

4. OTHER ASSETS

The components of other assets are as follows (in thousands):

	February 29, 2008	November 30, 2007
Recoverable rail line costs	$ 3,500	$ 3,500
Third-party deposits securing utility services	2,440	2,418
Debt issuance costs, net	939	953
Covenant not to compete	458	500
Other	148	85
	$ 7,485	$ 7,456

Recoverable Rail Line Costs

To secure rail access to our Shenandoah ethanol plant, we entered into a contract with Burlington Northern Santa Fe (BNSF) that required us to pay rail line renovation costs for the spur track from Red Oak, Iowa to the plant. Included in the contract is a provision for shipping cost rebates of up to $3.5 million provided sufficient rail traffic, measured annually, is achieved on the line. The term of the contract is nine years commencing from the date of our first billed shipment from the Shenandoah plant, which was late August 2007. The rebates are recorded as a reduction to the recoverable rail line costs until the full amount has been recovered. If the track is sold by BNSF, the agreement provides for repayment to us for any portion of the unrecovered renovation costs. We review this asset for impairment whenever events or changes in circumstances indicate that the carrying amount of these rail line costs may not be recoverable.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The components of accounts payable and accrued expenses are as follows (in thousands):

	February 29, 2008	November 30, 2007
Accounts payable	$ 1,503	$ 1,644
Accrued liabilities	3,997	6,895
Accrued construction retainage	5,707	6,308
	$ 11,207	$ 14,847

6. LONG-TERM DEBT AND LINES OF CREDIT

The components of long-term debt are as follows (in thousands):

	February 29, 2008	November 30, 2007
Shenandoah:		
Term loan	$ 30,000	$ 30,000

Revolving term loan		17,000		17,000
Seasonal borrowing		-		2,809
Economic development loan		215		230
Economic development grant		100		100
Superior:				
Term loan		29,659		21,987
Essex:				
Note payable		467		477
Covenant not to compete		452		471
Total debt		77,893		73,074
Less: current portion		9,087		9,318
Long-term debt	$	68,806	$	63,756

Scheduled long-term debt repayments, excluding any potential repayment of the economic development grant since it is a forgivable loan, are as follows (in thousands):

Fiscal Year Ending November 30,		**Amount**
2008	$	6,465
2009		10,468
2010		10,477
2011		10,478
2012		10,439
Thereafter		29,466
Total	$	77,793

As of February 29, 2008, Superior Ethanol s working capital was less than the balance required by the Superior Loan Agreement of $4.5 million. As a result of an additional investment by the Company in March 2008 in this wholly-owned subsidiary, the lenders provided a waiver of our required compliance with the working capital covenant as of that date.

7. STOCK-BASED COMPENSATION

We account for all share-based compensation transactions pursuant to SFAS No. 123R, Share-Based Payment, which requires entities to record noncash compensation expense related to payment for employee services by an equity award in their financial statements over the requisite service period.

The Green Plains Renewable Energy, Inc. 2007 Equity Incentive Plan (Equity Incentive Plan) provides for the granting of stock-based compensation. The maximum number of shares of common stock that may be granted to any employee during any year is 50,000. We have reserved a total of 1.0 million shares of common stock for issuance under the Equity Incentive Plan. Grants under the Equity Incentive Plan have included stock awards, options to purchase shares of common stock, and stock in lieu of cash compensation for certain officers.

For stock options granted during the first quarter of fiscal 2008, the fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model, a pricing model acceptable under SFAS No. 123R, with the following weighted-average assumptions:

Expected life	5.5
Interest rate	2.8%
Volatility	49.1%
Dividend yield	

The expected life of options granted represents the period of time in years that options granted are expected to be outstanding. The interest rate represents the annual interest rate a risk-free investment could potentially earn during the expected life of the option grant. Expected volatility is based on historical volatility of our common stock and other companies within our industry. We currently use a forfeiture rate of zero percent for all existing share-based compensation awards since we have no historical forfeiture experience under our share-based payment plans.

All of our existing share-based compensation awards have been determined to be equity awards. We recognize compensation costs for stock option awards which vest with the passage of time with only service conditions on a straight-line basis over the requisite service period.

A summary of stock options as of February 29, 2008 and changes during the first three months of fiscal 2007 are as follows:

	Shares		**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (in years)**		**Aggregate Intrinsic Value (in thousands)**
Outstanding at November 30, 2007	448,000	$	26.68			
Granted	9,000		10.25			
Exercised	-		-			
Cancellations	-		-			
Outstanding at February 29, 2008	457,000	$	26.36	5.2	$	-
Exercisable at February 29, 2008	353,000	$	29.04	4.5	$	-

All fully-vested stock options as of February 29, 2008 are exercisable and are included in the above table. Since weighted-average option prices exceeded the closing stock price at February 29, 2008, the aggregate intrinsic value was zero. Our stock awards allow employees to exercise options through cash payment to us for the shares of common stock or through a simultaneous broker-assisted cashless exercise of a share option, through which the employee authorizes the exercise of an option and the immediate sale of the option shares in the open market. We use original issuances of common stock to satisfy our share-based payment obligations.

Compensation costs expensed for our share-based payment plans described above were $80,625 and $0 during the first three months of fiscal 2008 and 2007, respectively. The potential tax benefit realizable for the anticipated tax deductions of the exercise of share-based payment arrangements totaled $32,822 and $0 during the first three months of fiscal 2008 and 2007, respectively.

8. WARRANTS

Purchasers of the Company s initial public offering, which closed in November 2005, bought 3,445,990 shares of the Company s common stock at $10 per share. Each share purchased in the offering was accompanied by a warrant, with four warrants needed to purchase one share of common stock at $30 per share. Our common stock traded above the $30 strike price at times in the past, during which times shareholders exercised 273,108 warrants, for which 68,277 shares of our stock were issued at $30 per share. The remaining 3,172,882 warrants expired on December 31, 2007.

9. EARNINGS PER SHARE

We compute earnings per share in accordance with SFAS No. 128, Earnings per Share. Basic earnings per common shares (EPS) is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of any outstanding dilutive securities.

Excluded from the computations of diluted EPS for the first quarter of fiscal 2008 were warrants exercisable for 320,014 shares of our common stock at an exercise price of $60 per share and options to purchase approximately 352,000 shares of our common stock because their impact would be antidilutive based on current market prices. Excluded from the computations of diluted EPS for the first quarter of fiscal 2007 were warrants exercisable for 793,221 shares of our common stock at an exercise price of $30 per share and warrants exercisable for 320,014 shares of our common stock at an exercise price of $60 per share because their impact would be antidilutive based on market prices of our common stock during that period. There were no stock options outstanding during the first quarter of fiscal 2007.

10. INCOME TAXES

The provision (benefit) for income taxes consists of the following (in thousands):

	For the Three Months Ended, February 29, 2008		For the Three Months Ended, February 28, 2007	
Current:				
Federal	$	554	$	(268)
State		184		(49)
Total current		738		(317)
Deferred:				
Federal		1,189		642
State		140		190
Total deferred		1,329		832
Income tax provision (benefit)	$	2,067	$	515

Differences between the income tax provision (benefit) computed at the statutory federal income tax rate and per the consolidated statements of operations are summarized as follows (in thousands):