

Green Plains Inc.
Form 10-Q
May 07, 2018

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, 2018

Commission File Number 001-32924

Green Plains 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.)
1811 Aksarben Drive, Omaha, NE 68106 (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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	
Smaller reporting company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 3, 2018, was 41,383,299 shares.

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Commonly Used Defined Terms

The abbreviations, acronyms and industry terminology used in this quarterly report are defined as follows:

Green Plains Inc., Subsidiaries, and Partners:

Green Plains; the company	Green Plains Inc. and its subsidiaries
BioProcess Algae	BioProcess Algae LLC
DKGP	DKGP Energy Terminals LLC
Fleischmann's Vinegar	Fleischmann's Vinegar Company, Inc.
Green Plains Cattle	Green Plains Cattle Company LLC
Green Plains Grain	Green Plains Grain Company LLC
Green Plains Partners; the partnership	Green Plains Partners LP
Green Plains Processing	Green Plains Processing LLC and its subsidiaries
Green Plains Trade	Green Plains Trade Group LLC

Accounting Defined Terms:

ASC	Accounting Standards Codification
EBITDA	Earnings before interest, income taxes, depreciation and amortization
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
GAAP	U.S. Generally Accepted Accounting Principles
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
SEC	Securities and Exchange Commission
STIP	Short-Term Incentive Plan
VIE	Variable interest entity

Industry Defined Terms:

CAFE	Corporate Average Fuel Economy
D.C.	District of Columbia
E10	Gasoline blended with up to 10% ethanol by volume
E15	Gasoline blended with up to 15% ethanol by volume
E85	Gasoline blended with up to 85% ethanol by volume
EIA	U.S. Energy Information Administration
EISA	Energy Independence and Security Act of 2017, as amended
EPA	U.S. Environmental Protection Agency
MmBtu	Million British Thermal Units
Mmg	Million gallons
MTBE	Methyl tertiary-butyl ether
RBOB	Reformulated blendstock for oxygenate blending
RFS II	Renewable Fuels Standard II
RIN	Renewable identification number
RVO	Renewable volume obligation
U.S.	United States
USDA	U.S. Department of Agriculture

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 240,964	\$ 266,651
Restricted cash	24,271	45,709
Accounts receivable, net of allowances of \$212 and \$217, respectively	151,936	151,122
Income taxes receivable	32,753	6,413
Inventories	659,026	711,878
Prepaid expenses and other	17,129	17,808
Derivative financial instruments	19,991	6,890
Total current assets	1,146,070	1,206,471
Property and equipment, net of accumulated depreciation and amortization of \$539,496 and \$514,585, respectively	1,157,825	1,176,707
Goodwill	182,879	182,879
Other assets	173,095	218,593
Total assets	\$ 2,659,869	\$ 2,784,650
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 118,168	\$ 205,479
Accrued and other liabilities	46,617	63,886
Derivative financial instruments	12,086	12,884
Income taxes payable	-	9,909
Short-term notes payable and other borrowings	533,685	526,180
Current maturities of long-term debt	68,925	67,923

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Total current liabilities	779,481	886,261
Long-term debt	767,784	767,396
Deferred income taxes	52,962	56,801
Other liabilities	14,066	15,056
Total liabilities	1,614,293	1,725,514

Commitments and contingencies (Note 14)

Stockholders' equity

Common stock, \$0.001 par value; 75,000,000 shares authorized; 46,701,912 and 46,410,405 shares issued, and 41,375,970 and 41,084,463 shares outstanding, respectively	47	46
Additional paid-in capital	684,557	685,019
Retained earnings	299,250	325,411
Accumulated other comprehensive income (loss)	650	(13,110)
Treasury stock, 5,325,942 shares	(55,184)	(55,184)
Total Green Plains stockholders' equity	929,320	942,182
Noncontrolling interests	116,256	116,954
Total stockholders' equity	1,045,576	1,059,136
Total liabilities and stockholders' equity	\$ 2,659,869	\$ 2,784,650

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,	
	2018	2017
Revenues		
Product revenues	\$ 1,043,659	\$ 886,212
Service revenues	1,628	1,472
Total revenues	1,045,287	887,684
Costs and expenses		
Cost of goods sold (excluding depreciation and amortization expenses reflected below)	988,335	811,896
Operations and maintenance expenses	8,400	8,531
Selling, general and administrative expenses	26,003	23,782
Depreciation and amortization expenses	26,474	26,083
Total costs and expenses	1,049,212	870,292
Operating income (loss)	(3,925)	17,392
Other income (expense)		
Interest income	637	364
Interest expense	(22,128)	(18,496)
Other, net	(66)	10
Total other expense	(21,557)	(18,122)
Loss before income taxes	(25,482)	(730)
Income tax benefit	6,027	2,381
Net income (loss)	(19,455)	1,651
Net income attributable to noncontrolling interests	4,662	5,248
Net loss attributable to Green Plains	\$ (24,117)	\$ (3,597)
Earnings per share:		
Net loss attributable to Green Plains - basic	\$ (0.60)	\$ (0.09)
Net loss attributable to Green Plains - diluted	\$ (0.60)	\$ (0.09)

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Weighted average shares outstanding:		
Basic	40,164	38,420
Diluted	40,164	38,420
Cash dividend declared per share	\$ 0.12	\$ 0.12

See accompanying notes to the consolidated financial statements.

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GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income (loss)	\$ (19,455)	\$ 1,651
Other comprehensive income (loss), net of tax:		
Unrealized gains on derivatives arising during the period, net of tax expense of \$5,116 and \$968, respectively	17,150	1,642
Reclassification of realized gains on derivatives, net of tax expense of \$180 and \$1,848, respectively	(603)	(3,134)
Total other comprehensive income (loss), net of tax	16,547	(1,492)
Comprehensive income (loss)	(2,908)	159
Comprehensive income attributable to noncontrolling interests	4,662	5,248
Comprehensive loss attributable to Green Plains	\$ (7,570)	\$ (5,089)

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ (19,455)	\$ 1,651
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	26,474	26,083
Amortization of debt issuance costs and debt discount	3,604	4,020
Deferred income taxes	(12,020)	(2,934)
Stock-based compensation	2,439	2,511
Undistributed equity loss of affiliates	137	-
Other	-	23
Changes in operating assets and liabilities before effects of business combinations:		
Accounts receivable	(814)	50,486
Inventories	54,103	(41,911)
Derivative financial instruments	7,472	(12,584)
Prepaid expenses and other assets	618	(1,228)
Accounts payable and accrued liabilities	(114,709)	(86,420)
Current income taxes	11,678	178
Other	(618)	(26)
Net cash used in operating activities	(41,091)	(60,151)
Cash flows from investing activities:		
Purchases of property and equipment, net	(7,352)	(14,902)
Acquisition of a business, net of cash acquired	(1,006)	(4,074)
Investments in unconsolidated subsidiaries	(14)	(2,399)
Other investing activities	7,500	-
Net cash used in investing activities	(872)	(21,375)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	24,400	14,700
Payments of principal on long-term debt	(23,630)	(46,845)
Proceeds from short-term borrowings	1,010,077	1,100,076
Payments on short-term borrowings	(1,002,664)	(1,055,664)
Payments of cash dividends and distributions	(10,251)	(9,461)

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Payments of loan fees	(254)	-
Payments related to tax withholdings for stock-based compensation	(2,890)	(3,801)
Proceeds from exercise of stock options	50	50
Net cash used in financing activities	(5,162)	(945)
Net change in cash, cash equivalents and restricted cash	(47,125)	(82,471)
Cash, cash equivalents and restricted cash, beginning of period	312,360	406,791
Cash, cash equivalents and restricted cash, end of period	\$ 265,235	\$ 324,320

Continued on the following page

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GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

Continued from the previous page

	Three Months Ended March 31,	
	2018	2017
Reconciliation of total cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 240,964	\$ 256,468
Restricted cash	24,271	67,852
Total cash, cash equivalents and restricted cash	\$ 265,235	\$ 324,320
Supplemental disclosures of cash flow:		
Cash paid (received) for income taxes	\$ (4,592)	\$ 336
Cash paid for interest	\$ 19,499	\$ 15,804

See accompanying notes to the consolidated financial statements.

GREEN PLAINS 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 Inc., an Iowa corporation, and its subsidiaries.

Consolidated Financial Statements

The consolidated financial statements include the company’s accounts and all significant intercompany balances and transactions are eliminated. Unconsolidated entities are included in the financial statements on an equity basis. The company owns a 62.5% limited partner interest and a 2.0% general partner interest in Green Plains Partners LP. Public investors own the remaining 35.5% limited partner interest in the partnership. The company determined that the limited partners in the partnership with equity at risk lack the power, through voting rights or similar rights, to direct the activities that most significantly impact partnership’s economic performance; therefore, the partnership is considered a VIE. The company, through its ownership of the general partner interest in the partnership, has the power to direct the activities that most significantly affect economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the partnership; therefore, the company is considered the primary beneficiary and consolidates the partnership in the company’s financial statements. The assets of the partnership cannot be used by the company for general corporate purposes. The partnership’s consolidated total assets as of March 31, 2018 and December 31, 2017, excluding intercompany balances, are \$75.6 million and \$74.9 million, respectively, and primarily consist of property and equipment and goodwill. The partnership’s consolidated total liabilities as of March 31, 2018 and December 31, 2017, excluding intercompany balances, are \$158.9 million and \$153.0 million, respectively, which primarily consist of long-term debt as discussed in Note 9 – Debt. The liabilities recognized as a result of consolidating the partnership do not represent additional claims on our general assets. The company also owns a 90.0% interest in BioProcess Algae, a joint venture formed in 2008, and consolidates their results in its consolidated financial statements.

The accompanying unaudited consolidated financial statements are prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Because they do not include all of the information and notes required by GAAP, 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, 2017.

The unaudited financial information reflects adjustments which are, in the opinion of management, necessary for a fair presentation of results of operations, financial position and cash flows for the periods presented. The adjustments are normal and recurring in nature, unless otherwise noted. Interim period results are not necessarily indicative of the results to be expected for the entire year.

Reclassifications

Certain prior year amounts were reclassified to conform to the current year presentation. These reclassifications did not affect total revenues, costs and expenses, net income (loss) or stockholders' equity.

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. The company bases its estimates on historical experience and assumptions it believes are proper and reasonable under the circumstances and regularly evaluates the appropriateness of its estimates and assumptions. Actual results could differ from those estimates. Key accounting policies, including but not limited to those relating to revenue recognition, depreciation of property and equipment, carrying value of intangible assets, impairment of long-lived assets and goodwill, derivative financial instruments, and accounting for income taxes, are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Description of Business

The company operates within four business segments: (1) ethanol production, which includes the production of ethanol and distillers grains, and recovery of corn oil, (2) agribusiness and energy services, which includes grain handling and storage, commodity marketing and merchant trading for company-produced and third-party ethanol, distillers grains, corn oil, natural gas and other commodities, (3) food and ingredients, which includes cattle feeding, vinegar production and food-grade corn oil operations and (4) partnership, which includes fuel storage and transportation services.

Cash and Cash Equivalents

Cash and cash equivalents includes bank deposits as well as short-term, highly liquid investments with original maturities of three months or less.

Restricted Cash

The company has restricted cash, which can only be used for the funding of letters of credit or for payment towards a revolving credit agreement. Restricted cash also includes cash margins and securities pledged to commodity exchange clearinghouses. To the degree these segregated balances are cash and cash equivalents, they are considered restricted cash on the consolidated statements of cash flows.

Revenue Recognition

The company recognizes revenue at the point in time when the product or service is transferred to the customer.

Sales of ethanol, distillers grains, corn oil, natural gas and other commodities by the company's marketing business are recognized when obligations under the terms of a contract with a customer are satisfied. Generally this occurs with the transfer of control of products or services. Revenues related to marketing for third parties are presented on a gross basis as the company controls the product prior to the sale to the end customer, takes title of the product and has inventory risk. Unearned revenue is recorded for goods in transit when the company has received payment but control has not yet been transferred to the customer. Revenues for receiving, storing, transferring and transporting ethanol and other fuels are recognized when the product is delivered to the customer.

The company routinely enters into physical-delivery energy commodity purchase and sale agreements. At times, the company settles these transactions by transferring its obligations to other counterparties rather than delivering the physical commodity. Energy trading transactions are reported net as a component of revenue. All other transactions are reported net as either a component of revenue or cost of goods sold, depending on their position as a gain or loss. Revenues also include realized gains and losses on related derivative financial instruments and reclassifications of realized gains and losses on cash flow hedges from accumulated other comprehensive income or loss.

Sales of products, including agricultural commodities, cattle and vinegar, are recognized when control of the product is transferred to the customer, which depends on the agreed upon shipment or delivery terms. Revenues related to grain merchandising are presented gross and include shipping and handling, which is also a component of cost of goods sold. Revenues from grain storage are recognized when services are rendered.

A substantial portion of the partnership revenues are derived from fixed-fee commercial agreements for storage, terminal or transportation services. The partnership recognizes revenue upon transfer of control of product from its storage tanks and fuel terminals, when railcar volumetric capacity is provided, and as truck transportation services are performed.

Shipping and Handling Costs

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products. Accordingly, we record customer payments associated with shipping and handling costs as a component of revenue, and classify such costs as a component of cost of goods sold.

Cost of Goods Sold

Cost of goods sold includes direct labor, materials, shipping and plant overhead costs. Direct labor includes all compensation and related benefits of non-management personnel involved in ethanol and vinegar production, and cattle feeding operations. Grain purchasing and receiving costs, excluding labor costs for grain buyers and scale operators, are also included in cost of goods sold. Materials include the cost of corn feedstock, denaturant, process chemicals, cattle and

veterinary supplies. Corn feedstock costs include gains and losses on related derivative financial instruments not designated as cash flow hedges, inbound freight charges, inspection costs and transfer costs, as well as reclassifications of gains and losses on cash flow hedges from accumulated other comprehensive income or loss. Plant overhead consists primarily of plant and feedlot utilities, repairs and maintenance, yard expenses and outbound freight charges. Shipping costs incurred by the company, including railcar costs, are also reflected in cost of goods sold.

The company uses exchange-traded futures and options contracts and forward purchase and sales contracts to attempt to minimize the effect of price changes on grain, natural gas and cattle inventories. Exchange-traded futures and options contracts are valued at quoted market prices and settled predominantly in cash. The company is exposed to loss when counterparties default on forward purchase and sale contracts. Grain inventories held for sale and forward purchase and sale contracts are valued at market prices when available or other market quotes adjusted for differences, primarily in transportation, between the exchange-traded market and local market where the terms of the contract is based. Changes in forward purchase contracts and exchange-traded futures and options contracts are recognized as a component of cost of goods sold.

Operations and Maintenance Expenses

In the partnership segment, transportation expenses represent the primary component of operations and maintenance expenses. Transportation expenses include railcar leases, freight and shipping of the company's ethanol and co-products, as well as costs incurred storing ethanol at destination terminals.

Derivative Financial Instruments

The company uses various derivative financial instruments, including exchange-traded futures and exchange-traded and over-the-counter options contracts, to attempt to minimize risk and the effect of commodity price changes including but not limited to, corn, ethanol, cattle, natural gas and crude oil. The company monitors and manages this exposure as part of its overall risk management policy to reduce the adverse effect market volatility may have on its operating results. The company may hedge these commodities as one way to mitigate risk; however, there may be situations when these hedging activities themselves result in losses.

By using derivatives to hedge exposures to changes in commodity prices, the company is exposed to credit and market risk. The company's exposure to credit risk includes the counterparty's failure 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 their financial condition. 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 parameters to monitor exposure within its risk management strategy, which limits the types of derivative instruments and strategies

the company can use and the degree of market risk it can take using derivative instruments.

The company evaluates its physical delivery contracts to determine if they qualify for normal purchase or sale exemptions which are expected to be used or sold over a reasonable period in the normal course of business. Contracts that do not meet the normal purchase or sale criteria are recorded at fair value. Changes in fair value are recorded in operating income unless the contracts qualify for, and the company elects, cash flow hedge accounting treatment.

Certain qualifying derivatives related to ethanol production, agribusiness and energy services, and food and ingredients segments are designated as cash flow hedges. The company evaluates the derivative instrument to ascertain its effectiveness prior to entering into cash flow hedges. Unrealized gains and losses are reflected in accumulated other comprehensive income or loss until the gain or loss from the underlying hedged transaction is realized. When it becomes probable a forecasted transaction will not occur, the cash flow hedge treatment is discontinued, which affects earnings. These derivative financial instruments are recognized in current assets or other current liabilities at fair value.

At times, the company hedges its exposure to changes in inventory values and designates qualifying derivatives as fair value hedges. The carrying amount of the hedged inventory is adjusted in the current period for changes in fair value. Ineffectiveness of the hedges is recognized in the current period to the extent the change in fair value of the inventory is not offset by the change in fair value of the derivative.

Recent Accounting Pronouncements

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 606, Revenue from Contracts with Customers. Please refer to Note 2 – Revenue for further details.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 230, Statement of Cash Flows: Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amended guidance was applied retrospectively. As a result, net cash used in operating activities for the three months ended March 31, 2017 was adjusted to exclude the change in restricted cash and decreased the previously reported balance by \$21.7 million. Net cash provided by financing activities for the three months ended March 31, 2017 was adjusted to exclude the change in restricted cash and decreased the previously reported balance by \$13.0 million.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 740, Income Taxes: Intra-Entity Transfers of Assets other than Inventory, which requires the recognition of current and deferred income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amended guidance is required on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The adoption of the guidance did not have an impact to the financial statements.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 805, Business Combinations: Clarifying the Definition of a Business, which clarifies the definition of a business and provides guidance to assist companies and other reporting organizations evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amended guidance will be applied prospectively.

Effective January 1, 2018, the company early adopted the amended guidance in ASC Topic 350, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge equal to the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit, would be recognized. The amended guidance will be applied prospectively, and used when the annual impairment test is performed in the current year. The company does not expect the impact of adopting the amended guidance to have a material impact on the consolidated financial statements.

Effective January 1, 2018, the company early adopted the amended guidance in ASC Topic 220, Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for

stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendment eliminates the stranded tax effects resulting from the Tax Cuts and Jobs Act and is intended to improve the usefulness of information reported. As a result, the company recorded a \$2.8 million reclassification from accumulated other comprehensive income to retained earnings as of the beginning of the period. It is the company's policy to release income tax effects from accumulated other comprehensive income using the portfolio approach.

Effective January 1, 2019, the company will adopt the amended guidance in ASC Topic 842, Leases, which aims to make leasing activities more transparent and comparable, requiring substantially all leases to be recognized by lessees on the balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The new standard is effective for fiscal years and interim periods within those years, beginning after December 15, 2018, and allows for early adoption. The company has established an implementation team to evaluate the impact of the new standard. The new standard will significantly increase right-of-use assets and lease liabilities on the company's consolidated balance sheet, primarily due to operating leases that are currently not recognized on the balance sheet. The company anticipates adopting the amended guidance using the modified retrospective transition method.

2. REVENUE

Adoption of ASC Topic 606

On January 1, 2018, the company adopted the amended guidance in ASC Topic 606, Revenue from Contracts with Customers, and all related amendments (“new revenue standard”) and applied it to all contracts using the modified retrospective transition method. There were no adjustments to the consolidated January 1, 2018 balance sheets for the adoption of the new revenue standard. As such, comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. In addition, there was no impact of adoption on the consolidated statements of operations or balance sheets for the three months ended March 31, 2018. The company expects the impact of the adopting the new revenue standard to be immaterial to net income on an ongoing basis.

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied. Generally this occurs with the transfer of control of products or services. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing services. Sales, value add, and other taxes the company collects concurrent with revenue-producing activities are excluded from revenue.

Revenue by Source

The following table disaggregates revenue by major source for the three months ended March 31, 2018 (in thousands):

	Three Months Ended March 31, 2018					Total
	Ethanol Production	Agribusiness & Energy Services	Food & Ingredients	Partnership	Eliminations	
Revenues:						
Revenues from contracts with customers under ASC Topic 606:						
Distillers grains	\$ 29,997	\$ -	\$ -	\$ -	\$ -	\$ 29,997
Cattle and vinegar	-	-	267,416	-	-	267,416
Service revenues	-	-	-	1,218	-	1,218
Other	131	677	-	-	-	808

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Intersegment revenues	662	-	42	-	(704)	-
Total revenues from contracts with customers	30,790	677	267,458	1,218	(704)	299,439
Revenues from contracts accounted for as derivatives under ASC Topic 815 (1):						
Ethanol	445,039	122,541	-	-	-	567,580
Distillers grains	67,709	21,212	-	-	-	88,921
Corn oil	16,470	8,670	2,287	-	-	27,427
Grain	133	14,286	-	-	-	14,419
Cattle and vinegar	-	-	8,406	-	-	8,406
Other	4,284	34,401	-	-	-	38,685
Intersegment revenues	1,291	11,429	-	2,172	(14,892)	-
Total revenues from contracts accounted for as derivatives	534,926	212,539	10,693	2,172	(14,892)	745,438
Leasing revenues under ASC Topic 840 (2)	-	-	-	22,495	(22,085)	410
Total Revenues	\$ 565,716	\$ 213,216	\$ 278,151	\$ 25,885	\$ (37,681)	\$ 1,045,287

- (1) Revenues from contracts accounted for as derivatives represent physically settled derivative sales that are outside the scope of ASC Topic 606, Revenue from Contracts with Customers (ASC Topic 606), where the company recognizes revenue when control of the inventory is transferred within the meaning of ASC Topic 606 as required by ASC Topic 610-20, Gains and Losses from the Derecognition of Nonfinancial Assets.
- (2) Leasing revenues do not represent revenues recognized from contracts with customers under ASC Topic 606, and continue to be accounted for under ASC Topic 840, Leases.

Payment Terms

The company has standard payment terms, which vary depending upon the nature of the services provided, with the majority falling within 10 to 30 days after transfer of control or completion of services. In instances where the timing of revenue recognition differs from the timing of invoicing, the company has determined that contracts generally do not include a significant financing component.

Contract Liabilities

The company records unearned revenue, which represents a contract liability, when consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a sales contract.

The following table reflects the changes in unearned revenue from contracts with customers for the three months ended March 31, 2018 (in thousands):

	March 31, 2018	December 31, 2017	Three Month Change
Unearned revenue	\$ 228	\$ 194	\$ 34

During the three months ended March 31, 2018, the company recognized revenue of \$194 thousand that was included in the corresponding contract liability balance at the beginning of the period.

During the three months ended March 31, 2018, unearned revenue increased by \$34 thousand, primarily as a result of fluctuations in customer inventory levels for the partnership's tank storage. The company expects to recognize all of the unearned revenue associated as of March 31, 2018 in the subsequent quarter when the inventory is withdrawn from the partnership's tank storage.

Practical Expedients

Under the new revenue standard, companies may elect various practical expedients upon adoption. As a result, the company elected to recognize the cost for shipping and handling activities that occur after the customer obtains control of the promised goods as fulfillment activities and not when performance obligations are met. The company also elected to exclude sales taxes from transaction prices.

3. ACQUISITIONS

Acquisition of Cattle Feeding Operations

On May 16, 2017, the company acquired two cattle-feeding operations from Cargill Cattle Feeders, LLC for \$58.7 million, including certain working capital adjustments. The transaction included the feed yards located in Leoti, Kansas and Eckley, Colorado, which added combined feedlot capacity of 155,000 head of cattle to the company's operations. The transaction was financed using cash on hand. There were no material acquisition costs recorded for the acquisition.

As part of the transaction, the company also entered into a long-term cattle supply agreement with Cargill Meat Solutions Corporation. Under the cattle supply agreement, all cattle placed in the Leoti and Eckley feedlots are sold exclusively to Cargill Meat Solutions under an agreed upon pricing arrangement.

The following is a summary of the preliminary purchase price of assets acquired and liabilities assumed (in thousands):

Amounts of Identifiable Assets Acquired and Liabilities Assumed	
Inventory	\$ 21,827
Prepaid expenses and other	52
Property and equipment, net	36,960
Current liabilities	(180)
Total identifiable \$ net assets	58,659

The amounts above reflect a working capital payment by the company of \$1.0 million made during the first quarter of 2018.

4. 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 the company can access at the measurement date.

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 through correlation or other means. Grain inventories held for sale in the agribusiness segment are valued at nearby futures values, plus or minus nearby basis.

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

Derivative contracts include exchange-traded commodity futures and options contracts and forward commodity purchase and sale contracts. Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified in Level 1. The majority of the company's exchange-traded futures and options contracts are cash-settled on a daily basis.

There have been no changes in valuation techniques and inputs used in measuring fair value. The company's assets and liabilities by level are as follows (in thousands):

Fair Value Measurements at March 31, 2018	
Quoted	Significant
Prices in	Other
Active	Observable
Markets	Inputs

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for
 Identical
 Assets
 (Level 1) (Level 2) Total

Assets:

Cash and cash equivalents	\$ 240,964	\$ -	\$ 240,964
Restricted cash	24,271	-	24,271
Inventories carried at market	-	123,502	123,502
Unrealized gains on derivatives	-	12,190	12,190
Other assets	114	25	139
Total assets measured at fair value	\$ 265,349	\$ 135,717	\$ 401,066

Liabilities:

Accounts payable (1)	\$ -	\$ 10,826	\$ 10,826
Unrealized losses on derivatives	-	12,086	12,086
Other	-	6	6
Total liabilities measured at fair value	\$ -	\$ 22,918	\$ 22,918

	Fair Value Measurements at December 31, 2017		
	Quoted Prices in Active Markets		
	for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Cash and cash equivalents	\$ 266,651	\$ -	\$ 266,651
Restricted cash	45,709	-	45,709
Inventories carried at market	-	26,834	26,834
Unrealized gains on derivatives	-	12,045	12,045
Other assets	115	-	115
Total assets measured at fair value	\$ 312,475	\$ 38,879	\$ 351,354
Liabilities:			
Accounts payable (1)	\$ -	\$ 37,401	\$ 37,401
Unrealized losses on derivatives	-	12,884	12,884
Other liabilities	-	92	92
Total liabilities measured at fair value	\$ -	\$ 50,377	\$ 50,377

(1) Accounts payable is generally stated at historical amounts with the exception of \$10.8 million and \$37.4 million at March 31, 2018 and December 31, 2017, respectively, related to certain delivered inventory for which the payable fluctuates based on changes in commodity prices. These payables are hybrid financial instruments for which the company has elected the fair value option.

The company believes the fair value of its debt approximated book value, which was \$1.4 billion at March 31, 2018 and December 31, 2017. The company estimated the fair value of its outstanding debt using Level 2 inputs. The company believes the fair values of its accounts receivable approximated book value, which was \$151.9 million and \$151.1 million at March 31, 2018 and December 31, 2017, respectively.

Although the company currently does not have any recurring Level 3 financial measurements, the fair values of tangible assets and goodwill acquired and the equity component of convertible debt issued represent Level 3 measurements which were derived using a combination of the income approach, market approach and cost approach for the specific assets or liabilities being valued.

5. SEGMENT INFORMATION

The company reports the financial and operating performance for the following four operating segments: (1) ethanol production, which includes the production of ethanol and distillers grains, and recovery of corn oil, (2) agribusiness and energy services, which includes grain handling and storage, commodity marketing and merchant trading for company-produced and third-party ethanol, distillers grains, corn oil, natural gas and other commodities, (3) food and ingredients, which includes cattle feeding, vinegar production and food-grade corn oil operations and (4) partnership, which includes fuel storage and transportation services.

Corporate activities include selling, general and administrative expenses, consisting primarily of compensation, professional fees and overhead costs not directly related to a specific operating segment.

During the normal course of business, the operating segments conduct business with each other. For example, the agribusiness and energy services segment procures grain and natural gas and sells products, including ethanol, distillers grains and corn oil for the ethanol production segment. The partnership segment provides fuel storage and transportation services for the agribusiness and energy services segment. These intersegment activities are treated like third-party transactions with origination, marketing and storage fees charged at estimated market values. Consequently, these transactions affect segment performance; however, they do not impact the company's consolidated results since the revenues and corresponding costs are eliminated.

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The following tables set forth certain financial data for the company's operating segments (in thousands):

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Ethanol production:		
Revenues from external customers	\$ 563,763	\$ 619,879
Intersegment revenues	1,953	1,496
Total segment revenues	565,716	621,375
Agribusiness and energy services:		
Revenues from external customers	201,787	168,311
Intersegment revenues	11,429	9,492
Total segment revenues	213,216	177,803
Food and ingredients:		
Revenues from external customers	278,109	98,022
Intersegment revenues	42	38
Total segment revenues	278,151	98,060
Partnership:		
Revenues from external customers	1,628	1,472
Intersegment revenues	24,257	25,757
Total segment revenues	25,885	27,229
Revenues including intersegment activity	1,082,968	924,467
Intersegment eliminations	(37,681)	(36,783)
Revenues as reported	\$ 1,045,287	\$ 887,684

Refer to Note 2 - Revenue, for further disaggregation of revenue by operating segment.

	Three Months Ended March 31,	
	2018	2017
Cost of goods sold:		
Ethanol production	\$ 564,559	\$ 599,138
Agribusiness and energy services	201,712	166,394

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Food and ingredients	259,765	83,035
Partnership	-	-
Intersegment eliminations	(37,701)	(36,671)
	\$ 988,335	\$ 811,896

	Three Months Ended March 31,	
	2018	2017
Operating income (loss):		
Ethanol production	\$ (27,529)	\$ (6,598)
Agribusiness and energy services	7,064	6,369
Food and ingredients	12,585	9,626
Partnership	15,360	16,619
Intersegment eliminations	68	(75)
Corporate activities	(11,473)	(8,549)
	\$ (3,925)	\$ 17,392

	Three Months Ended March 31,	
	2018	2017
EBITDA:		
Ethanol production	\$ (7,095)	\$ 13,824
Agribusiness and energy services	7,702	7,013
Food and ingredients	15,997	12,514
Partnership	16,623	17,894
Intersegment eliminations	68	(75)
Corporate activities	(10,175)	(7,321)
	\$ 23,120	\$ 43,849

	Three Months Ended March 31,	
	2018	2017
Depreciation and amortization:		
Ethanol production	\$ 20,436	\$ 20,342
Agribusiness and energy services	630	660
Food and ingredients	3,404	2,880
Partnership	1,181	1,254
Corporate activities	823	947
	\$ 26,474	\$ 26,083

The following table reconciles net income (loss) to EBITDA (in thousands):

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	Three Months Ended	
	March 31,	
	2018	2017
Net income (loss)	\$ (19,455)	\$ 1,651
Interest expense	22,128	18,496
Income tax benefit	(6,027)	(2,381)
Depreciation and amortization	26,474	26,083
EBITDA	\$ 23,120	\$ 43,849

The following table sets forth total assets by operating segment (in thousands):

	December	
	March 31,	31,
	2018	2017
Total assets (1):		
Ethanol production	\$ 1,072,614	\$ 1,144,459
Agribusiness and energy services	529,166	554,981
Food and ingredients	711,065	725,232
Partnership	75,649	74,935
Corporate assets	284,785	295,217
Intersegment eliminations	(13,410)	(10,174)
	\$ 2,659,869	\$ 2,784,650

(1) Asset balances by segment exclude intercompany receivable balances.

6. INVENTORIES

Inventories are carried at the lower of cost or net realizable value, except grain held for sale and fair-value hedged inventories. Commodities held for sale are reported at market value. During the quarter ended March 31, 2018, the company recorded a \$19.2 million lower of cost or market adjustment and reclassified \$19.2 million of net gains from accumulated other comprehensive income into earnings related to this inventory. Both amounts are reflected in cost of goods sold within the food and ingredients segment.

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

	March 31, 2018	December 31, 2017
Finished goods	\$ 128,476	\$ 146,269
Commodities held for sale	45,328	65,693
Raw materials	157,390	144,520
Work-in-process	291,505	320,664
Supplies and parts	36,327	34,732
	\$ 659,026	\$ 711,878

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The company did not have any changes in the carrying amount of goodwill, which was \$182.9 million at March 31, 2018, and December 31, 2017. Goodwill of \$30.3 million, \$142.0 million and \$10.6 million are attributable to the ethanol production segment, food and ingredients segment and the partnership segment, respectively.

Intangible Assets

As of March 31, 2018, the company's customer relationship intangible asset recognized in connection with the Fleischmann Vinegar's acquisition is \$72.0 million, net of \$8.0 million of accumulated amortization, and has a remaining 13.5-year weighted-average amortization period. As of March 31, 2018, the company also has an

indefinite-lived trade name intangible asset of \$10.5 million. The company recognized \$1.3 million of amortization expense associated with the amortizing customer relationship intangible asset during both of the three months ended March 31, 2018 and 2017, and expects estimated amortization expense for the next five years of \$5.3 million per annum. The company's intangible assets are recorded within other assets on the consolidated balance sheets.

8. DERIVATIVE FINANCIAL INSTRUMENTS

At March 31, 2018, the company's consolidated balance sheet reflected unrealized gains of \$0.7 million, net of tax, in accumulated other comprehensive income. The company expects these gains will be reclassified as operating income over the next 12 months as a result of hedged transactions that are forecasted to occur. The amount realized in operating income will differ as commodity prices change.

Fair Values of Derivative Instruments

The fair values of the company's derivative financial instruments and the line items on the consolidated balance sheets where they are reported are as follows (in thousands):

	Asset Derivatives' Fair Value		Liability Derivatives' Fair Value	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Derivative financial instruments (1)	\$ 12,190	\$ 12,045	\$ -	\$ 12,884
Other assets	25	-	-	-
Accrued and other liabilities	-	-	12,086	-
Other liabilities	-	-	6	92
Total	\$ 12,215	\$ 12,045	\$ 12,092	\$ 12,976

(1) At March 31, 2018, deriva