

AVENTINE RENEWABLE ENERGY HOLDINGS INC
Form 10-Q
November 07, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

.

COMMISSION FILE NUMBER 001-32922

AVENTINE RENEWABLE ENERGY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

05-0569368
(IRS Employer Identification No.)

120 North Parkway
Pekin, Illinois
(Address of Principal Executive Offices)

61554
(Zip Code)

(309) 347-9200

(Registrant's Telephone Number, including Area Code)

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

YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Class	Outstanding as of November 5, 2007
Common Stock, \$0.001 Par Value	41,982,538 Shares

FORM 10-Q

QUARTERLY REPORT

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****Aventine Renewable Energy Holdings, Inc. and Subsidiaries****Condensed Consolidated Statements of Operations****(Unaudited)**

(In thousands except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 360,674	\$ 407,053	\$ 1,192,250	\$ 1,163,478
Cost of goods sold	362,401	379,708	1,138,133	1,055,330
Gross profit (loss)	(1,727)	27,345	54,117	108,148
Selling, general and administrative expenses	9,384	7,385	27,761	21,023
Other (income)	(169)	(616)	(847)	(1,223)
Operating income (loss)	(10,942)	20,576	27,203	88,348
Other income (expense):				
Interest income	3,576	1,449	9,111	3,333
Interest expense	(5,359)	(747)	(12,716)	(9,348)
Loss on early extinguishment of debt		(14,448)		(14,448)
Other non-operating income (loss)	(953)	2,348	5,055	4,802
Minority interest	(103)	(876)	(1,346)	(3,793)
Income (loss) before income taxes	(13,781)	8,302	27,307	68,894
Income tax expense (benefit)	(16,776)	3,015	(3,235)	26,766
Net income	\$ 2,995	\$ 5,287	\$ 30,542	\$ 42,128
Per share data:				
Income per common share basic:	\$ 0.07	\$ 0.13	\$ 0.73	\$ 1.13
Basic weighted average number of common shares	41,949	41,541	41,891	37,279
Income per common share diluted:	\$ 0.07	\$ 0.12	\$ 0.72	\$ 1.09
Diluted weighted average number of common and common equivalent shares	42,385	42,691	42,497	38,581

The accompanying notes are an integral part of these condensed consolidated financial statements.

Aventine Renewable Energy Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands except share amounts)	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 39,424	\$ 29,791
Short-term investments	282,868	98,925
Accounts receivable	47,800	79,729
Inventories	60,787	67,051
Income tax receivable	14,186	6,446
Prepaid expenses and other	5,795	4,549
Total current assets	450,860	286,491
Property, plant and equipment, net	111,602	40,962
Construction in process	144,634	74,683
Net deferred tax asset	2,109	
Other assets	13,762	6,000
Total assets	\$ 722,967	\$ 408,136
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 48,207	\$ 77,442
Accrued liabilities	3,952	3,679
Accrued interest payable	15,333	
Other current liabilities	1,771	2,123
Total current liabilities	69,263	83,244
Senior unsecured 10% notes due April 2017	300,000	
Minority interest	9,840	10,221
Net deferred tax liability		6,104
Other long-term liabilities	3,971	4,404
Total liabilities	383,074	103,973
Stockholders' equity		
Common stock, par value \$0.001 per share; 185,000,000 shares authorized; 41,972,538 and 41,782,276 shares issued and outstanding as of September 30, 2007 and December 31, 2006, respectively, net of 21,300,325 shares held in treasury as of September 30, 2007 and 21,229,025 shares held in treasury as of December 31, 2006	42	42
Preferred stock, 50,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in capital	279,222	274,307
Retained earnings	61,678	30,888
Accumulated other comprehensive loss	(1,049)	(1,074)
Total stockholders' equity	339,893	304,163
Total liabilities and stockholders' equity	\$ 722,967	\$ 408,136

The accompanying notes are an integral part of these condensed consolidated financial statements.

Aventine Renewable Energy Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	Nine months ended September 30,	
	2007	2006
Operating Activities		
Net income	\$ 30,542	\$ 42,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,765	3,529
Lower of cost or market adjustment related to inventory	1,600	
Loss on early extinguishment of debt		14,448
Minority interest	1,346	3,793
Stock-based compensation expense	5,258	5,669
Deferred income tax	(7,939)	(359)
Other		838
Changes in operating assets and liabilities:		
Accounts receivable, net	31,929	(10,082)
Inventories	4,664	(36,669)
Accounts payable	(29,235)	6,663
Other changes in operating assets and liabilities	5,835	(8,275)
Net cash provided by operating activities	53,765	21,683
Investing Activities		
Additions to property, plant and equipment, net	(149,898)	(51,981)
Investment in short-term securities	(183,943)	(90,925)
Increase in restricted cash for investing activities		(1,257)
Release of restricted cash		29,762
Use of restricted cash for plant expansion		31,857
Net cash used for investing activities	(333,841)	(82,544)
Financing Activities		
Proceeds from issuance of senior unsecured notes	300,000	
Purchase of treasury stock	(991)	
Payment of debt issuance costs	(8,220)	
Proceeds from stock option exercises	508	221
Tax benefit of stock option exercises	139	4,034
Repayment of senior secured notes, including premium		(163,618)
Net proceeds from the sale of common stock		260,915
Net repayments on revolving credit facilities		(1,514)
Distributions to minority shareholders	(1,727)	(2,590)
Net cash provided by financing activities	289,709	97,448
Net increase in cash and cash equivalents	9,633	36,587
Cash and cash equivalents at beginning of period	29,791	3,750
Cash and cash equivalents at end of period	\$ 39,424	\$ 40,337

The accompanying notes are an integral part of these condensed consolidated financial statements.

Aventine Renewable Energy Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Basis of Reporting for Interim Financial Statements

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

We have prepared the unaudited condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

The accompanying condensed consolidated financial statements presented herewith reflect all adjustments (consisting of only normal and recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results of operations for the three and nine month periods ended September 30, 2007 and 2006. The results of operations for interim periods are not necessarily indicative of results to be expected for an entire year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

As of September 30, 2007, the Company's Summary of Critical Accounting Policies for the year ended December 31, 2006, which are detailed in the Company's Annual Report on Form 10-K, have not changed from December 31, 2006, except for the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. See Note 12 for additional information regarding the adoption of FIN 48 by the Company.

(2) Recent Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect that the adoption of SFAS 157 will have, if any, on its consolidated results of operations, financial position and related disclosures.

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In February 2007, The FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits a company to choose to measure many financial instruments and other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing a company with the opportunity to

mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. A company shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 will be effective for fiscal years that begin after November 15, 2007. We are currently assessing the impact SFAS No. 159 will have on our consolidated financial statements.

In June 2007, the FASB ratified the consensus on Emerging Issues Task Force (EITF) Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11). EITF 06-11 requires companies to recognize the income tax benefit realized from dividends or dividend equivalents that are charged to retained earnings and paid to employees for non-vested equity-classified employee share-based payment awards as an increase to additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after September 15, 2007. While we are currently evaluating the provisions of EITF 06-11, the adoption is not expected to have any significant effect on our consolidated financial position or results of operations.

(3) Short-Term Securities

We from time to time invest a portion of our cash in tax-free municipal auction rate certificates which generally have contractual maturities of greater than 20 years. We consider these certificates as held for sale. These certificates are widely traded in the public markets and may be sold as needed. The interest rates on these certificates reprice every 35 days to the then current market rate. Generally, the carrying value of these securities approximates the market value, and there is no gain or loss expected from changes in market value.

(4) Inventories

Inventories are as follows:

(In thousands)	September 30, 2007		December 31, 2006	
Finished products	\$	53,967	\$	61,775
Work-in-process		2,228		1,106
Raw materials		2,572		2,070
Supplies		2,020		2,100
Totals	\$	60,787	\$	67,051

In the third quarter of 2007, we reduced the value of our inventory for finished ethanol by \$1.6 million to reflect a lower of cost or market adjustment.

(5) Prepaid Expenses and Other

Prepaid expenses and other are as follows:

(In thousands)	September 30,		December 31,	
	2007		2006	
Fair value of derivative instruments	\$	2,248	\$	1,503
Prepaid insurance		1,850		1,280
Deferred income taxes current		1,025		1,064
Other prepaid expenses		672		702
Totals	\$	5,795	\$	4,549

(6) Other Assets

Other assets are as follows:

(In thousands)	September 30, 2007	December 31, 2006
Deferred debt issuance costs	\$ 7,762	\$ 6,000
Investment in marketing alliances	6,000	6,000
Totals	\$ 13,762	\$ 6,000

(7) Debt

The following table summarizes long-term debt:

(In thousands)	September 30, 2007	December 31, 2006
Senior unsecured 10% notes due April 2017	\$ 300,000	\$ 300,000
Secured revolving credit facility	300,000	300,000
Less short-term borrowings	-	-
Total	\$ 300,000	\$ 300,000

Liquidity Facility

In March 2007, we entered into a new secured revolving credit facility with JPMorgan Chase Bank, N.A. of up to \$200 million, subject to collateral availability, which, under certain circumstances, can be increased up to \$300 million. Collateral availability is determined via a borrowing base, which includes a percentage of eligible receivables and inventory, and \$50 million of property, plant and equipment. We had no borrowings outstanding under our secured revolving credit facility at September 30, 2007, and \$1.5 million of standby letters of credit outstanding, thereby leaving approximately \$116.2 million in additional borrowing availability under our secured revolving credit facility as of that date. A fixed asset component in the amount of \$50 million was added to the borrowing base during the quarter ended September 30, 2007.

Senior Notes

In March 2007, we issued \$300 million aggregate principal amount of senior unsecured 10% fixed-rate notes due April 2017 (Notes). Our Notes were issued pursuant to an indenture, dated as of March 27, 2007, between us and Wells Fargo Bank, N.A., as trustee. The Notes are general unsecured obligations of the Company and certain of its guarantor subsidiaries, initially limited to \$300 million aggregate principal amount. We may, subject to the covenants and applicable law, issue additional notes under the indenture. Any additional notes would be treated as a single

class with the previously issued Notes for all purposes under the indenture.

The Notes have interest payments due semi-annually on April 1 and October 1 of each year, and are redeemable after the dates and at prices (expressed in percentages of principal amount on the redemption date), as set forth below:

Year	Percentage
April 1, 2012	105.000%
April 1, 2013	103.330%
April 1, 2014	101.667%
April 1, 2015 and thereafter	100.000%

In addition, at any time prior to April 1, 2010, we may redeem up to 35% of the principal amount of the Notes from time to time originally issued with the net cash proceeds of one or more sales of qualifying capital stock of the Company at a redemption price of 100% of the principal amount, together with accrued and unpaid interest to the redemption date, provided that at least 65% of the aggregate principal amount of the Notes originally issued remains outstanding immediately after such redemption and notice of any such redemption is mailed within 60 days of each such sale of capital stock.

On August 10, 2007, we exchanged all of the outstanding Notes for an issue of registered unsecured senior notes, with terms identical to the Notes.

(8) Other Long-Term Liabilities

Other long-term liabilities are as follows:

(In thousands)	September 30, 2007	December 31, 2006
Accrued pension and postretirement	\$ 2,311	\$ 2,427
Unearned commissions	1,660	1,977
Totals	\$ 3,971	\$ 4,404

(9) Stock-Based Compensation Plans

The Company values its share-based payment awards using a form of the Black-Scholes option-pricing model (the Option-Pricing Model). The determination of fair value of share-based payment awards on the date of grant using this Option-Pricing Model is affected by our stock price as well as the input of other subjective assumptions. The Option-Pricing Model requires a number of assumptions, of which the most significant are, expected stock price volatility, the expected pre-vesting forfeiture rate and the expected option term (the amount of time from the grant date until the options are exercised or expire). Expected volatility is normally calculated based upon actual historical stock price movements over the expected option term. Since we have no long-term history of stock price volatility as a public company, we calculate volatility by considering, among other things, the expected volatilities of public companies engaged in similar industries. Pre-vesting forfeitures are estimated using a 3% forfeiture rate. The expected option term is calculated using the simplified method permitted by Staff Accounting Bulletin No. 107. Our options have characteristics significantly different from those of traded options, and changes in the assumptions can materially affect the fair value estimates.

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Beginning in 2007, the Company commenced an ongoing long-term incentive program under the Aventine Renewable Energy Holdings, Inc. 2003 Stock Incentive Plan, as amended (the Plan). It is anticipated that this program will provide regular annual grants of performance shares. Performance shares are stock units that will be converted to common shares, to the extent earned, at the end of a three-year performance cycle. The first performance cycle began on January 1, 2007, and will end on December 31, 2009. Under the performance share program, each participant is given a target award expressed as a number of shares, with a payout opportunity ranging from 0% to 150% of the target, depending on the performance relative to pre-determined goals. The performance goals for the January

1, 2007 to December 31, 2009 performance cycle relate to the growth of the Company as measured by actual equity gallons produced. On May 25, 2007, the Company issued 94,500 performance shares at the target award level to various participants under the Plan. Under FAS 123R, an accounting estimate of the number of these shares that are expected to vest has been made and are being expensed utilizing the grant-date fair value of the shares from the date of grant through the end of the performance cycle period. Any future changes to the estimate will be reflected in stock-based compensation expense in the period the estimate change is made.

Pre-tax stock-based compensation expense for the three month period ended September 30, 2007 was \$1.9 million, of which \$0.1 million was charged to cost of goods sold and \$1.8 million was charged to selling, general and administrative expense. This expense reduced earnings per share by \$0.03 per basic and diluted share for the quarter ended September 30, 2007. For the three month period ended September 30, 2006, pre-tax stock-based compensation expense was \$2.6 million, of which \$0.1 million was charged to cost of goods sold and \$2.5 million was charged to selling, general and administrative expense. This expense reduced earnings per share by \$0.04 per basic and diluted share for the quarter ended September 30, 2006. For the nine month period ended September 30, 2007, pre-tax stock-based compensation expense was \$5.3 million, of which \$0.1 million was charged to cost of goods sold and \$5.2 million was charged to selling, general and administrative expense. This expense reduced earnings per share for the nine month period ended September 30, 2007 by \$0.08 per basic and diluted share. For the nine month period ended September 30, 2006, pre-tax stock-based compensation expense was \$5.7 million, of which \$0.1 million was charged to cost of goods sold and \$5.6 million was charged to selling, general and administrative expense. This expense reduced earnings per share for the nine month period ended September 30, 2006 by \$0.09 per basic and diluted share. The Company recognized a tax benefit on its condensed consolidated statement of income from stock-based compensation expense in the amount of \$0.7 million and \$1.0 million for the three month periods ended September 30, 2007 and 2006, respectively, and in the amount of \$2.1 million and \$2.2 million for the nine month periods ended September 30, 2007 and 2006, respectively. The Company recorded pre-tax stock-based compensation expense for the three and nine month periods ended September 30, 2007 and 2006 as follows:

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Stock-based compensation expense:				
Non-qualified stock options	\$ 1.7	\$ 2.6	\$ 4.8	\$ 5.6
Restricted stock	0.1		0.3	0.1
Restricted stock units			0.1	
Long-term incentive stock plan	0.1		0.1	

As of September 30, 2007 and 2006, the Company had not yet recognized compensation expense on the following non-vested awards:

(in millions)	2007		2006	
	Non-recognized Compensation	Weighted Average Remaining Recognition Period (years)	Non-recognized Compensation	Weighted Average Remaining Recognition Period (years)
Non-qualified options	\$ 19.6	2.4	\$ 21.7	3.1
Restricted stock	1.1	4.1	0.2	2.6
Restricted stock units	0.2	1.0		
Long-term incentive stock plan	1.4	1.7		
Total	\$ 22.3	2.4	\$ 21.9	3.1

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The Company granted stock options during the quarters ended September 30, 2007 and 2006. The determination of the fair value of the stock option awards, using the Option-Pricing Model, incorporated the assumptions in the following table for stock options granted during the three month periods ended September 30, 2007 and 2006. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant over the expected term. Expected volatility is calculated by considering, among other things, the expected volatilities of public companies engaged in similar industries. The expected option term is calculated using the simplified method permitted by SAB 107. Assumptions for options granted in the three month period ending September 30, 2007 and 2006 are as follows:

	2007	2006
Expected stock price volatility	58.0%	58.0%
Expected life (in years)	6.5	6.5
Risk-free interest rate	4.92%	5.2%
Expected dividend yield	0.0%	0.0%
Weighted average fair value	\$ 9.97	\$ 26.47

The following table summarizes stock options outstanding and changes during the nine month period ended September 30, 2007:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding January 1, 2007	3,265	\$ 6.57	8.1	\$
Granted	480	16.00	9.6	
Exercised	(191)	2.66		
Cancelled or expired	(28)	4.35		
Options outstanding September 30, 2007	3,526	\$ 8.08	7.6	\$ 8,780
Options exercisable September 30, 2007	1,138	\$ 3.58	6.6	\$ 7,955

The range of exercise prices of the exercisable options and outstanding options at September 30, 2007 are as follows:

Weighted Average Exercise Price	Number of Exercisable Options (in thousands)	Number of Outstanding Options (in thousands)	Weighted Average Remaining Life (years)
\$0.23	696	1,016	5.8
\$2.36 - \$2.92	285	744	7.7
\$4.35	31	616	8.0
\$15.26 - \$17.29		480	9.6
\$22.15 - \$22.50	118	630	8.5
\$43.00	8	40	8.8
Totals	1,138	3,526	7.6

Restricted stock award activity for the nine months ended September 30, 2007 is summarized below:

		Shares (in thousands)		Weighted Average Grant Date Fair Value per Award
Unvested restricted stock awards	January 1, 2007	8.1	\$	27.92
Granted		74.7		15.54
Vested		2.7		27.92
Cancelled or expired				
Unvested restricted stock awards	September 30, 2007	80.1	\$	16.74

Restricted stock units represent the right to receive a share of stock in the future, provided that the restrictions and conditions designated have been satisfied. Restricted stock unit award activity for the nine months ended September 30, 2007 is summarized below:

		Shares (in thousands)		Weighted Average Grant Date Fair Value per Award
Unvested Restricted stock unit awards	January 1, 2007		\$	
Granted		18.0	\$	15.85
Vested				
Cancelled or expired				
Restricted stock unit awards	September 30, 2007	18.0	\$	15.85

(10) Interest Expense

The following table summarizes interest expense:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Interest expense	\$ 7,500	\$ 989	\$ 15,336	\$ 10,351
Amortization of deferred debt issuance costs	229		458	
Capitalized interest	(2,370)	(242)	(3,078)	(1,003)
Interest expense, net	\$ 5,359	\$ 747	\$ 12,716	\$ 9,348

(11) Pension Expense

Defined Contribution Plans

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We have 401(k) plans covering substantially all of our employees. We recorded expense with respect to these plans for the three month periods ended September 30, 2007 and 2006 of \$0.2 million and \$0.3 million, respectively, and expense of \$0.9 million for the nine month periods ended September 30, 2007 and 2006. Contributions made under our defined contribution plans include a match, at the Company's discretion, of employee contributions to the plans.

Qualified Retirement Plan

The Company provides a non-contributory qualified defined benefit pension plan for its unionized employees at our Pekin, IL production facilities. The following table summarizes the components of net periodic pension cost for the qualified pension plan:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 88	\$ 71	\$ 264	\$ 214
Interest cost	124	107	372	322
Expected return on plan assets	(180)	(128)	(540)	(384)
Amortization of prior service costs	11		33	
Amortization of net actuarial loss	6	12	18	36
Net periodic pension cost	\$ 49	\$ 62	\$ 147	\$ 188

Postretirement Benefit Obligation

We sponsor a healthcare plan that provides postretirement medical benefits to certain grandfathered unionized employees. The plan is contributory, with contributions required at the same rate as active employees. Benefit eligibility under the plan terminates at age 65.

The following table summarizes the components of the net periodic costs for postretirement benefits:

(In thousands)	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 38	\$ 38	\$ 114	\$ 114
Interest cost	34	30	102	91
Amortization of prior service cost		3		8
Net periodic postretirement cost	\$ 72	\$ 71	\$ 216	\$ 213

(12) Income Taxes

Our federal income tax returns covering fiscal years 2004 and 2005 had been under audit by the Internal Revenue Service (IRS). The audit was completed in September 2007. As a result, the Company was able to finalize positions relating to certain tax matters which previously required liability recognition under FIN 48 as discussed below. The Company recognized in the third quarter of 2007 a previously unrecorded favorable

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tax benefit of \$9.6 million, which includes its previously recorded liability for uncertain tax benefits, the related interest and the release of code section 382 valuation allowances.

In July 2006, the FASB issued FIN 48. This interpretation clarified the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure.

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the adoption, we recognized a \$0.7 million decrease in our reserves for uncertain tax positions and a \$0.5 million increase in accrued interest on uncertain tax positions, resulting in a net \$0.2 million increase in retained earnings. We also reclassified \$8.1 million between deferred income taxes and other long-term liabilities to conform to the balance sheet presentation requirements of FIN 48. As of January 1, 2007, we had \$8.5 million of uncertain tax benefits. As of September 30, 2007, the Company has no uncertain tax positions outstanding.

We included the interest expense or income, as well as potential penalties on unrecognized tax benefits, as components of income tax expense in the condensed consolidated statement of operations. The total amount of accrued interest related to uncertain tax positions at January 1, 2007 was \$0.5 million, net of the deferred tax benefit, and was previously included in other long-term liabilities. As of September 30, 2007, because we had no uncertain tax positions outstanding, we also had no liability for accrued interest on unrecognized tax benefits.

The Company's estimated annual tax rate for 2007, exclusive of the FIN 48 adjustment discussed above which resulted from concluding the recent IRS examination, is 23.4%. The difference between the Company's estimated annual tax rate of 23.4% and the statutory rate is primarily the result of significant amounts of tax-exempt interest income.

(13) Earnings per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per share are calculated using the treasury stock method in accordance with SFAS 128, and includes the effect of all dilutive securities, including non-qualified stock options and restricted stock units (RSUs).

The following table sets forth the computation of basic and diluted earnings per share:

(In thousands, except per share data)	Three Months Ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income	\$ 2,995	\$ 5,287	\$ 30,542	\$ 42,128
Weighted average shares and share equivalents outstanding:				
Basic shares	41,949	41,541	41,891	37,279
Dilutive non-qualified stock options and RSUs	436	1,150	606	1,302
Diluted weighted average shares and share equivalents	42,385	42,691	42,497	38,581
Income per common share basic:	\$ 0.07	\$ 0.13	\$ 0.73	\$ 1.13
Income per common share diluted:	\$ 0.07	\$ 0.12	\$ 0.72	\$ 1.09

We had additional potential dilutive securities outstanding representing 1.2 million common shares that were not included in the computation of potentially dilutive securities for the quarter ended September 30, 2007 because the options' exercise prices were greater than the average market price of the common shares.

(14) Industry Segment

The Company operates in one reportable business segment, the manufacture and marketing of biofuels.

(15) Litigation

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

(16) Condensed Consolidating Financial Information

The following tables present condensed consolidating financial information for: (a) Aventine Renewable Energy Holdings, Inc. (the Parent) on a stand-alone basis; (b) on a combined basis, the guarantors of the 10% senior unsecured Notes (Subsidiary Guarantors), which include Aventine Renewable Energy, LLC; Aventine Renewable Energy, Inc.; Aventine Power, LLC; Aventine Renewable Energy - Aurora West, LLC; and Aventine Renewable Energy - Mt. Vernon, LLC; and (c) the Non-Guarantor Subsidiary, Nebraska Energy, LLC. Each Subsidiary Guarantor is wholly-owned by Aventine Renewable Energy Holdings, Inc. The guarantees of each of the Subsidiary Guarantors are full, unconditional, joint and several. Accordingly, separate financial statements of the wholly-owned Subsidiary Guarantors are not presented because the Subsidiary Guarantors are jointly, severally and unconditionally liable under the guarantees, and the Company believes that separate financial statements and other disclosures regarding the Subsidiary Guarantors are not material to investors. Furthermore, there are no significant legal restrictions on the Parent's ability to obtain funds from its subsidiaries by dividend or loan.

Aventine Renewable Energy Holdings, Inc. and Subsidiaries
Condensed Consolidating Statements of Operations
For the Three Months Ended September 30, 2007
(Unaudited)

(In thousands)	Parent		Subsidiary Guarantors		Non-Guarantor Subsidiary		Eliminations		Consolidated	
Net sales	\$		\$	353,879	\$	20,475	\$	(13,680)	\$	360,674
Cost of goods sold				357,065		18,863		(13,527)		362,401
Gross profit/(loss)				(3,186)		1,612		(153)		(1,727)
Selling, general and administrative expenses		35		8,906		596		(153)		9,384
Other expense (income)				(168)		(1)				(169)
Operating income/(loss)		(35)		(11,924)		1,017				(10,942)
Other income (expense):										
Interest income				3,546		30				3,576
Interest expense		(5,310)		(49)						(5,359)
Investment in subsidiaries		(8,436)		944				7,492		
Other non-operating income (expense)				(953)						(953)
Minority interest								(103)		(103)
Income/(loss) before income taxes		(13,781)		(8,436)		1,047		7,389		(13,781)
Income tax expense/(benefit)		(16,776)		(14,591)				14,591		(16,776)
Net income	\$	2,995	\$	6,155	\$	1,047	\$	(7,202)	\$	2,995

Aventine Renewable Energy Holdings, Inc. and Subsidiaries
Condensed Consolidating Statements of Operations
For the Nine Months Ended September 30, 2007
(Unaudited)

(In thousands)	Parent		Subsidiary Guarantors		Non-Guarantor Subsidiary		Eliminations		Consolidated	
Net sales	\$		\$	1,185,834	\$	69,044	\$	(62,628)	\$	1,192,250
Cost of goods sold				1,140,836		59,272		(61,975)		1,138,133
Gross profit				44,998		9,772		(653)		54,117
Selling, general and administrative expenses		271		26,073		2,070		(653)		27,761
Other expense (income)				(842)		(5)				(847)
Operating income (loss)		(271)		19,767		7,707				27,203
Other income (expense):										
Interest income				9,024		87				9,111
Interest expense		(12,618)		(98)						(12,716)
Investment in subsidiaries		40,196		6,589				(46,785)		
Other non-operating income (expense)				4,914		141				5,055
Minority interest								(1,346)		(1,346)
Income before income taxes		27,307		40,196		7,935		(48,131)		27,307
Income tax expense/(benefit)		(3,235)		1,214				(1,214)		(3,235)
Net income	\$	30,542	\$	38,982	\$	7,935	\$	(46,917)	\$	30,542

Aventine Renewable Energy Holdings, Inc. and Subsidiaries
Condensed Consolidating Balance Sheet
September 30, 2007
(Unaudited)

(In thousands)	Parent		Subsidiary Guarantors		Non-Guarantor Subsidiary		Eliminations		Consolidated	
Assets										
Current assets										
Cash and cash equivalents	\$		\$	35,543	\$	3,881	\$		\$	39,424
Short-term investments				282,868						282,868
Accounts receivable, net				47,364		436				47,800
Inventories				59,241		1,546				60,787
Income tax receivable				14,186						14,186
Intercompany receivable		331,465				527		(331,992)		
Other assets		6		5,554		235				5,795
Total current assets		331,471		444,756		6,625		(331,992)		450,860
Property, plant and equipment, net				236,545		19,691				256,236
Investment in subsidiaries		316,845		43,814				(360,659)		
Net deferred tax assets				2,109						2,109
Other assets		6,910		6,852						13,762
Total assets	\$	655,226	\$	734,076	\$	26,316	\$	(692,651)	\$	722,967
Liabilities and Stockholders Equity										
Current liabilities										
Accounts payable	\$		\$	44,201	\$	4,006	\$		\$	48,207
Accrued liabilities				3,590		362				3,952
Other current liabilities		15,333		1,689		82				17,104
Intercompany payable				331,992				(331,992)		
Total current liabilities		15,333		381,472		4,450		(331,992)		69,263
Long-term debt		300,000								300,000
Minority interest								9,840		9,840
Other long-term liabilities				3,971						3,971
Total liabilities		315,333		385,443		4,450		(322,152)		383,074
Stockholders' equity		339,893		348,633		21,866		(370,499)		339,893
Total liabilities and stockholders' equity	\$	655,226	\$	734,076	\$	26,316	\$	(692,651)	\$	722,967

Aventine Renewable Energy Holdings, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2007
(Unaudited)

(In thousands)	Parent		Subsidiary Guarantors		Non-Guarantor Subsidiary		Eliminations		Consolidated	
Operating Activities										
Net cash provided by (used for) operating activities	\$	(291,436)	\$	334,823	\$	10,378	\$		\$	53,765
Investing Activities										
Additions to property, plant and equipment				(148,023)		(1,875)				(149,898)
Investment in short-term securities				(183,943)						(183,943)
Net cash used for investing activities				(331,966)		(1,875)				(333,841)
Financing Activities										
Proceeds from issuance of senior unsecured notes		300,000								300,000
Payment of debt issuance costs		(8,220)								(8,220)
Repurchase of common stock		(991)								(991)
Proceeds from stock option exercises		508								508
Tax benefit of stock option exercises		139								139