

EAST FORK BIODIESEL, LLC
Form 10-Q
February 16, 2010

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 December 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from _____ to

Commission File 000-53040

(Exact name of registrant as specified in its charter)

Iowa
(State or other jurisdiction of
incorporation or organization)

20-4195009
(I.R.S. Employer Identification No.)

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

2108 140th Avenue, P.O. Box 21

Algona, IA 50511

(Address of principal executive offices)

(515) 395-8888

(Registrant's Telephone Number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of December 31, 2009, there were 49,159 limited liability company membership units issued and outstanding.

TABLE OF CONTENTS

TABLE OF CONTENTS		PAGE
FORWARD-LOOKING STATEMENTS		1
PART I - FINANCIAL INFORMATION		2
Item 1.	Financial Statements	2
	<i>Unaudited Balance Sheets</i>	2
	<i>Unaudited Statements of Operations</i>	3
	<i>Unaudited Statements of Cash Flows</i>	4
	<i>Notes to Unaudited Financial Statements</i>	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 4.	Controls and Procedures	28
PART II - OTHER INFORMATION		28
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	29
Item 3.	Defaults Upon Senior Securities	30
Item 6.	Exhibits	31
SIGNATURES		32

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. This Quarterly Report on Form 10-Q contains information that may be deemed forward-looking that is based largely on our current expectations and is subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those anticipated. Such risks, trends and other uncertainties, which in some instances are beyond our control, include: the impact and duration of the current recession, the distressed economic environment of the biodiesel industry, continuing credit crunch; our inability to secure replacement financing for our indebtedness under our restated term loan agreement, our inability to obtain working capital and capital improvement financing resulting in continued idling of our plant, our inability to generate cash liquidity from operations sufficient to service our significant debt levels and comply with our financial obligations under our restated term loan agreement, our ability to repay our principal and interest obligations and avoid foreclosure of the mortgage and security interest on our real estate, plant and equipment under our restated term loan agreement, changes in interest rates, prices of or demand for diesel fuel, refined soybean oil and other commodity prices, energy costs, shipping costs, available production and management personnel, changes or elimination of government subsidiaries or incentives, loss of exports due to the European Commission’s imposition of duties on imports of United States biodiesel, legislative and regulatory developments, including additional duties or tariffs on United States biodiesel, and other results of operations or financial conditions. Any statements that are not statements of historical fact (including statements containing the words “may,” “will,” “would,” “could,” “believes,” “expects,” “anticipates,” “intends,” “plans,” “projects,” “considers” and similar expressions) generally should be considered forward-looking statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which are made as of the date of this Form 10-Q. We do not publicly undertake to update or revise our forward-looking statements, whether in response to new information, unforeseen events, changed circumstances or otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements.

East Fork Biodiesel, LLC
(A Development Stage Company)

Unaudited Balance Sheets

	December 31, 2009	September 30, 2009
Assets (Note 2)		
Current Assets:		
Cash and cash equivalents	\$ 906,709	\$ 1,281,250
Restricted cash with lender (Note 2)	-	265,910
Inventory	70,300	70,300
Prepaid expenses	223,986	50,133
Total current assets	1,200,995	1,667,593
Property and Equipment:		
Land	539,291	539,291
Plant and processing equipment	59,317,164	59,317,164
Office building, furniture and fixtures	489,154	489,154
	60,345,609	60,345,609
Accumulated depreciation including impairment charge	36,122,270	35,645,609
	24,223,339	24,700,000
Other Assets:		
Restricted cash in escrow	518,789	518,789
Deferred financing costs, net of accumulated amortization	51,549	-
	570,338	518,789
	\$ 25,994,672	\$ 26,886,382
Liabilities and Members' Equity		
Current Liabilities:		
Current maturities of long-term debt (Note 2)	\$ 24,528,889	\$ 24,800,000
Accounts payable and accrued expenses	332,611	68,193
Accrued interest payable	1,027,800	524,300
Total current liabilities	25,889,300	25,392,493
Commitments (Notes 4, 5 and 6)		
Members' Equity:		
Member contributions, net of issuance costs, units outstanding		
December 31, 2009 and September 30, 2009 49,159	44,115,810	44,115,810
Deficit accumulated during the development stage	(44,010,438)	(42,621,921)
	105,372	1,493,889
	\$ 25,994,672	\$ 26,886,382

The accompanying Notes are an integral part of the Financial Statements.

East Fork Biodiesel, LLC
(A Development Stage Company)
Unaudited Statements of Operations

	Three Months Ended		January 5, 2006
	December 31,	December 31,	(Date of
	2009	2008	Inception) to
			December 31, 2009
Revenues:			
Sales (Note 5)	\$ 1,532	\$ -	\$ 3,652,783
Federal incentives	-	-	994,804
Rental Income	-	-	82,830
	1,532	-	4,730,417
Expenses:			
Cost of sales, including plant operating expenses	541,879	1,101,004	12,081,004
Impairment of plant and processing equipment	-	-	29,364,430
Loss on sale contract	-	-	158,000
Loss on derivative instruments	-	-	843,696
Consulting fees (Note 4)	-	-	284,359
General and administrative	339,593	481,035	4,035,665
	881,472	1,582,039	46,767,154
Loss before other income (expense)	(879,940)	(1,582,039)	(42,036,737)
Other income (expense):			
Grants and other income	395	4,546	93,748
Interest income	4,357	1,462	1,318,818
Interest expense	(513,329)	(327,952)	(3,386,267)
	(508,577)	(321,944)	(1,973,701)
Net (loss)	\$ (1,388,517)	\$ (1,903,983)	\$ (44,010,438)
Weighted average basic and diluted units outstanding	49,159	49,159	42,256
Net income (loss) per unit - basic and diluted	\$ (28.25)	\$ (38.73)	\$ (1,041.52)

The accompanying Notes are an integral part of the Financial Statements.

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

East Fork Biodiesel, LLC
(A Development Stage Company)
Unaudited Statements of Cash Flows

	Year Ended December 31, 2009	December 31, 2008	January 5, 2006 (Date of Inception) to December 31, 2009
Cash Flows from Operating Activities:			
Net (loss)	\$ (1,388,517)	\$ (1,903,983)	\$ (44,010,438)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:			
Depreciation	476,661	972,438	6,803,348
Amortization	-	11,574	366,371
Impairment of plant and processing equipment	-	-	29,364,430
Member units earned for consulting services	-	-	50,000
Changes in working capital components:			
(Increase) decrease in receivables	-	12,560	-
(Increase) decrease in inventories	-	13,119	(70,300)
(Increase) decrease in prepaid expenses	(173,853)	(141,500)	(223,986)
Increase in accounts payable and accrued expenses	767,918	31,785	1,360,411
Net cash (used in) operating activities	(317,791)	(1,004,007)	(6,360,164)
Cash Flows from Investing Activities:			
Purchase and construction of property and equipment, net of sales tax refund	-	-	(58,363,351)
(Increase) decrease in restricted cash with lender	265,910	-	-
(Increase) decrease in restricted cash in escrow, net	-	33,800	(518,789)
Net cash provided by (used in) investing activities	265,910	33,800	(58,882,140)
Cash Flows from Financing Activities:			
Issuance of membership units	-	-	42,281,166
Collection of membership unit subscription receivable	-	-	156,267
Payments of offering costs	-	-	(371,623)
Payments of financing costs	(51,549)	-	(445,686)
Payments of long-term debt	(271,111)	(15,000)	(371,111)
Proceeds from long-term borrowings	-	3,250,000	24,900,000
Net cash provided by (used in) financing activities	(322,660)	3,235,000	66,149,013
Net increase (decrease) in cash and cash equivalents	(374,541)	2,264,793	906,709
Cash and cash equivalents:			
Beginning	1,281,250	124,073	1,281,250
Ending	\$ 906,709	\$ 2,388,866	\$ 2,187,959
Supplemental Disclosure of Cash Flow Information, cash payments for interest, net of amount capitalized			
	\$ 8,929	\$ 321,640	\$ 1,991,196

The accompanying Notes are an integral part of the Financial Statements.

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 1. Nature of Business, Basis of Presentation and Significant Accounting Policies

Nature of business:

East Fork Biodiesel, LLC (the Company), located in Algona, Iowa, was formed on January 5, 2006 to pool investors to build a 60 million gallon annual production biodiesel manufacturing plant. The Company is in the development stage with its efforts being principally devoted to organizational, equity-raising activities and construction of the biodiesel plant. The plant was substantially complete and started production on December 5, 2007 to verify the production capabilities of the plant. In December the plant produced approximately 1.1 million gallons of biodiesel and then shut down due to the current adverse market conditions. (See Note 6)

Basis of presentation:

The accompanying unaudited condensed interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted as permitted by such rules and regulations. These financial statements and related notes should be read in conjunction with the financial statements and notes thereto included in the Company's audited financial statements for the year ended September 30, 2009 included in the Company's Annual Report on Form 10-K. In the opinion of the Company's management, the interim financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the Company's results of operations, financial position and cash flows. The results reported in these interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

Significant accounting policies:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 from those estimates.

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

Concentrations of credit risk: The Company's cash balances are maintained in bank deposit accounts which at times may exceed federally insured limits.

Cash and cash equivalents: The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable: Accounts receivable are presented at face value, net of the allowance for doubtful accounts. The allowance for doubtful accounts is established through provisions charged against income and is maintained at a level believed adequate by management to absorb estimated bad debts based on historical experience and current economic conditions.

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 1. Nature of Business, Basis of Presentation and Significant Accounting Policies (Continued)

Receivables are considered past due based upon payment terms set forth at the date of the related sale. There are no outstanding receivables as of December 31, 2009.

Inventory: Inventory is valued at the lower of cost or market using the first-in, first out (FIFO) method. Inventory consists of the following as of December 31, 2009 and September 30, 2009:

	December 31, 2009	September 30, 2009
Raw material	\$ 70,300	\$ 70,300
Finished goods	-	-
	\$ 70,300	\$ 70,300

Property and equipment: Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Plant and process equipment	15 - 20
Office building	20
Office equipment	3 - 7
Other equipment	3 - 7

Maintenance and repairs are expensed as incurred and major improvements and betterments are capitalized. As of December 31, 2009, the Company has capitalized \$345,416 of interest and financing costs in property and equipment.

Asset impairment: The Company evaluates the appropriateness of the carrying amounts of its long-lived assets at least annually, or more frequently whenever indicators of impairment are deemed to exist. In accordance with Company policies, management previously had evaluated the plant for possible impairment based on projected future cash flows from operations assuming that the Company would be able to obtain a working capital loan and commence operations. Based on developments with the Company's current lender and the Company's inability to find alternative sources for its required working capital, management determined that an impairment existed and recorded an impairment charge of \$29,364,430 during the year ended September 30, 2009.

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 1. Nature of Business, Basis of Presentation and Significant Accounting Policies (Continued)

Restricted cash in escrow: As of December 31, 2009 the Company had an agreement with a natural gas company that requires a restricted escrow balance of \$518,789 consisting of a \$45,589 deposit and \$473,200 to cover storage transportation and/or construction of the town border station. Under the terms of the agreement the escrow will be released annually beginning on October 1, 2008 at the discretion of the natural gas company but no less than 1/15 of the original deposit of \$507,000 to cover storage transportation and/or construction of the town border station. The requested October 1, 2009 escrow release was received subsequent to December 31, 2009.

Deferred financing costs: Expenditures directly related to securing long-term financing are recorded as a deferred cost on the balance sheet. These costs are being amortized using the effective interest method over the term of the Company's Restated Term Loan Agreement discussed in Note 2. As a result of the Company's default under its Restated Term Loan Agreement, the lender has terminated any commitment to the Company and accelerated the due date of the unpaid principal balance outstanding. The remaining \$134,086 of deferred financing costs was included in interest expense for the year ended September 30, 2009. During the three month period ending December 31, 2009 the Company incurred deferred financing costs of \$51,549 relating to a proposed private placement of Convertible Subordinated Unsecured Notes.

Derivative instruments: The Company has entered into derivative contracts to hedge its exposure to price risk related to forecasted soybean oil purchases and forecasted biodiesel sales. These derivative contracts are accounted for under Accounting Standards Codification (ASC) 815. ASC 815 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign-currency-denominated forecasted transaction.

Although the Company believes its derivative positions are economic hedges, none have been designated as hedges for accounting purposes. Therefore, derivative positions are recorded on the balance sheet at their fair market value, with changes in fair value recognized in the statement of operations. Due to the current plant shutdown, the Company has not had any open positions since 2008. The Company recognized a net loss of \$843,696 during the period of inception to December 31, 2009.

Due to restrictions placed upon the Company by its lender, the Company was required to subcontract the production of 163,000 gallons of biodiesel to another biodiesel plant. This resulted in a loss of approximately \$158,000 which was accrued as of December 31, 2007.

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 1. Nature of Business, Basis of Presentation and Significant Accounting Policies (Continued)

Revenue recognition: Revenue from the production of biodiesel and related products is recorded upon transfer of the risks and rewards of ownership and delivery to customers and the selling price is fixed and determinable. Revenue from federal incentive programs is recorded when the Company has sold blended biodiesel and satisfied the reporting requirements under the applicable program. When it is uncertain that the Company will receive full allocation and payment due under the federal incentive program, it derives an estimate of the incentive revenue for the relevant period based on various factors including the most recently used payment factor applied to the program. The estimate is subject to change as management becomes aware of increases or decreases in the amount of funding available under the incentive programs or other factors that affect funding or allocation of funds under such programs. Interest income is recognized as earned.

Shipping and handling costs: Shipping and handling costs are expensed as incurred and are included in the cost of sales.

Income taxes: The Company is organized as a limited liability company which is accounted for like a partnership for federal and state income tax purposes and generally does not incur income taxes. Instead, the Company's earnings and losses are included in the income tax returns of its members. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

Income (loss) per unit: Income (loss) per unit has been computed on the basis of the weighted average number of units outstanding during each period presented.

Organizational and start-up costs: The Company expenses all organizational and start-up costs as incurred.

Fair value of financial instruments: The estimated fair value of financial instruments was determined by reference to various market data and other valuation techniques as appropriate. The carrying amounts of cash and cash equivalents, restricted cash, accounts payable and accrued expenses approximate fair value because of the short maturity of these financial instruments. The carrying value of the debt also approximates fair value as the interest rate reprices when market interest rates change.

Note 2. Long-Term Debt

On January 30, 2007, the Company entered into a \$36,500,000 Master Loan Agreement (credit agreement) which consisted of a \$12,000,000 revolving-term loan and a \$24,500,000 construction-term loan that was used for working capital and to complete the biodiesel project. The construction-term loan consisted of two phases: a "start-up phase" during which the Company made periodic requests for fund advances to meet construction obligations and at the completion of construction and payment of construction costs, a "term loan phase" in which the loan converted to a "senior debt instrument". The construction loan was secured by substantially all of the Company's real property, equipment, fixtures,

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

furniture and articles of tangible personal property (except inventory and supplies) and was payable in quarterly installments of \$912,500 beginning on May 20, 2008. The credit agreement provided for a special annual payment equal to 75% of “free cash flow” as defined in the agreement, limited to a total payment \$2,000,000 annually.

8

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 2. Long-Term Debt (Continued)

The Company selected one or more of the following interest rate options under the credit agreement:

Agent base rate: A variable interest rate equal to the rate established by the Agent plus three-quarters of one percent (0.75%) per annum.

Quoted rate: A fixed rate per annum to be quoted by the Agent in its sole discretion in each instance.

LIBOR: A fixed rate per annum equal to London Inter Bank Offered Rate at the date selected plus 3.25%.

Interest shall be calculated by multiplying the actual number of days elapsed in the period for which interest is being calculated based on a 360-day year.

The credit agreement also contained an event of default if the lender determines that there has been a material adverse change in the Company's financial condition, results of operations, or ability to perform its obligations under the agreement. In November 2007, the Company was informed by its lender that the senior credit facility was considered to be a distressed loan subject to restructuring. The lender had refused to make further advances under the facility.

On June 17, 2008 the Company entered into a restructuring agreement with the lender and executed a Restated Term Loan Agreement. The principal provisions of this Agreement are:

- The Company's access to the \$12,000,000 revolving term loan was terminated. The lender released its security interest in the Company's inventory and accounts receivable, as well as intangible personal property.
- A reserve of \$600,000 was established for interest due through March 31, 2009 and a reserve of \$290,000 was established for the final payments due REG Construction & Technology Group, LLC.
- The Company was able to draw on the full amount of the \$24,500,000 Term Loan less the reserves discussed above.
- Principal payments in the individual amounts of \$912,500 due May 20, 2008, August 20, 2008 and November 20, 2008 were deferred with quarterly principal payments of \$912,500 resuming and being due on February 20, 2009, and due quarterly thereafter. The due date for the final payment will be August 20, 2015.
- The Company shall select one or more of the following interest rate options under the Restated Term Loan Agreement: a variable interest rate equal to the rate established by the Agent plus three-quarters of one percent (0.75%) per annum; or a fixed rate per annum equal to

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

London Inter Bank Offered Rate at the date selected plus 3.25%.

- The financial covenants were eliminated. The Restated Term Loan Agreement contains various affirmative and negative covenants.

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 2. Long-Term Debt (Continued)

On February 20, 2009, the Company was granted a payment deferral until May 20, 2009 of its \$912,500 quarterly principal payment due February 20, 2009. As part of the Restated Term Loan Agreement, the Company deposited \$460,000 with the agent for the lender to be used for monthly interest and other fees due the lender. In December 2009, \$256,111 was withdrawn by the lender and applied as a principal payment on the loan. As of December 31, 2009, the balance in this account was zero.

On May 20, 2009 the Company had a scheduled principal payment due of \$1,825,000. This payment was not made as the Company did not have sufficient unrestricted cash. On May 26, 2009, the lender has declared the Company in default and on June 22, 2009 the lender initiated foreclosure proceedings against the Company's plant, equipment, fixtures and real property.

As a result of the default, the lender increased the interest rate on the borrowings by 4.0%, effective May 21, 2009. As of December 31, 2009, \$24,000,000 of the borrowings were at the LIBOR option of 7.625% and \$243,889 of the borrowings were at the Agent Base Rate option of 8.50%.

As of December 31, 2009, \$24,243,889 was outstanding under the Restated Term Loan Agreement.

In June 2006, the Company entered into a financial assistance contract with the Iowa Department of Economic Development whereby the Company was awarded a \$100,000 forgivable loan and a \$300,000 non-interest bearing loan. The Company is obligated to create 36 full-time equivalent jobs, with 30 of the created jobs having starting wages, including benefits, that meet or exceed \$16.09 per hour with an average rate per hour including benefits of \$19.47. The Company was also required to execute promissory notes which outline the repayment obligations and terms and conditions of each loan. As of December 31, 2009, \$285,000 was outstanding. The agreement provides for a monthly principal payment of \$5,000 per month. The occurrence of a default under the Restated Term Loan Agreement also constitutes an event of default under the contract which would allow IDED, at its option, to provide a notice of default which among other things would result in the amount being immediately due and payable and impose a 6% annual default interest rate.

Note 3. Related Party Transactions

The Company paid a consulting company owned by a member for project coordination, administration and consulting services, under the terms of an unwritten, month-to-month consulting arrangement. The member is also the President, former Chairman and current member of the Board of Directors. From inception through December 31, 2009, the Company incurred consulting charges of approximately \$99,300 under this agreement. For the three month periods ended December 31, 2009 and 2008 no costs were incurred under the agreement.

In March 2006, the Company entered into a consulting agreement with an entity, owned by a member of the Company, to serve as the Company's project consultant. The fee for the services was \$3,200 per month, plus bonuses for reaching certain milestones relative to the signing of the contract, completion of the business plan, loan commitment, loan closing and the starting of the equity offering. The consulting agreement

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

ended in 2007. Since inception, the Company incurred consulting charges totaling \$225,059 under the agreement. The total included \$50,000 of services exchanged for 50 units issued to the consulting company and \$40,000 of fees that were capitalized as deferred financing costs.

10

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 4. Commitments and Contingencies

On December 15, 2006 the Company entered into two put option agreements whereby the sellers can require the Company to purchase property adjacent to the plant. One agreement provides for a purchase price of \$120,750 plus 105% of the cost of any improvements or additions made to the property prior to the exercise of the option and the other provides for a purchase price of \$236,250. The options expire two years after the announced date of operation of the biodiesel facility. If the options expire unexercised, they will be resurrected upon the expansion of 25% of the initial capacity of the plant or upon the construction or operation of any new separate facility. The Company paid \$5,000 for each option and believes that the purchase price approximated the fair market values of the property at the dates of the agreements.

In May 2006, the Company entered into an option agreement which it subsequently exercised to purchase its current property. Part of the agreement also provided the Company the option to purchase additional adjacent land for \$12,500 per acre in 10 acre increments. The option covers approximately 44 acres and will expire in May 2011.

In September 2006, the Company executed an agreement with a natural gas company to provide the natural gas required by the Company for a period commencing on August 1, 2007 and continuing for a period of 15 years. The contract was amended in October 2006 to delay the start date until November 1, 2007. The Company will pay a monthly delivery charge plus the applicable maximum rates and surcharges under the applicable rate schedule on file with the Iowa Commerce Commission for the gas that it uses. The contract reserves pipeline capacity of 984 dekatherms/day, at a cost of approximately \$15,000 per month. The Company has hired a broker to market the excess pipeline capacity.

On September 8, 2008 the Company entered into an agreement with Renewable Fuels Management, LLC to provide the services of a Chief Executive Officer. Subject to meeting certain performance measurements, the Company will offer, over the course of the Management Agreement, up to 2,500 of its membership units to Renewable Fuels Management through unit purchase options. The purchase price of the units to be granted upon achievement of the performance measurements will be \$600 per unit.

On August 25, 2009 as amended on January 7, 2010, the Company entered into an agreement with Corval Group, Inc. to provide advisory and consulting services in connection with the restructuring of the Company. The agreement automatically renews for successive one-month terms until one of the parties provides the other with a notice of termination. If the Company is successful in raising the new capital discussed in Note 6, upon closing of the offering, Corval shall receive the following: (1) a success fee of \$750,000 less Corval's monthly fees paid by the Company; (2) 2,458 membership units from the Company; and (3) for each of the first five years following completion of the plant improvements and commencement of production, Corval will receive payments equal to 1% of the net income, to be computed and payable annually.

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 5. Major Customer

On September 26, 2006, the Company entered into a Management and Operational Services Agreement with Renewable Energy Group, LLC. Under the agreement Renewable Energy Group will place the Company's general and operations managers, acquire feedstocks and basic chemicals necessary for the operation of the facility, and perform the administrative, sales and marketing functions for the Company. In exchange for these services, the Company has agreed to pay Renewable Energy Group a flat monthly fee ("flat fee") and a per-gallon rate fee ("rate fee"). For the first month in which the Company's biodiesel is produced and sold, and for six months thereafter (the "initial period"), it will pay a flat fee of \$112,500, plus a \$0.0175 rate fee for each gallon of biodiesel produced. For the first month after the initial period the Company will pay a flat fee of \$172,500, plus a \$0.0175 rate fee for each gallon of biodiesel produced. The flat fee and rate fee are adjusted beginning in the month following the first anniversary of the Company's producing biodiesel for sale and annually for such month thereafter according to a complex formula based on movement in the Consumer Price Index for All-Urban Consumers, U.S. City Average, All Items, published by the United States Department of Labor. In addition to the flat fee and monthly fee, the Management Agreement also provides for the payment to Renewable Energy Group of a yearly bonus equal to 6% of the Company's net income. The agreement has an initial term ending December 31, 2010 and it will continue thereafter unless either party gives written notice to the other of a proposed termination date at least 12 months in advance of the proposed termination date. On December 1, 2007, the Company and REG amended the Management Agreement to reduce the monthly fee to the amount of the compensation costs (including benefits) of the Company's General Manager and Operations Manager while its plant is idle. Expense incurred under the agreement for the three month periods ended December 31, 2009 and 2008 were none and \$22,409, respectively. Expense incurred under the agreement from inception through December 31, 2009 were \$167,687. Sales of biodiesel and glycerin to REG since inception were \$3,651,251. There was no accounts receivable due from REG as of December 31, 2009.

The Company has given notice to terminate the agreement effective December 31, 2010. On January 11, 2010 the Company received a response from REG disputing the validity of the termination notice. REG contends that the agreement cannot be terminated until a period of 3 years after initial production commences which, based on REG's interpretation, has not yet occurred. The Company plans to negotiate and, if necessary, to litigate with REG to resolve the differences; however, the Company cannot predict the outcome of these efforts.

East Fork Biodiesel, LLC

(A Development Stage Company)

Notes to Unaudited Financial Statements

Note 6. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Through December 31, 2009, the Company was in the development stage, has undertaken significant borrowings to finance the construction of its biodiesel plant and has experienced a significant increase in the cost of soybean oil which is currently the primary ingredient in the Company's planned production of biodiesel. As a result of the high cost of soybean oil the Company suspended plant operations in December 2007 after initial testing and production start-up. The Company has not been able to obtain working capital funds to start-up the plant and operate profitably. On May 26, 2009, the lender's agent declared the Company in default and on June 22, 2009 the lender initiated foreclosure proceedings against the Company's plant, equipment, fixtures and real property.

To address the Company's liquidity challenge, the Company is conducting a private offering of subordinated unsecured notes convertible into our membership units (convertible debt) to obtain additional capital. The convertible debt will not be registered under the Securities Act of 1933, as amended (the Securities Act) and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The offering is being made to accredited investors, as defined in Regulation D of the Securities Act, including our existing members who qualify. The net proceeds from the offering, depending upon whether a sufficient amount is subscribed, will be used to make plant modifications for pretreatment, as well as for working capital, to service our debt and pay our interim operating expenses. The offering is for a minimum principal amount of \$17,000,000 and a maximum of \$27,500,000 of the convertible debt, which upon conversion could result in the issuance of approximately 290,000 to 470,000 additional units. The Company cannot predict the outcome of the offering.

Note 7. Subsequent Events

On January 7, 2010, Farm Credit filed a motion for summary judgment against the Company and the court has scheduled that motion for hearing on February 16, 2010. Accordingly, entry of judgment against the Company may occur as early as February 16, 2010 with resulting sheriff's sale of the mortgaged property occurring within the next approximately 45 days thereafter. The Company may need to consider filing bankruptcy reorganization proceedings in order to delay the foreclosure proceedings. However, the Company expects that Farm Credit may seek early relief from any bankruptcy stay alleging that the Company has no equity in the mortgaged property and no reasonable prospects of reorganization. Whether or not there is a bankruptcy filing, once the mortgaged property goes to sheriff's sale, the Company will have a one-year period after the sale within which to redeem the property from the sale by repaying the amount bid at the sheriff's sale plus accrued interest.

The Company has performed an evaluation of subsequent events through February 16, 2010, which is the date the financial statements were issued. No events have occurred subsequent to December 31, 2009 that require additional disclosure or recognition in these financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Overview

Unless otherwise indicated in this report or the context otherwise requires, all references in this report to "East Fork Biodiesel, LLC", "East Fork Biodiesel", "East Fork", "the Company", "we", "us" and "our" refer to East Fork Biodiesel, LLC. References to 2010, 2009, 2008 and the like refer to the fiscal year ended September 30th.

We are a development stage company, devoting substantially all of our efforts to establishing a new business. However, because of continuing adverse financial and economic conditions explained below, our planned principal operation of our plant has not commenced.

In December 2007, our plant was substantially complete and we started production to verify the production capabilities of our new plant and produced in the aggregate approximately 1.1 million gallons of test-phase biodiesel and glycerin. After this production, we idled the plant due to then-existent adverse pricing for refined soybean oil. These pricing issues and our subsequent inability to obtain working capital have not allowed us to operate our plant for a sustained period since December 2007.

Due to our continued inability to secure the working capital required to conduct normal operations at our plant, our plant remains idle. As indicated in our financial statements, exclusive of the sale of the product produced during our testing phase, we have not had revenues from operations from our inception in January 2006 through December 31, 2009. See Item 1, "Financial Statements", above.

Although we would have been able to operate at positive margins throughout several months of 2008 and 2009 if operating capital had been available to us, we would have been unable to operate the plant profitably given the specific market conditions present in mid-January 2010.

Our independent registered public accounting firm has raised doubts about our ability to continue as a going concern. See "Financial Statements" in Item 1, Note 6, above.

Debt and Liquidity

On May 20, 2009 we had a scheduled principal payment of \$1,825,000 due to our lender, Farm Credit. We did not make this payment because we did not have sufficient unrestricted cash. On May 26, 2009, Farm Credit's agent, CoBank, ACB (CoBank) declared us in default, terminated any commitment to us and accelerated the amounts owed under our \$24,500,000 Restated Term Loan Agreement. On June 22, 2009 Farm Credit initiated foreclosure proceedings against our plant, equipment, fixtures and real property. As a result of the default, Farm Credit increased the interest rate on the borrowings by 4.0%, effective May 21, 2009. Effective May 21, 2009, we are being charged interest of 7.6250% on \$24,000,000 of the loan balance and 8.50% on the remaining loan balance of \$500,000, which was reduced to \$243,889 in December 2009 by application of our escrow funds.

At September 30, 2009, CoBank held \$265,910 of our funds in an escrow account to be used for monthly interest and other fees due Farm Credit. Beginning May 21, 2009, CoBank has been accruing interest under our Restated Term Loan Agreement at the rate of \$5,201.38 per day.

As our

14

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

interest comes due and is billed each month, CoBank withdraws the amount from the escrow. At December 31, 2009, we had \$1,027,800 in accrued interest not yet withdrawn. In addition, in December 2009, \$256,111 was withdrawn by CoBank and applied as a principal payment on the loan, closing the escrow account.

As a result of the escrow payment, as of December 31, 2009, \$24,243,889 was outstanding under the Restated Term Loan Agreement.

As of December 31, 2009, we had an agreement with a natural gas company that requires a restricted escrow balance of \$518,789 consisting of a \$45,589 deposit and \$473,200 to cover storage transportation and/or construction of the town border station. Under the terms of the agreement the escrow will be released annually beginning October 1, 2008 at the discretion of the natural gas company but no less than 1/15 of the original deposit of \$507,000 to cover storage transportation and/or construction of the town border station. The requested October 1, 2009 escrow release was received subsequent to December 31, 2009.

Impairment of Long-Lived Assets

We evaluate the appropriateness of the carrying amounts of our long-lived assets at least annually, or more frequently whenever indicators of impairment are deemed to exist. In accordance with our policies, we previously had evaluated the plant for possible impairment based on projected future cash flows from operations assuming that we would be able to obtain a working capital loan and commence operations. However, based on developments with Farm Credit and our inability to find alternative sources for our required working capital, we determined that an impairment existed and recorded impairment charges of \$29,364,430 during the year ended September 30, 2009.

Our property and equipment are stated at cost. We compute depreciation using the straight-line method over the estimated useful lives ranging from 3 to 7 years for office and other equipment, 15 to 20 years for plant and process equipment and 20 years for our office building.

Income Taxes

We are organized as a limited liability company which is accounted for like a partnership for federal and state income tax purposes and generally does not incur income taxes. Instead, our earnings and losses are included in the income tax returns of our members. Therefore, no provision or liability for federal or state income taxes has been included in our financial statements.

Results for Three Months Ended December 31, 2009

We have incurred an accumulated net loss of \$44,010,438 from our inception in January 2006 through December 31, 2009. For the three months ended December 31, 2009 and 2008, our net loss was \$1,388,517 and \$1,903,983, respectively. The reasons for our continuing loss during this quarter include:

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

- We had only \$1,532 in revenues from the sale of our soybean crop for the three months ended December 31, 2009. We had no revenues from sales of biodiesel and related federal incentives for the three months ended December 31, 2009 and 2008 due to the continued idling of our plant.

- In December 2007, construction of our plant was completed and as a result we started to depreciate the assets and discontinued the capitalization of the construction period interest expense. Prior to plant completion, we capitalized interest incurred as part of the construction costs. Depreciation and interest expense for the three months ended December 31, 2009 were \$476,661 and \$513,329, respectively. Depreciation and interest expense for the three months ended December 31, 2008 were \$972,438 and \$327,952, respectively. The increase in interest expense between the two periods is primarily due to our higher average borrowings and Farm Credit's imposition of default interest on May 21, 2009. The reduction in the depreciation expense was the result of the reduction in the net book value of our fixed asset due to the previously discussed impairment charges.
- General and administration expenses for the three months ended December 31, 2009 and December 31, 2008 were \$339,593 and \$481,035, respectively. These expenses primarily consisted of professional fees incurred in connection with our SEC compliance matters, fees paid for exploring alternatives for the Company, foreclosure proceedings, ongoing bank and strategic negotiations, payroll and insurance.

Product and Production Input Pricing

The cost of feedstock is the largest single component of the cost of biodiesel production, accounting for 75% to 90% of the overall cost of producing biodiesel. As a result, increased prices for feedstock greatly impact the biodiesel industry. Soybean oil is the most abundant oil feedstock available in the United States. The 20-year average price for soybean oil is approximately \$0.24 per pound. Prices for feedstock have been quite volatile – most notable is soybean oil and methanol (which is used to a much lesser degree than soybean oil). Between January 2008 and January 2010, soybean oil has traded in a range of less than \$0.30 to over \$0.65 per pound delivered to Algona. As of January 2010, refined soybean oil delivered to Algona is priced near \$0.37 per pound, based on market pricing as reported in the *The Jacobsen*®.

Many of our competitors have plants that can make biodiesel from animal fats as well as soybean oil. The cost of soybean oil has precluded us from profitable operations throughout much of the time since we completed the successful test-phase of our plant. Our plant technology is capable of converting multiple refined oils to biodiesel. We can convert alternative oils with a lower input cost, such as corn oil and animal fats, provided these oils, or others, meet the input specifications for our biodiesel process. These materials are typically sold as a crude product. In order to utilize these feedstocks at our facility, we will be required to make additional capital investment to adapt and enable our plant to refine and pretreat these alternative feedstocks to meet feedstock input specifications for our biodiesel production process, known as pretreatment equipment.

We continue to monitor soybean oil and biodiesel prices which might allow future profitable operation of our biodiesel plant.

Between January 2008 and January 2010, methanol pricing has ranged from \$0.80 per gallon to \$2.70 per gallon delivered to Algona. As of January 2010, the price of methanol delivered to Algona was \$1.25 per gallon. The market price for B100 biodiesel has been equally volatile: since January 2008, the Upper Midwest market price for biodiesel has ranged from approximately \$2.90 per gallon

to a July 2008 spike near \$5.20 per gallon -- approximately an 80% price variation. These prices for biodiesel reflect the \$1.00 federal tax credit per gallon of pure biodiesel or B100, which expired on December 31, 2009 (See Biodiesel Blenders' Tax Credit below). The Upper Midwest B100 pricing as of January 2010 approached \$3.35 per gallon, on average, according to *The Jacobsen*®.

We produce about approximately nine-tenths of one pound of glycerin for each gallon of biodiesel. From January 2008 to January 2010, crude glycerin pricing has ranged from approximately \$0.04 to \$0.45 per pound. As of January 2010, the price of crude glycerin was reported to be selling at \$0.05 per pound, shipped FOB from our plant. Our soy oil-based glycerin commands a higher price than glycerin generated by animal fat. The market conditions, as reported by *The Jacobsen*®, as of January 2010 would not allow us to operate the plant profitably with an input of 100% refined soybean oil. We cannot predict the duration of these conditions. This situation is reflected by the overall reduction of biodiesel production to near 2006 levels.

A significant negative impact on United States biodiesel producers has been the imposition of substantial duties by the European Union on the import of biodiesel originated in the United States to European Union members. On July 7, 2009, the European Union announced that these duties will be extended for the next five years.

Renewable Fuels Program

In May 2009, the Environmental Protection Agency released its analysis of the renewable fuel standard enacted by the Energy Independence and Security Act of 2007 ("Energy Act"), as part of a proposed rule subject to public comment and further refinement. That standard required that biodiesel reduce greenhouse gas emissions by 40% to 50% when compared to conventional diesel in order to count toward the 2007 Energy Act's mandate. Initially, the EPA's analysis indicated that soy-based biodiesel failed to meet targets for reducing greenhouse gas emissions, and found that soy-based biodiesel reduces greenhouse gas emissions by just 22% compared to petroleum diesel. The EPA's findings were questioned by the biodiesel and soybean industries and others. On February 3, 2010, the EPA released the Renewable Fuel Standard Program ("RFS2") final rule, requiring biodiesel to reduce greenhouse gas emissions by 50% compared to conventional diesel, and stated that it had recalculated biodiesel's effect on greenhouse gas emissions. Recalculation under a different formula found that biodiesel reduces such emissions by at least 50% compared to petroleum diesel. As a result, biodiesel will count toward the 2007 Energy Act's biofuels mandate.

The Energy Act requires 1.15 billion gallons of biodiesel to displace petroleum fuel in 2010, increasing each year until reaching 36 billion gallons of renewable fuels by 2022. The Energy Act requires the EPA to determine annual volumes of biomass-based diesel fuel required under the renewable fuel standard. Recently, the EPA expanded the annual biodiesel mandate from 1.11 billion gallons in 2009 to 1.15 billion gallons in 2010.

In June 2009, about one-third of the nation's biodiesel plants were idle, according to a published report citing information provided by officials with the National Biodiesel Board; plants that are operating are those that rely heavily on alternative feedstocks such as waste greases and fats. We do not believe this situation has changed significantly since June.

We believe the best long-range alternative is to secure feedstock for biodiesel plants that does not compete with food oils; one option that we believe holds particular promise is the use of corn oil generated as a co-product from ethanol processes. We believed that soybean oil, although food oil,

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

would provide a bridge to the non-food oils such as corn oil from DDGS produced at ethanol plants. The recent high prices for soybean oil highlight the need for us to use non-food oil.

We are currently unable to operate the plant given our inability to obtain working capital financing. Based upon January 2010 commodity prices, we estimate the need for \$20,000,000 in working capital financing to operate the plant at full capacity using refined soybean oil.

Previously, we had a \$12,000,000 revolving loan to fund purchases of soybean oil and other raw materials in periods where the plant could operate profitably. We were not, however, able to come to terms with Farm Credit to permit us draw funds against the revolving loan. As a result, in June 2008 our access to the \$12,000,000 under the revolving loan for working capital was terminated under our Restated Term Loan Agreement with Farm Credit. To date, our efforts to obtain working capital financing from other potential sources have been unsuccessful. See "Debt Financing" below.

Our lack of access to operating capital, coupled with the recent volatile financial, credit and commodity market conditions, including periods of high refined soybean oil prices timed with an unfavorable market price for biodiesel, have not allowed us to operate the plant profitably for a sustained period of time since December 2007. As a result, we are not able to produce and sell our products. Without access to replacement working capital financing, we have been unable to secure the cash required to purchase the inputs required to operate our plant during those periods during which positive margins could have been realized from operation.

Our goal is to operate profitably. This is a difficult proposition considering the recent volatile financial, credit and commodity market conditions in 2009 and our inability to obtain sufficient working capital financing. If such financing becomes available, our decision to run the plant will be predicated on our ability to generate positive cash flow margins. We believe we can achieve that margin when the per gallon spread between biodiesel and soybean oil is between \$0.30 to \$0.35. It is, however, difficult to lock in back-to-back margins in the spot market. Forward pricing is similarly difficult to achieve.

We cannot predict how commodity prices and the market price for our products will fluctuate in the future.

Debt Financing

On January 3, 2007 we executed a \$36,500,000 Master Loan Agreement with Farm Credit and related loan supplements outstanding under such agreement. The Credit Agreement consisted of a \$24,500,000 Construction and Term Loan dated as of January 30, 2007 (Term Loan) and a \$12,000,000 Construction and Revolving Term Loan Supplement, all dated as of January 30, 2007 (Revolving Loan).

We were notified by letter dated November 29, 2007 that Farm Credit determined our outstanding Term Loan and Revolving Loan to be "distressed loans," because of material adverse changes in the markets for soybean oil and soybean biodiesel which then precluded profitable operation of our plant. At the time we were notified by Farm Credit of the "distressed loan" status, Farm Credit had made available to us (a) a \$17,539,646 advance against the \$24,500,000 maximum of our Term Loan, and (b) \$260,378 advance against the \$12,000,000 maximum of our Revolving Loan.

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

We are party to a Design-Build Agreement with REG Construction Services, LLC (Design Build Agreement), now known as REG Construction & Technology Group, LLC (REG Construction), under which it designed, engineered and built our biodiesel plant. In November, 2007, and thereafter, we submitted to Farm Credit requests for advances under the Term Loan seeking disbursement of funds to REG Construction to pay for the outstanding unpaid bills owing to REG Construction under the Design-Build Agreement, but Farm Credit refused to advance the requested funds to REG Construction because of the “distressed loan” status. On March 24, 2008, REG Construction filed of record a mechanic’s lien against our biodiesel plant alleging an outstanding unpaid bill for construction of our plant under the Design-Build Agreement in the amount of \$4,349,217.

On April 30, 2008, we consummated the transactions contemplated by an Agreement regarding Payment for Construction effective April 29, 2008 (Construction Payment Agreement) with Farm Credit and REG Construction. The Construction Payment Agreement provided for satisfaction and release of REG Construction’s mechanic’s lien through Farm Credit’s advance of \$2,349,217 under the Term Loan and through the acquisition by REG Ventures, LLC, an affiliate of REG Construction, of 2,000 of our units, valued at \$1,000 per unit, in lieu of cash payment of \$2,000,000 for the construction services. Under the Construction Payment Agreement, on April 30, 2008, Farm Credit funded an additional \$2,349,217, as a draw under the Term Loan. REG Construction received the \$2,349,217 payment and we issued 2,000 units to REG Ventures, LLC. On March 4, 2009 we negotiated a final settlement on the Design-Build Agreement resulting in a \$259,010 reduction in the total contract price. The final \$30,000 payment under the Design-Build Agreement was made in March 2009.

On June 17, 2008, we entered into a Restated Term Loan Agreement with Farm Credit. Also, on June 17, 2008, in connection with our Security Agreement dated January 30, 2007 with Farm Credit, we entered into Amendment No. 1 to our Security Agreement with Farm Credit (Amended Security Agreement) and an Agreement with Farm Credit regarding the compromise and settlement of disputes and claims (Settlement Agreement). The Restated Term Loan Agreement, Amended Security Agreement and Settlement Agreement are collectively referred to as the Restated Term Loan Agreement. The following is a summary of certain terms of the Restated Term Loan Agreement:

- Principal payments in the individual amounts of \$912,500 due May 20, 2008, August 20, 2008 and November 20, 2008 were deferred with quarterly principal payments of \$912,500 resuming and being due on February 20, 2009, and due quarterly thereafter. The due date for the final payment was August 20, 2015.
- We had no right to make a prepayment and then draw again the amount of the prepayment under the Restated Term Loan Agreement.
- The balance outstanding on the \$12,000,000 Revolving Loan in the principal amount of \$260,378, plus interest due and unpaid, was transferred to the Restated Term Loan Agreement. A reserve of \$600,000 was established for the interest due through December 31, 2008 under our Restated Term Loan Agreement. Also, a reserve of \$289,010 was established under our Restated Term Loan Agreement for the final payments due REG Construction.

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

- Our access to the \$12,000,000 unused balance under the Revolving Loan for working capital was terminated. The Construction and Revolving Loan Supplement was terminated and cancelled.
- Our ability to declare or pay dividends, make any distribution of assets to our members, purchase, redeem, retire or otherwise acquire for value any of our capital stock or allocate or otherwise set apart any sum remained restricted. The only exception was that in any fiscal year distribution to our members up to 40% of our net profits (as defined) for each fiscal year after receipt of our audited financial statements for the pertinent fiscal year was permitted, provided that we remained in compliance with all loan covenants, terms and conditions. Also, in each fiscal year, a distribution in excess of 40% of the net profit for such fiscal year was permitted if we had made the required "Free Cash Flow" payment to Farm Credit for such fiscal year. However, in order to do so, we had to remain in compliance with all loan covenants, terms and conditions on a pro forma basis net of said additional payment.
- Farm Credit released its security interest lien in our inventory and accounts receivable as well as intangible personal property (such as cash, bank accounts, contract rights, etc.).
- Farm Credit retained a first mortgage in all of our real property and a first security interest in all of our plant, fixtures and equipment.
- Farm Credit billed unused line fees of approximately \$5,000 per month since February 2008 that had not been paid by us. These fees were waived. Farm Credit was not required to refund any other fees or any expenses incurred by us.
- The financial covenants were eliminated. Our requirement to pay the scheduled interest and principal payments when due, as well as other affirmative and negative covenants set forth in the Restated Term Loan Agreement remained.
- We retained our right to make changes to our Articles and Operating Agreement, management contracts and other material contracts without the approval of Farm Credit.
- We could prepay the balance owing under the Restated Term Loan Agreement at any time with no prepayment penalty.
- In exchange for these restructuring terms, we gave Farm Credit and its five participating lenders a full release of all claims and disputes.

As noted above, on February 20, 2009, Farm Credit granted us a payment deferral until May 20, 2009 of our \$912,500 quarterly principal payment due February 20, 2009. As part of the agreement, we deposited \$460,000 with CoBank to be used for monthly interest and other fees due under the Restated Term Loan Agreement. As of December 31, 2009, all funds in this account had been expended.

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

Beginning May 21, 2009, CoBank has been accruing interest under our Restated Term Loan Agreement at the rate of \$5,201.38 per day. As our interest and fees come due and are billed each month, CoBank withdraws the amount from the escrow. At December 31, 2009 we had \$1,027,800 in accrued interest not yet billed.

We agreed to restrict our ability to incur cash expenses in excess of \$400,000 in any month commencing in February 2009, without first obtaining Farm Credit's approval which was not to be unreasonably withheld. Also, commencing in February 2009, we could not make expenditures for fixed assets nor make any distributions to our members, without further agreement of the parties. We are required to provide Farm Credit's agent with additional documentation and budget reconciliations.

As of December 31, 2009, \$24,243,889 was outstanding under the Restated Term Loan Agreement.

We record expenditures directly related to securing long-term financing as a deferred cost on our balance sheet. These costs were being amortized using the effective interest method over the term of our Restated Term Loan Agreement. During the year ended September 30, 2008 and the period from inception to September 30, 2009, we amortized \$11,266 and \$27,766 respectively of these costs to construction in progress. No amounts were amortized to construction in progress during the quarter ended December 31, 2009. As a result of our default under our Restated Term Loan Agreement, Farm Credit has terminated any commitment to us and accelerated the due date of the unpaid principal balance outstanding. We included the remaining \$134,086 of deferred financing costs in interest expense for the year ended September 30, 2009.

Available Cash and Cash Requirements

Our February 2009 payment deferral agreement required us to make a principal payment in the amount of \$1,825,000 on May 20, 2009. On May 20th we had unrestricted cash of approximately \$1,710,000, and did not make our \$1,825,000 payment to Farm Credit due on that date because we did not have adequate funds. As of December 31, 2009, we had current assets of \$1,200,995. We have drawn all available amounts under our Restated Term Loan Agreement. As of January 31, 2010, we had \$584,191 in unrestricted cash.

Default Under Restated Term Loan Agreement

On May 26, 2009, we were notified that our failure to make the \$1,825,000 principal payment due on May 20, 2009 constituted an event of default (the Default Notice) under our Restated Term Loan Agreement. The Default Notice, provided by CoBank, advised us that it had terminated any commitment to us and accelerated the due date of the unpaid principal balance outstanding on our \$24,500,000 loan and all accrued but unpaid interest on the loan, by declaring such sum to be immediately due and payable. The remaining \$134,086 of deferred financing costs were included in interest expense for the quarter ending June 30, 2009.

On May 27, 2009, we were notified by CoBank that it had imposed, effective May 21, 2009, a default rate of interest, being 4% in excess of the rate(s) of interest that would otherwise apply, from time to time, on the \$24,500,000 loan balance, as permitted by the Restated Term Loan Agreement. Prior to CoBank's declaration of default, interest on \$24,000,000 of the loan balance accrued at an annual fixed rate equal to LIBOR at the date selected, plus 3.25%, and interest on the remaining \$500,000 of the loan balance accrued at a variable interest rate equal to the rate established by

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

CoBank, plus three-quarters of one percent (0.75%) per annum. As of December 31, 2009, \$24,000,000 of the borrowings were at the LIBOR option of 7.625% and \$243,889 of the borrowings were at the Agent Base Rate option of 8.50%.

As of December 31, 2009, \$24,243,889 was outstanding under the Restated Term Loan Agreement.

As noted above, at September 30, 2009, CoBank held \$265,910 of our funds in an escrow account. As our interest and fees comes due and are billed each month, CoBank withdraws the amount from the escrow. In December 2009, \$256,111 was withdrawn by the lender and applied as a principal payment on the loan, closing the escrow account.

State of Iowa Loans

As noted above, our Master Contract Agreement with the IDED provided us with two funding sources and benefits, the VAAPFAP Funding Agreement and the EZ Funding Agreement. Under the VAAPFAP Funding Agreement, we were awarded a \$100,000 forgivable loan to be forgiven over 36 months and a \$300,000 non-interest bearing loan. As of December 31, 2009, \$285,000 was outstanding on the loans. The agreement provides for a monthly principal payment of \$5,000 per month. The occurrence of a default under the Restated Term Loan Agreement also constitutes an event of default under the VAAPFAP Funding Agreement which would allow IDED, at its option, to provide a notice of default, which among other things, would result in the full amount being immediately due and payable (including the \$100,000 forgivable loan) and impose a 6% annual default interest rate.

The primary benefit under the EZ Funding Agreement is investment tax credits. The investment tax credits total \$5.2 million and are claimed by our members over a five-year period beginning July 1, 2007 in the amount of \$1,041,000 each December 31st. The annual credits were included on members' Schedule K-1 (Partner's Share of Income, Deductions, Credits, etc.) for calendar years 2007, 2008 and 2009. In addition, under the EZ Funding Agreement, we were entitled to receive certain enterprise zone benefits, including value-added property tax exemption and a refund in the amount of \$851,214 of Iowa sales, and use taxes paid to contractors, subcontractors and suppliers.

Under the VAAPFAP Funding Agreement and the EZ Funding Agreement, we were obligated to create 36 full-time equivalent jobs, with 30 of the created jobs having starting wages, including benefits, that meet or exceed \$16.09 per hour with an average rate per hour including benefits of \$19.47. Under the VAAPFAP Funding Agreement, such job creation was required to be complete by July 31, 2009; under the EZ Funding Agreement, such job creation is required to be complete by July 31, 2010. Accordingly, as of December 31, 2009, we were not in compliance with these job creation requirements with respect to the VAAPFAP Funding Agreement. The loans made pursuant to the VAAPFAP Funding Agreement are in default and could, at the option of the IDED, become immediately due and payable.

Further, if we fail to meet the job creation requirements by July 31, 2010, then, under the EZ Funding Agreement, we may be obligated to repay any benefits it has received and the State of Iowa may recapture the tax credits that have been passed through to our members. Such recapture may result in additional Iowa income tax for the calendar years 2007, 2008 and 2009.

Foreclosure Proceedings

On June 22, 2009 a Petition for Foreclosure was filed by Farm Credit against us, in the Iowa District Court for Kossuth County, Iowa. This foreclosure filing resulted from our failure to make a \$1,825,000 principal payment to Farm Credit which was due on May 20, 2009 under our Restated Term Loan Agreement. Farm Credit has a first mortgage in all of our real property and a first security interest in all of our equipment and fixtures, including our plant (collectively, the Farm Credit Collateral). Farm Credit seeks foreclosure of its mortgage and security interest covering the Farm Credit Collateral for the amount of its unpaid principal and interest, attorney's fees and other costs and court-ordered conveyance of such collateral.

On January 7, 2010, Farm Credit filed a motion for summary judgment in the case and the court has scheduled that motion for hearing on February 16, 2010. Accordingly, entry of judgment against us may occur as early as February 16, 2010 with resulting sheriff's sale of the mortgaged property occurring within the next approximately 45 days thereafter. We may need to consider filing bankruptcy reorganization proceedings in order to delay the foreclosure proceedings. However, we expect that Farm Credit may seek early relief from any bankruptcy stay alleging that we have no equity in the mortgaged property and no reasonable prospects of reorganization. Whether or not there is a bankruptcy filing, once the mortgaged property goes to sheriff's sale, we will have a one-year period after the sale within which to redeem the property from the sale by repaying the amount bid at the sheriff's sale plus accrued interest.

The foreclosure proceedings would ultimately result in the conveyance of the Farm Credit Collateral to Farm Credit, if a foreclosure proceeding were concluded before the indebtedness under the Restated Term Loan Agreement could be otherwise repaid or restructured in or outside of bankruptcy proceedings. Conclusion of the foreclosure process would have a material adverse impact on our financial condition and results of operations, result in the loss of the most of our operating assets and a permanent shut-down of our plant and cause our members to lose most or all of their investment in East Fork.

Liquidity

As noted above, we are currently unable to operate the plant profitably given our inability to obtain working capital financing. Doubts about our ability to continue as a going concern, coupled with the continuing credit crunch, make it difficult to obtain replacement and working capital financing, especially given the distressed nature of the biodiesel industry, uncertainty of commodity prices and Farm Credit's foreclosure proceedings. See "Financial Statements", in Item 1, Note 6, above. As a result, we are experiencing liquidity problems associated with the cost of our raw material and lack of demand for our product at profitable prices. Also, if our operations begin, we would face the ordinary delay between when we would purchase raw materials and when we would receive payments from REG for our finished products.

Biodiesel Blenders' Tax Credit

On December 31, 2009, the federal biodiesel blenders' tax credit expired. The blenders' tax credit provides a \$1.00 tax credit per gallon of pure biodiesel, or B100, to the first blender of biodiesel with petroleum based diesel fuel. The biodiesel industry has been substantially aided by this federal tax incentive. Because biodiesel has historically been more expensive to produce than diesel fuel, the biodiesel industry has depended on governmental incentives that have effectively brought the price

of biodiesel more in line with the price of diesel fuel to the end user. Although efforts are underway in the U.S. Congress to restore the blenders' tax credit, it is unclear whether it will be extended, retroactively or otherwise. The failure to restore this tax credit could result in our inability to produce and sell biodiesel profitably.

When Congress wrote the 2007 Energy Act, diesel consumption had been trending upwards since 1984 and it appeared to many that the world would be able to use considerably more diesel and biodiesel in the future. Diesel and biodiesel consumption hit a peak of 63.2 billion gallons in 2007. But diesel and biodiesel demand fell in 2008, after soaring diesel prices earlier in the year were followed by the economic crisis. Combined consumption for 2008 has been estimated at slightly more than 59.4 billion gallons; current forecasts suggest that 2009 consumption could end at about 56.2 billion gallons.

As noted, the manufacturer's price of B100 biodiesel as of January 2010 was near \$3.35 per gallon, on average, according to *The Jacobsen*®. Biodiesel producers also struggle to compete on price in relation to petroleum diesel. For the same period, the U.S. average retail diesel price was near \$2.78 per gallon and the estimated average wholesale price was approximately \$2.06 per gallon, according to the Energy Information Administration.

The spread in price between petroleum diesel and biodiesel creates an economic barrier to increasing biodiesel consumption. In order to compete directly with petroleum diesel in the current market, biodiesel producers may actually be forced to sell at a loss. A return of \$3.50 diesel and the extension of the federal blenders' tax credit might change things, by making biodiesel a relative bargain in comparison to petroleum diesel and spur wider use. So would an unexpected increase in total fuel demand. Otherwise, it is not at all clear how the world's surplus of biodiesel production capacity can be absorbed.

Working Capital Financing

In 2008, we developed a financing plan, presented to over 40 financial firms during the 2008 calendar year, which requested a minimum working capital facility of \$10,000,000. These financial firms included money center banks, regional banks, community banks, finance companies, factors and high net worth individuals. In addition, we sought working capital from potential lenders in the agriculture industry, those with commodity experience and those with experience in renewable fuels. We engaged placement agents to approach lenders that we would otherwise not have approached. These placement agents had access to both traditional lending sources and non traditional lenders. We offered potential lenders a first security interest in our inventory and accounts receivable. However, we have been unable to secure working capital to date.

New Financing

On December 26, 2008 we retained Chicago-based William Blair & Company, L.L.C. (William Blair) to act as our financial advisor in connection with our continued exploration of possible strategic alternatives. William Blair has assisted us in our search for new financing (a Financing Transaction). We were unsuccessful in obtaining a transaction and on August 21, 2009, we terminated William Blair's engagement.

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

On April 29, 2009 we met with Farm Credit and representatives of our existing lender group to restructure the Restated Term Loan Agreement and to seek additional financing for working capital

24

and pretreatment equipment (our Farm Credit Financing Proposal). On May 7, 2009, we received correspondence from Farm Credit informing us that our Farm Credit Financing Proposal had been denied for two general reasons: (a) our insufficient capital position in Farm Credit's view, coupled with our present inability to provide a significant contribution of capital, and (b) the unwillingness of Farm Credit and the rest of our existing lender group to incur additional lending exposure considering the uncertainty of the profit margins in the biodiesel industry and our ability to tolerate additional risk.

Other Strategic Alternatives

We retained William Blair also to act as our financial advisor in connection with the possible merger or sale of all or a portion of our capital stock or assets or other business combination (a Business Combination). During the three months ended March 31, 2009, William Blair contacted approximately 130 potential strategic and financial buyers located in North America, South America, Europe and Asia seeking interest in a Business Combination. Although William Blair received 13 preliminary indications of interest, for a variety of reasons, none of these potential buyers submitted a bid proposing a Business Combination. On August 21, 2009 we terminated William Blair's engagement. We have had no subsequent success in arranging a Business Combination.

Farm Credit continues to proceed with the foreclosure proceedings which could ultimately result in the conveyance of our plant, equipment, fixtures and real property to Farm Credit, if a foreclosure proceeding were concluded before the indebtedness under the restated term loan agreement could be otherwise repaid or restructured in or outside of bankruptcy proceedings. Conclusion of the foreclosure process would have a material adverse impact on our financial condition and results of operations, result in the loss of the most of our operating assets and a permanent shut-down of our plant and cause our members to lose most or all of their investment in East Fork.

In the meanwhile, we continue to have discussions with Farm Credit about alternative solutions. Farm Credit's foreclosure proceeding makes it very unlikely that we will be able to obtain working capital financing. As a result, we have not been exploring obtaining just working capital financing, but instead have explored additional investment to implement pretreatment, provide operating capital and to restructure our Restated Term Loan Agreement.

On August 25, 2009, we retained Corval Group, Inc. (Corval), based in St. Paul, Minnesota, which assists companies with operational plans, financial restructuring and new financing. Corval is advising us on the possibility of obtaining additional investment to implement pretreatment and provide operating capital and restructure our Restated Term Loan Agreement. Also, Corval will advise us in connection with our continued exploration of possible strategic alternatives.

Private Offering

On January 24, 2010, our Board commenced, with the assistance of Corval, a private offering of subordinated unsecured notes convertible into our membership units (convertible debt) to obtain additional capital which will allow us, if we are successful, to:

- modify our plant to produce biodiesel from a greater variety of feedstocks (pretreatment),
- obtain working capital,
- make certain debt service payments and

- pay interim operating expenses,

all in an effort to avoid foreclosure and/or bankruptcy.

25

The convertible debt will not be registered under the Securities Act of 1933, as amended (the Securities Act) and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The offering is being made to accredited investors, as defined in Regulation D of the Securities Act, including our existing members who qualify. The net proceeds from the offering, depending upon whether a sufficient amount is subscribed, will be used to make plant modifications for pretreatment, as well as for working capital, to service our debt and pay our interim operating expenses. The offering is for a minimum principal amount of \$17,000,000 and a maximum of \$27,500,000 of the convertible debt, which upon conversion could result in the issuance of approximately 290,000 to 470,000 additional units. We cannot predict the outcome of the offering.

Plant Modifications

Our plant as originally constructed is limited to processing only refined/bleached (RB) soy oil into biodiesel; it does not have the ability to process various crude or waste oils and greases including corn oil extracted from ethanol plants, which are high in free fatty acids (FFAs), into biodiesel. This has limited our ability to produce ASTM biodiesel profitably due to the high values placed on refined/bleached soy oil in the past 18 months. We believe that we must make modifications enabling the plant to process multiple feedstocks into biodiesel in order to become a sustainable production facility.

There are a number of technology companies that offer technological solutions that would enable us to convert various crude or waste oils and greases, including corn oil, which are commonly referred to in the industry as FFAs, into biodiesel. However, a majority of these companies are either start-up companies with little or no history of operations, or companies that are unable to provide meaningful performance guarantees due to their weak balance sheets and/or construction partners.

We intend to work with a construction team consisting of the Weitz Company, BSI Engineering, and Crown Iron Works to modify our existing plant to enable it to process a wide variety of feedstocks, including corn oil into biodiesel, if a sufficient amount is subscribed under our debt offering. We expect that this team will enable us to modify the plant with minimal technology risk. However, we have not yet entered into agreements with any of these parties for construction of the plant modifications.

Our ability to process alternative feedstocks and establish reliable supplies of these materials is critical to our future. With the assistance of Corval, we are focused on establishing supply agreements with multiple sources of alternative feedstocks including animal fat suppliers and ethanol producers that are or will be extracting crude corn oil as part of their production process, as well as with brokers and marketers representing producers of these materials. Our approach is designed to offer financial motivation as well as a reliable outlet for crude fats and oils provided by these suppliers over a defined period of time.

We intend to retain the services of Superior Feed, LLC (“Superior”), as a feedstock broker to assist in procuring and financing our feedstocks and marketing some of the byproducts we produce, such as glycerin and concentrated FFA, if a sufficient amount is subscribed under our debt offering. Superior is a North American oils and fats broker located in Waconia, Minnesota. Superior currently markets oils and fats, specifically the feedstocks we expect to procure, into multiple animal feed markets and to multiple biodiesel plants, including REG’s Iowa biodiesel plants.

We may consider pursuing other alternatives in addition to those noted above. Given the current uncertainties in the credit and commodity markets and in the biodiesel industry and Farm Credit's foreclosure proceedings, whether these efforts will be successful is uncertain.

Distribution to Unit Holders

As of December 31, 2009, our board of directors has not declared any dividends.

Critical Accounting Estimates

Management uses estimates and assumptions in preparing our financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses.

Revenue Recognition

Revenue from the production of biodiesel and related products is recorded upon transfer of the risks and rewards of ownership and delivery to customers and the selling price is fixed and determinable. Revenue from federal incentive programs is recorded when we have sold blended biodiesel and satisfied the reporting requirements under the applicable program. When it is uncertain that we will receive full allocation and payment due under the federal incentive program, we derive an estimate of the incentive revenue for the relevant period based on various factors including the most recently used payment factor applied to the program. The estimate is subject to change as we become aware of increases or decreases in the amount of funding available under the incentive programs or other factors that affect funding or allocation of funds under such programs. Interest income is recognized as earned.

Derivative Instruments and Hedging Activities

We have entered into derivative contracts to hedge our exposure to price risk related to forecasted soybean oil purchases and forecasted biodiesel sales. These derivative contracts are accounted for under Accounting Standards Codification (ASC) 815. ASC 815 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivatives as either assets or liabilities in our balance sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign-currency-denominated forecasted transaction.

Although we believe our derivative positions are economic hedges, none have been designated as hedges for accounting purposes. Therefore, derivative positions are recorded on our balance sheet at their fair market value, with changes in fair value recognized in the statements of

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

operations. We did not have an open position during the quarter ended December 31, 2009 and recognized no loss during the quarters ended December 31, 2009 and 2008, respectively, and \$843,696 during the period from inception to December 31, 2009.

Off-balance Sheet Arrangements

We have no off-balance sheet arrangements.

27

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of our principal executive officer (PEO), Mr. Chris L. Daniel, and principal financial officer (PFO), Mr. Jack W. Limbaugh, Jr.), as of the end of the period covered by this report, our PEO and PFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our PEO and PFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the PEO and PFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On June 22, 2009 a Petition for Foreclosure was filed by Farm Credit against us in the Iowa District Court for Kossuth County, Iowa. This foreclosure filing resulted from our failure to make a \$1,825,000 principal payment to Farm Credit which was due on May 20, 2009 under our

\$24,500,000 Restated Term Loan Agreement. Farm Credit has a first mortgage in all of our real property and a first security interest in all of our equipment and fixtures, including our plant (Farm Credit Collateral). Farm Credit seeks foreclosure of its mortgage and security interest covering the Farm Credit Collateral for the amount of its unpaid principal and interest, attorney's fees and other costs and court-ordered sale of such collateral.

On January 7, 2010, Farm Credit filed a motion for summary judgment in the case and the court has scheduled that motion for hearing on February 16, 2010. Accordingly, entry of judgment against us may occur as early as February 16, 2010 with resulting sheriff's sale of the mortgaged property occurring within the next approximately 45 days thereafter. We may need to consider filing bankruptcy reorganization proceedings in order to delay the foreclosure proceedings. However, we expect that Farm Credit may seek early relief from any bankruptcy stay alleging that we have no equity in the mortgaged property and no reasonable prospects of reorganization. Whether or not there is a bankruptcy filing, once the mortgaged property goes to sheriff's sale, we will have a one-year period after the sale within which to redeem the property from the sale by repaying the amount bid at the sheriff's sale plus accrued interest.

The foreclosure proceedings would ultimately result in the conveyance of our real estate, plant, fixtures and equipment to Farm Credit, if a foreclosure proceeding were concluded before the indebtedness under the Restated Term Loan Agreement could be otherwise repaid or restructured in or outside of bankruptcy proceedings. Conclusion of the foreclosure process would have a material adverse impact on our financial condition and results of operations, result in the loss of the most of our operating assets and a permanent shut-down of our plant and cause our members to lose most or all of their investment in East Fork.

Item 1A. Risk Factors. In addition to the risks affecting us discussed below and "Forward-Looking Statements" above, please refer to the other risks affecting us described in our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the U.S. Securities and Exchange Commission.

We may not be successful in our capital raising efforts. On January 24, 2010, our Board commenced a private offering of subordinated unsecured notes convertible into our membership units (convertible debt) to obtain additional capital, all in an effort to avoid foreclosure and/or bankruptcy.

The convertible debt will not be registered under the Securities Act of 1933, as amended (the Securities Act) and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The offering is being made to accredited investors, as defined in Regulation D of the Securities Act, including our existing members who qualify. The net proceeds from the offering, depending upon whether a sufficient amount is subscribed, will be used to make plant modifications for pretreatment, as well as for working capital, to service our debt and pay our interim operating expenses. The offering is for a minimum principal amount of \$17,000,000 and a maximum of \$27,500,000 of the convertible debt, which upon conversion could result in the issuance of approximately 290,000 to 470,000 additional units. We cannot predict the outcome of these efforts.

We may not be successful in negotiating the termination of our agreement with REG and/or finding replacement(s) for REG. On December 31, 2009, we notified Renewable Energy Group, Inc. ("REG") of our termination of the 2006 Management and Operational Services Agreement, as amended (the "Management Agreement") with REG effective December 31, 2010.

Under the Management Agreement, REG provides us with management, transportation services, acquires feedstock and basic chemicals necessary for the operation of the plant, markets all of our biodiesel, glycerin and fatty acids to customers throughout the United States and internationally and provides related administrative services. Since our plant remains idle, we have not requested REG to provide us with many of these services. We have identified other vendors to provide us with some or all of the services currently available under the Management Agreement. We are seeking proposals from such vendors, and we expect that we will be able to find replacements for the services REG has provided us on terms at least as favorable as the Management Agreement.

On January 11, 2010, we received a response from REG disputing the validity of the termination notice. REG contends that the Management Agreement cannot be terminated until a period of 3 years after our initial production commences, which, based on REG's interpretation, has not yet occurred. We plan to negotiate and, if necessary, to litigate, with REG to resolve the differences; however, we cannot predict the outcome of these efforts.

Item 3. Defaults Upon Senior Securities.

On May 26, 2009, we were notified that our failure to make the \$1,825,000 principal payment due on May 20, 2009 constituted an event of default (the Default Notice) under our Restated Term Loan Agreement. The Default Notice, provided by CoBank, advised us that it had terminated any commitment to us and accelerated the due date of the unpaid principal balance outstanding on our \$24,500,000 loan and all accrued but unpaid interest on the loan, by declaring such sum to be immediately due and payable. The remaining \$134,086 of deferred financing costs were included in interest expense for the quarter ending June 30, 2009.

On May 27, 2009, we were notified by CoBank that it had imposed, effective May 21, 2009, a default rate of interest, being 4% in excess of the rate(s) of interest that would otherwise apply, from time to time, on the \$24,500,000 loan balance, as permitted by the Restated Term Loan Agreement. Prior to CoBank's declaration of default, interest on \$24,000,000 of the loan balance accrued at an annual fixed rate equal to LIBOR at the date selected, plus 3.25%, and interest on the remaining \$500,000 of the loan balance accrued at a variable interest rate equal to the rate established by CoBank, plus three-quarters of one percent (0.75%) per annum. As of December 31, 2009, \$24,000,000 of the borrowings were at the LIBOR option of 7.625% and \$243,889 of the borrowings were at the Agent Base Rate option of 8.50%.

As of December 31, 2009, \$24,243,889 was outstanding under the Restated Term Loan Agreement.

As noted above, at September 30, 2009, CoBank held \$265,910 of our funds in an escrow account. As our interest and fees comes due and are billed each month, CoBank withdraws the amount from the escrow. In December 2009, \$256,111 was withdrawn by the lender and applied as a principal payment on the loan. As of December 31, 2009, the balance in this account was zero.

Edgar Filing: EAST FORK BIODIESEL, LLC - Form 10-Q

As of January 31, 2010, we estimate that our arrearage to Farm Credit is \$1,186,700 in accrued interest not yet billed, plus attorney's fees and other expenses incurred subsequent to November, 2009 to which they are entitled under the Restated Term Loan Agreement.

Item 6. Exhibits.

Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

31

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EAST FORK BIODIESEL, LLC

Date: February 15, 2010

By: /s/Chris L. Daniel

Chris L. Daniel

Its: Chief Executive Officer