

EAST FORK BIODIESEL, LLC
Form 10-Q
May 17, 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 March 31, 2010

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.)

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a 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 March 31, 2010, 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
Unaudited Balance Sheets	2
Unaudited Statements of Operations	3
Unaudited Statements of Cash Flows	4
Notes to Unaudited Financial Statements	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	29
Item 1. Legal Proceedings	29
Item 1A. Risk Factors	30
Item 3. Defaults Upon Senior Securities	31
Item 6. Exhibits	32
SIGNATURES	33

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, but are not limited to:

- the impact and duration of the current recession, the distressed economic environment of the biodiesel industry and the 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 and our ability to repay our principal and interest obligations and avoid a sheriff’s sale of our real estate, plant and equipment in connection with the foreclosure of the mortgage and security interest on such assets under our restated term loan agreement;
- satisfactory completion of our capital raising efforts under our private offering in an effort to avoid a bankruptcy filing or the judicial dissolution of our Company and loss of our members’ investment in our Company;
- changes in interest rates, prices of or demand for diesel fuel, refined soybean oil and other commodity prices, energy costs, shipping costs, labor costs, available production and management personnel; and
- changes to or elimination of government subsidiaries or incentives, including the federal biodiesel blenders’ tax credit which expired on December 31, 2009, 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 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

	March 31, 2010	September 30, 2009
Assets (Note 2)		
Current Assets:		
Cash and cash equivalents	\$298,091	\$1,281,250
Restricted cash with lender (Note 2)	-	265,910
Inventory	70,300	70,300
Prepaid expenses	208,749	50,133
Total current assets	577,140	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	36,598,931	35,645,609
	23,746,678	24,700,000
Other Assets:		
Restricted cash in escrow	484,919	518,789
Deferred financing costs	90,156	-
	575,075	518,789
	\$24,898,893	\$26,886,382
Liabilities and Members' Equity (Deficit)		
Current Liabilities:		
Current maturities of long-term debt (Note 2)	\$24,513,889	\$24,800,000
Accrued interest payable	1,490,000	524,300
Accounts payable and accrued expenses	136,097	68,193
Total current liabilities	26,139,986	25,392,493
Commitments (Notes 4, 5 and 6)		
Members' Equity (Deficit):		
Member contributions, net of issuance costs, units outstanding March 31, 2010 and September 30, 2009	49,159	49,159
Deficit accumulated during the development stage	(44,115,810)	(44,115,810)
	(45,356,903)	(42,621,921)
	(1,241,093)	1,493,889
	\$24,898,893	\$26,886,382

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

East Fork Biodiesel, LLC
(A Development Stage Company)

Unaudited Statements of Operations

	Three Months Ended		Six Months Ended		January 5, 2006 (Date of Inception) to March 31, 2010
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009	
Revenues:					
Sales (Note 5)	\$-	\$-	\$1,532	\$-	\$3,652,783
Federal incentives	-	-	-	-	994,804
Rental Income	-	14,100	-	14,100	82,830
	-	14,100	1,532	14,100	4,730,417
Expenses:					
Cost of sales, including plant operating expenses	543,294	1,050,262	1,085,173	2,151,266	12,624,298
Impairment of plant and processing equipment	-	20,224,067	-	20,224,067	29,364,430
Loss on sale contract	-	-	-	-	158,000
Loss on derivative instruments	-	-	-	-	843,696
Consulting fees (Note 3)	-	-	-	-	284,359
General and administrative	343,255	547,184	682,848	1,028,219	4,378,920
	886,549	21,821,513	1,768,021	23,403,552	47,653,703
Loss before other income (expense)	(886,549)	(21,807,413)	(1,766,489)	(23,389,452)	(42,923,286)
Other income (expense):					
Grants and other income	-	42,248	395	46,794	93,748
Interest income	2,284	11,021	6,641	12,483	1,321,102
Interest expense	(462,200)	(261,696)	(975,529)	(589,648)	(3,848,467)
	(459,916)	(208,427)	(968,493)	(530,371)	(2,433,617)
Net (loss)	\$(1,346,465)	\$(22,015,840)	\$(2,734,982)	\$(23,919,823)	\$(45,356,903)
Weighted average basic and diluted units outstanding	49,159	49,159	49,159	49,159	42,681
Net income (loss) per unit - basic and diluted	\$(27.39)	\$(447.85)	\$(55.64)	\$(486.58)	\$(1,062.70)

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

East Fork Biodiesel, LLC
(A Development Stage Company)

Unaudited Statements of Cash Flows

	Six Months Ended		January 5, 2006 (Date of Inception) to March 31, 2010
	March 31, 2010	March 31, 2009	March 31, 2010
Cash Flows from Operating Activities:			
Net (loss)	\$(2,734,982)	\$(23,919,823)	\$(45,356,903)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:			
Depreciation	953,322	1,937,463	7,280,009
Amortization	-	23,148	366,371
Impairment of plant and processing equipment	-	20,224,067	29,364,430
Member units earned for consulting services	-	-	50,000
Changes in working capital components:			-
Decrease (Increase) in receivables	-	26,515	-
Decrease (Increase) in inventories	-	13,120	(70,300)
(Increase) in prepaid expenses	(158,616)	(112,896)	(208,749)
Increase (decrease) in accounts payable and accrued expenses	1,033,604	(82,517)	1,626,097
Net cash (used in) operating activities	(906,672)	(1,890,923)	(6,949,045)
Cash Flows from Investing Activities:			
Purchase and construction of property and equipment, net of sales tax refund	-	258,048	(58,363,351)
(Increase) decrease in restricted cash with lender	265,910	(389,863)	-
(Increase) decrease in restricted cash in escrow, net	33,870	33,800	(484,919)
Net cash provided by (used in) investing activities	299,780	(98,015)	(58,848,270)
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	(90,156)	-	(484,293)
Payments of long-term debt	(286,111)	(30,000)	(386,111)
Proceeds from long-term borrowings	-	3,710,000	24,900,000
Net cash provided by (used in) financing activities	(376,267)	3,680,000	66,095,406
Net increase (decrease) in cash and cash equivalents	(983,159)	1,691,062	298,091
Cash and cash equivalents:			
Beginning	1,281,250	124,073	-
Ending	\$298,091	\$1,815,135	\$298,091

Supplemental Disclosure of Cash Flow Information,

cash payments for interest, net of amount capitalized	\$9,829	\$612,120	\$1,992,096
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The accompanying Notes are an integral part of the Unaudited 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 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.

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 March 31, 2010.

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 March 31, 2010 and September 30, 2009:

	March 31, 2010	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 March 31, 2010, 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, \$20,224,067 of which was recorded in the March 31, 2009 quarter.

East Fork Biodiesel, LLC