Green Plains Inc.
Form 10-Q
July 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2014

Commission File Number 001-32924

Green Plains Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Iowa<br>(State or other jurisdiction of incorporation or organization) | 84-1652107<br>(I.R.S. Employer Identification No.) |
| 450 Regency Parkway, Suite 400, Omaha, NE 68114<br>(Address of principal executive offices, including zip code) | (402) 884-8700<br>(Registrant's telephone number, including area code) |

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock, par value $0.001 per share, outstanding as of July 28, 2014 was 37,564,050 shares.

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GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

| | June 30, 2014 (unaudited) | December 31, 2013 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 333,379 | $ 272,027 |
| Restricted cash | 41,278 | 26,994 |
| Accounts receivable, net of allowances of $360 and $308, respectively | 120,902 | 106,808 |
| Inventories | 135,039 | 158,328 |
| Prepaid expenses and other | 11,409 | 12,893 |
| Deferred income taxes | 8,255 | 7,619 |
| Derivative financial instruments | 62,664 | 48,636 |
| Total current assets | 712,926 | 633,305 |
| Property and equipment, net of accumulated depreciation of $244,105 and $215,519, respectively | 818,738 | 806,046 |
| Goodwill | 40,877 | 40,877 |
| Other assets | 53,350 | 51,817 |
| Total assets | $ 1,625,891 | $ 1,532,045 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | $ 111,724 | $ 112,001 |
| Accrued and other liabilities | 41,120 | 37,949 |
| Income taxes payable | 24,731 | 696 |
| Unearned revenue | 7,236 | 4,118 |
| Short-term notes payable and other borrowings | 131,589 | 171,500 |
| Current maturities of long-term debt | 38,226 | 82,933 |
| Total current liabilities | 354,626 | 409,197 |
| | | |
| Long-term debt | 461,913 | 480,746 |
| Deferred income taxes | 96,465 | 91,294 |

| | | |
|---|---|---|
| Other liabilities | 5,521 | 5,450 |
| Total liabilities | 918,525 | 986,687 |
| | | |
| Stockholders' equity | | |
| Common stock, $0.001 par value; 75,000,000 shares authorized; 44,764,050 and 37,703,946 shares issued, and 37,564,050 and 30,503,946 shares outstanding, respectively | 45 | 38 |
| Additional paid-in capital | 565,939 | 468,962 |
| Retained earnings | 221,129 | 148,505 |
| Accumulated other comprehensive loss | (13,939) | (6,339) |
| Treasury stock, 7,200,000 shares | (65,808) | (65,808) |
| Total stockholders' equity | 707,366 | 545,358 |
| Total liabilities and stockholders' equity | $ 1,625,891 | $ 1,532,045 |

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ 837,858 | $ 804,696 | $ 1,571,747 | $ 1,570,172 |
| Cost of goods sold | 759,543 | 772,085 | 1,392,683 | 1,510,347 |
| Gross profit | 78,315 | 32,611 | 179,064 | 59,825 |
| Selling, general and administrative expenses | 19,369 | 14,049 | 41,774 | 28,558 |
| Operating income | 58,946 | 18,562 | 137,290 | 31,267 |
| Other income (expense) | | | | |
| Interest income | 143 | 63 | 255 | 102 |
| Interest expense | (9,704) | (7,762) | (19,463) | (15,833) |
| Other, net | 704 | (610) | 1,734 | (1,130) |
| Total other expense | (8,857) | (8,309) | (17,474) | (16,861) |
| Income before income taxes | 50,089 | 10,253 | 119,816 | 14,406 |
| Income tax expense | 17,775 | 4,288 | 44,299 | 5,886 |
| Net income | $ 32,314 | $ 5,965 | $ 75,517 | $ 8,520 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $ 0.86 | $ 0.20 | $ 2.14 | $ 0.28 |
| Diluted | $ 0.82 | $ 0.19 | $ 1.88 | $ 0.28 |
| Weighted average shares outstanding: | | | | |
| Basic | 37,467 | 30,160 | 35,322 | 30,047 |
| Diluted | 39,359 | 36,804 | 41,308 | 30,367 |
| | | | | |
| Cash dividend declared per share | $ 0.04 | $ - | $ 0.08 | $ - |

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $ 32,314 | $ 5,965 | $ 75,517 | $ 8,520 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains (losses) on derivatives arising during period, net of tax (expense) benefit of ($12,364), $10,807, $72,146 and $18,438, respectively | 19,671 | (15,084) | (119,121) | (28,592) |
| Reclassification of realized (gains) losses on derivatives, net of tax benefit of $36,471, $12,470, $67,543 and $16,108, respectively | 58,020 | 17,405 | 111,521 | 24,979 |
| Total other comprehensive income (loss), net of tax | 77,691 | 2,321 | (7,600) | (3,613) |
| Comprehensive income | $ 110,005 | $ 8,286 | $ 67,917 | $ 4,907 |

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | $ 75,517 | $ 8,520 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 29,362 | 25,044 |
| Amortization of debt issuance costs | 2,473 | 1,841 |
| Amortization of debt discount | 2,076 | - |
| Deferred income taxes | 9,463 | 6,303 |
| Stock-based compensation | 3,037 | 1,892 |
| Undistributed equity in (income) loss of affiliates | 871 | 1,130 |
| Other | 52 | 1,402 |
| Changes in operating assets and liabilities before effects of business combinations: | | |
| Accounts receivable | (6,509) | (25,450) |
| Inventories | 29,018 | 66,006 |
| Derivative financial instruments | (26,232) | (3,896) |
| Prepaid expenses and other assets | 1,599 | 6,323 |
| Accounts payable and accrued liabilities | 2,461 | (18,935) |
| Income taxes payable | 24,035 | (1,497) |
| Unearned revenues | 2,854 | 1,237 |
| Other | 936 | (136) |
| Net cash provided by operating activities | 151,013 | 69,784 |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (28,935) | (4,948) |
| Acquisition of businesses, net of cash acquired | (23,900) | (15,305) |
| Investments in unconsolidated subsidiaries | (3,277) | (803) |
| Net cash used by investing activities | (56,112) | (21,056) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of long-term debt | 443,767 | 39,700 |
| Payments of principal on long-term debt | (419,699) | (72,635) |
| Proceeds from short-term borrowings | 1,782,974 | 1,658,400 |

| | | |
|---|---|---|
| Payments on short-term borrowings | (1,822,904) | (1,726,284) |
| Payment of cash dividends | (2,893) | - |
| Change in restricted cash | (12,084) | 12,728 |
| Payments of loan fees | (6,286) | (1,936) |
| Proceeds from exercises of stock options | 3,576 | 473 |
| Net cash used by financing activities | (33,549) | (89,554) |
| | | |
| Net change in cash and cash equivalents | 61,352 | (40,826) |
| Cash and cash equivalents, beginning of period | 272,027 | 254,289 |
| Cash and cash equivalents, end of period | $ 333,379 | $ 213,463 |

Continued on the following page

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

Continued from the previous page

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Supplemental disclosures of cash flow: | | |
| Cash paid for income taxes | $ 7,790 | $ 1,831 |
| Cash paid for interest | $ 18,117 | $ 16,072 |
| | | |
| Supplemental investing and financing activities: | | |
| Assets acquired in acquisitions and mergers | $ 25,611 | $ 15,870 |
| Less: liabilities assumed | (1,711) | (565) |
| Net assets acquired | $ 23,900 | $ 15,305 |
| | | |
| Common stock issued for conversion of 5.75% Notes | $ 89,950 | $ - |

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### References to the Company

References to “Green Plains” or the “Company” in the consolidated financial statements and in these notes to the consolidated financial statements refer to Green Plains Inc., an Iowa corporation, and its subsidiaries.

### Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All significant intercompany balances and transactions have been eliminated on a consolidated basis for reporting purposes. Unconsolidated entities are included in the financial statements on an equity basis. Results for the interim periods presented are not necessarily indicative of results to be expected for the entire year.

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements should be read in conjunction with the Company’s annual report on Form 10-K for the year ended December 31, 2013.

The unaudited financial information reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. The adjustments are of a normal recurring nature, except as otherwise noted.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Description of Business

Green Plains is North America's fourth largest ethanol producer. The Company operates its business within four segments: (1) production of ethanol and distillers grains, collectively referred to as ethanol production, (2) corn oil production, (3) grain handling and storage and cattle feedlot operations, collectively referred to as agribusiness, and (4) marketing, merchant trading and logistics services for Company-produced and third-party ethanol, distillers grains, corn oil and other commodities, and the operation of blending and terminaling facilities, collectively referred to as marketing and distribution. The Company also is a partner in a joint venture to commercialize advanced technologies for growing and harvesting of algal biomass.

Revenue Recognition

The Company recognizes revenue when all of the following criteria are satisfied: persuasive evidence of an arrangement exists; risk of loss and title transfer to the customer; the price is fixed and determinable; and collectability is reasonably assured.

For sales of ethanol, distillers grains and other commodities by the Company's marketing business, revenue is recognized when title to the product and risk of loss transfer to an external customer. Revenues related to marketing operations for third parties are recorded on a gross basis as the Company takes title to the product and assumes risk of loss. Unearned revenue is reflected on the consolidated balance sheets for goods in transit for which the Company has received payment and title has not been transferred to the customer. Revenues from the Company's biofuel terminal operations, which include ethanol transload and splash blending services, are recognized when these services are completed.

The Company routinely enters into fixed-price, physical-delivery ethanol sales agreements. In certain instances, the Company intends to settle the transaction by open market purchases of ethanol rather than by delivery from its own production. These transactions are reported net as a component of revenues. Revenues also include realized gains and losses on related derivative financial instruments, ineffectiveness on cash flow hedges, and reclassifications of realized gains and losses on effective cash flow hedges from accumulated other comprehensive income (loss).

Sales of agricultural commodities, including cattle, are recognized when title to the product and risk of loss transfer to the customer, which is dependent on the agreed upon sales terms with the customer. These sales terms provide for passage of title either at the time shipment is made or at the time the commodity has been delivered to its destination and final weights, grades and settlement prices have been agreed upon with the customer. Revenues related to grain merchandising are presented gross in the statements of operations with amounts billed for shipping and handling included in revenues and also as a component of cost of goods sold. Revenues from grain storage are recognized as services are rendered.

Cost of Goods Sold

Cost of goods sold includes costs for direct labor, materials and certain plant overhead costs. Direct labor includes all compensation and related benefits of non-management personnel involved in the operation of the Company’s ethanol plants. Grain purchasing and receiving costs, other than labor costs for grain buyers and scale operators, are also included in cost of goods sold. Direct materials consist of the costs of corn feedstock, denaturant, and process chemicals. Corn feedstock costs include unrealized gains and losses on related derivative financial instruments not designated as cash flow hedges, inbound freight charges, inspection costs and transfer costs. Corn feedstock costs also include realized gains and losses on related derivative financial instruments, ineffectiveness on cash flow hedges, and reclassifications of realized gains and losses on effective cash flow hedges from accumulated other comprehensive income (loss). Plant overhead costs primarily consist of plant utilities, plant depreciation and outbound freight charges. Shipping costs incurred directly by the Company, including railcar lease costs, are also reflected in cost of goods sold.

The Company uses exchange-traded futures and options contracts to minimize the effects of changes in the prices of agricultural commodities on its agribusiness segment’s grain and cattle inventories and forward purchase and sale contracts. Exchange-traded futures and options contracts are valued at quoted market prices. These contracts are predominantly settled in cash. The Company is exposed to loss in the event of non-performance by the counter-party to forward purchase and forward sale contracts. Grain inventories held for sale, forward purchase contracts and forward sale contracts in the agribusiness segment are valued at market prices, where available, or other market quotes adjusted for differences, primarily transportation, between the exchange-traded market and the local markets on which the terms of the contracts are based. Changes in the fair value of grain inventories held for sale, forward purchase and sale contracts, and exchange-traded futures and options contracts in the agribusiness segment are recognized in earnings as a component of cost of goods sold.

Derivative Financial Instruments

To minimize the risk and the effects of the volatility of commodity price changes primarily related to corn, ethanol and natural gas, the Company uses various derivative financial instruments, including exchange-traded futures, and exchange-traded and over-the-counter options contracts. The Company monitors and manages this exposure as part of its overall risk management policy. As such, the Company seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results. The Company may take hedging positions in these commodities as one way to mitigate risk. While the Company attempts to link its hedging activities to purchase and sales activities, there are situations in which these hedging activities can themselves result in losses.

By using derivatives to hedge exposures to changes in commodity prices, the Company has exposures on these derivatives to credit and market risk. The Company is exposed to credit risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. The Company minimizes its credit risk by entering into transactions with high quality counterparties, limiting the amount of financial exposure it has with each counterparty and monitoring the financial condition of its counterparties. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in commodity prices or interest rates. The Company manages market risk by incorporating monitoring parameters within its risk management strategy that limit the types of derivative instruments and derivative strategies the Company uses, and the degree of market risk that may be undertaken by the use of derivative instruments.

The Company evaluates its contracts that involve physical delivery to determine whether they may qualify for the normal purchase or normal sale exemption and are expected to be used or sold over a reasonable period in the normal course of business. Any contracts that do not meet the normal purchase or sale criteria are recorded at fair value with the change in fair value recorded in operating income unless the contracts qualify for, and the Company elects, hedge accounting treatment.

Certain qualifying derivatives related to the ethanol production segment are designated as cash flow hedges. Prior to entering into cash flow hedges, the Company evaluates the derivative instrument to ascertain its effectiveness. For cash flow hedges, any ineffectiveness is recognized in current period results, while other unrealized gains and losses are reflected in accumulated other comprehensive income until gains and losses from the underlying hedged transaction are realized. In the event that it becomes probable that a forecasted transaction will not occur, the Company would discontinue cash flow hedge treatment, which would affect earnings. These derivative financial instruments are recognized in current assets or other current liabilities at fair value.

At times, the Company hedges its exposures to changes in the value of inventories and designates certain qualifying derivatives as fair value hedges. The carrying amount of the hedged inventory is adjusted through current period results for changes in the fair value arising from changes in underlying prices. Any ineffectiveness is recognized in current period results to the extent that the change in the fair value of the inventory is not offset by the change in the fair value of the derivative.

Recent Accounting Pronouncements

Effective January 1, 2017, the Company will adopt the amended guidance in ASC Topic 606, Revenue from Contracts with Customers. The amended guidance requires revenue recognition to reflect the transfer of promised goods or services to customers and replaces existing revenue recognition guidance. The updated standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the updated standard on its consolidated financial statements and related disclosures.

2. ACQUISITION

Acquisition of Fairmont and Wood River Ethanol Plants

In November 2013, the Company acquired two ethanol plants, located in Fairmont, Minnesota and Wood River, Nebraska, with a combined annual production capacity of 230 million gallons, from Ethanol Holding Company, LLC, an entity composed of the predecessor owners' lender group. Consideration of $108.0 million, which included a preliminary amount for working capital, was paid in cash and acquisition-related costs of $0.8 million were recorded in selling, general and administrative expenses. The Company issued approximately $77.0 million of short-term notes payable and term debt shortly after the acquisition, with the acquired assets serving as collateral for these loans, and entered into capital leases totaling $10.0 million for grain facilities that were previously leased by the predecessor owner of the acquired assets. At the time of acquisition, the ethanol plant in Fairmont, Minnesota was not operational;

however, upon completion of certain maintenance and enhancement projects, the Company began operations at the plant in early January 2014. The following is a summary of assets acquired and liabilities assumed (in thousands):

| | Amounts of Identifiable Assets Acquired and Liabilities Assumed |
|---|---|
| Accounts receivable | $ 119 |
| Inventory | 8,680 |
| Prepaid expenses and other | 2,696 |
| Property and equipment, net | 105,956 |
| Other assets | 4,193 |
| Current liabilities | (4,260) |
| Long-term portion of capital leases and tax increment financing bond | (7,895) |
| Other liabilities | (1,489) |
| Total identifiable net assets | $ 108,000 |

The amounts above reflect an updated preliminary purchase price allocation, which did not change materially from the initial allocation. Later this year, upon finalization of the purchase price, including working capital adjustments, the Company will complete the allocation, which it does not expect to differ materially from the preliminary amounts shown above.

3. FAIR VALUE DISCLOSURES

The following methods, assumptions and valuation techniques were used in estimating the fair value of the Company's financial instruments:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 unrealized gains and losses on commodity derivatives relate to exchange-traded open trade equity and option values in the Company's brokerage accounts.

Level 2 – directly or indirectly observable inputs such as quoted prices for similar assets or liabilities in active markets other than quoted prices included within Level 1; quoted prices for identical or similar assets in markets that are not active; and other inputs that are observable or can be substantially corroborated by observable market data by correlation or other means. Grain inventories held for sale in the agribusiness segment are valued at nearby futures values, plus or minus nearby basis levels.

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

There have been no changes in valuation techniques and inputs used in measuring fair value. The following tables set forth the Company's assets and liabilities by level for the periods indicated (in thousands):

| | Fair Value Measurements at June 30, 2014 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Reclassification for Balance Sheet Presentation | Total |

| | | | | |
|---|---|---|---|---|
| Assets: | | | | |
| Cash and cash equivalents | $ 333,379 | $ - | $ - | $ 333,379 |
| Restricted cash | 41,278 | - | - | 41,278 |
| Margin deposits | 69,387 | - | (69,387) | - |
| Inventories carried at market | - | 20,099 | - | 20,099 |
| Unrealized gains on derivatives | 6,914 | 29,282 | 26,468 | 62,664 |
| Other assets | 119 | - | - | 119 |
| Total assets measured at fair value | $ 451,077 | $ 49,381 | $ (42,919) | $ 457,539 |
| | | | | |
| Liabilities: | | | | |
| Unrealized losses on derivatives | $ 34,820 | $ 20,184 | $ (42,919) | $ 12,085 |
| Total liabilities measured at fair value | $ 34,820 | $ 20,184 | $ (42,919) | $ 12,085 |

| | Fair Value Measurements at December 31, 2013 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Reclassification for Balance Sheet Presentation | Total |
| Assets: | | | | |
| Cash and cash equivalents | $ 272,027 | $ - | $ - | $ 272,027 |
| Restricted cash | 26,994 | - | - | 26,994 |
| Margin deposits | 77,102 | - | (77,102) | - |
| Inventories carried at market | - | 23,782 | - | 23,782 |
| Unrealized gains on derivatives | 3,629 | 18,712 | 26,295 | 48,636 |
| Other assets (1) | 2,200 | - | - | 2,200 |
| Total assets measured at fair value | $ 381,952 | $ 42,494 | $ (50,807) | $ 373,639 |
| | | | | |
| Liabilities: | | | | |
| Unrealized losses on derivatives | $ 50,807 | $ 4,612 | $ (50,807) | $ 4,612 |
| Other | 9 | - | - | 9 |
| Total liabilities measured at fair value | $ 50,816 | $ 4,612 | $ (50,807) | $ 4,621 |

(1) Represents long-term restricted cash related to the $22.0 million revenue bond of Green Plains Bluffton.

The Company believes the fair value of its debt approximated $636.1 million compared to a book value of $631.7 million at June 30, 2014 and the fair value of its debt approximated $775.7 million compared to a book value of $735.2 million at December 31, 2013. The Company estimates the fair value of its outstanding debt using Level 2 inputs. The Company believes the fair values of its accounts receivable and accounts payable approximated book value, which were $120.9 million and $111.7 million, respectively, at June 30, 2014 and $106.8 million and $112.0 million, respectively, at December 31, 2013.

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

4. SEGMENT INFORMATION

Company management reviews financial and operating performance in the following four separate operating segments: (1) production of ethanol and distillers grains, collectively referred to as ethanol production, (2) corn oil production, (3) grain handling and storage and cattle feedlot operations, collectively referred to as agribusiness, and (4) marketing, merchant trading and logistics services for Company-produced and third-party ethanol, distillers grains, corn oil and other commodities, and the operation of blending and terminaling facilities, collectively referred to as marketing and distribution. Selling, general and administrative expenses, primarily consisting of compensation of corporate employees, professional fees and overhead costs not directly related to a specific operating segment, are reflected in the table below as corporate activities.

During the normal course of business, the Company enters into transactions between segments. Examples of these intersegment transactions include, but are not limited to, the ethanol production segment selling ethanol to the marketing and distribution segment and the agribusiness segment selling grain to the ethanol production segment. These intersegment activities are recorded by each segment at prices approximating market and treated as if they are third-party transactions. Consequently, these transactions impact segment performance. However, revenues and corresponding costs are eliminated in consolidation and do not impact the Company’s consolidated results.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Ethanol production: | | | | |
| Revenues from external customers (1) | $ (71,054) | $ 34,338 | $ (98,486) | $ 78,745 |
| Intersegment revenues | 603,529 | 496,066 | 1,169,332 | 960,717 |
| Total segment revenues | 532,475 | 530,404 | 1,070,846 | 1,039,462 |
| Corn oil production: | | | | |
| Revenues from external customers (1) | (7) | - | - | - |
| Intersegment revenues | 20,381 | 16,315 | 36,765 | 32,014 |
| Total segment revenues | 20,374 | 16,315 | 36,765 | 32,014 |
| Agribusiness: | | | | |
| Revenues from external customers (1) | 33,488 | 15,998 | 51,729 | 38,124 |
| Intersegment revenues | 347,116 | 159,170 | 651,354 | 224,088 |
| Total segment revenues | 380,604 | 175,168 | 703,083 | 262,212 |
| Marketing and distribution: | | | | |
| Revenues from external customers (1) | 875,431 | 754,360 | 1,618,504 | 1,453,303 |
| Intersegment revenues | 34,595 | 2,123 | 68,060 | 3,413 |
| Total segment revenues | 910,026 | 756,483 | 1,686,564 | 1,456,716 |
| Revenues including intersegment activity | 1,843,479 | 1,478,370 | 3,497,258 | 2,790,404 |
| Intersegment eliminations | (1,005,621) | (673,674) | (1,925,511) | (1,220,232) |
| Revenues as reported | $ 837,858 | $ 804,696 | $ 1,571,747 | $ 1,570,172 |

(1) Revenues from external customers include realized gains and losses from derivative financial instruments.

| | Three Months Ended June 30, | Six Months Ended June 30, |
|---|---|---|

| | 2014 | 2013 | 2014 | 2013 |
|---|---|---|---|---|
| Gross profit: | | | | |
| Ethanol production | $ 35,171 | $ 10,729 | $ 106,859 | $ 11,959 |
| Corn oil production | 10,931 | 7,873 | 18,746 | 15,782 |
| Agribusiness | 2,499 | 945 | 5,475 | 2,171 |
| Marketing and distribution | 9,899 | 13,404 | 50,615 | 30,459 |
| Intersegment eliminations | 19,815 | (340) | (2,631) | (546) |
| | $ 78,315 | $ 32,611 | $ 179,064 | $ 59,825 |
| Operating income: | | | | |
| Ethanol production | $ 30,111 | $ 7,006 | $ 96,337 | $ 4,657 |
| Corn oil production | 10,874 | 7,821 | 18,582 | 15,631 |
| Agribusiness | 1,269 | 248 | 2,205 | 617 |
| Marketing and distribution | 4,391 | 9,210 | 36,885 | 22,196 |
| Intersegment eliminations | 19,815 | (340) | (2,571) | (500) |
| Corporate activities | (7,514) | (5,383) | (14,148) | (11,334) |
| | $ 58,946 | $ 18,562 | $ 137,290 | $ 31,267 |

The following table sets forth revenues by product line for the periods indicated (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Ethanol | $ 618,386 | $ 624,367 | $ 1,148,427 | $ 1,203,902 |
| Distillers grains | 143,695 | 123,020 | 280,687 | 254,440 |
| Corn oil | 22,196 | 17,276 | 39,328 | 34,372 |
| Grain | 44,172 | 28,547 | 73,372 | 54,867 |
| Other | 9,409 | 11,486 | 29,933 | 22,591 |
| | $ 837,858 | $ 804,696 | $ 1,571,747 | $ 1,570,172 |

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Total assets: | | |
| Ethanol production | $ 917,151 | $ 911,315 |
| Corn oil production | 34,951 | 28,569 |
| Agribusiness | 118,028 | 165,570 |
| Marketing and distribution | 299,156 | 258,361 |
| Corporate assets | 266,272 | 175,210 |
| Intersegment eliminations | (9,667) | (6,980) |
| | $ 1,625,891 | $ 1,532,045 |

5. INVENTORIES

Inventories are carried at the lower of cost or market, except grain held for sale and fair value hedged inventories, which are valued at market value. The components of inventories are as follows (in thousands):

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Finished goods | $ 45,063 | $ 56,664 |
| Grain held for sale | 10,399 | 23,782 |
| Raw materials | 49,507 | 51,726 |
| Work-in-process | 13,127 | 11,506 |
| Supplies and parts | 16,943 | 14,650 |
| | $ 135,039 | $ 158,328 |

6. GOODWILL

The Company did not have any changes in the total carrying amount of goodwill, which was $40.9 million during the six months ended June 30, 2014. Goodwill of $30.3 million is attributable to the ethanol production segment and $10.6 million is attributable to the marketing and distribution segment.

7. DERIVATIVE FINANCIAL INSTRUMENTS

At June 30, 2014, the Company’s consolidated balance sheet reflects unrealized losses, net of tax, of $13.9 million in accumulated other comprehensive loss. The Company expects that all of the unrealized losses at June 30, 2014 will be reclassified into operating income over the next 12 months as a result of hedged transactions that are forecasted to occur. The amount ultimately realized in operating income, however, will differ as commodity prices change.

Fair Values of Derivative Instruments

The following table provides information about the fair values of the Company's derivative financial instruments and the line items on the consolidated balance sheets in which the fair values are reflected (in thousands):

| | Asset Derivatives' Fair Value | | Liability Derivatives' Fair Value | |
|---|---|---|---|---|
| | June 30, 2014 | December 31, 2013 | June 30, 2014 | December 31, 2013 |
| Derivative financial instruments (1) | $ (6,723)(2) | $ (28,466)(3) | $ - | $ - |
| Accrued and other liabilities | - | - | 12,085 | 4,612 |
| Total | $ (6,723) | $ (28,466) | $ 12,085 | $ 4,612 |

(1) Derivative financial instruments as reflected on the consolidated balance sheets are net of related margin deposit assets of $69.4 million and $77.1 million at June 30, 2014 and December 31, 2013, respectively.

(2) Balance at June 30, 2014 includes $42.2 million of net unrealized losses on derivative financial instruments designated as cash flow hedging instruments.

(3)Balance at December 31, 2013 includes $47.1 million of net unrealized losses on derivative financial instruments designated as cash flow hedging instruments.

Refer to Note 3 - Fair Value Disclosures, which also contains fair value information related to derivative financial instruments.

Effect of Derivative Instruments on Consolidated Statements of Operations and Consolidated Statements of Stockholders' Equity and Comprehensive Income

The following tables provide information about gains or losses recognized in income and other comprehensive income on the Company's derivative financial instruments and the line items in the consolidated financial statements in which such gains and losses are reflected (in thousands):

| Gains (Losses) on Derivative Instruments Not Designated in a Hedging Relationship | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ (4,884) | $ (2,815) | $ 13,366 | $ (14,482) |
| Cost of goods sold | 3,560 | 190 | 2,398 | 11,207 |
| Net increase (decrease) recognized in earnings before tax | $ (1,324) | $ (2,625) | $ 15,764 | $ (3,275) |

| Gains (Losses) Due to Ineffectiveness of Cash Flow Hedges | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ 264 | $ (20) | $ (82) | $ (27) |
| Cost of goods sold | (1,610) | 1 | (750) | (24) |
| Net increase (decrease) recognized in earnings before tax | $ (1,346) | $ (19) | $ (832) | $ (51) |

| Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Net Income | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ (125,177) | $ (23,841) | $ (213,323) | $ (34,220) |
| Cost of goods sold | 30,686 | (6,034) | 34,259 | (6,867) |
| Net decrease recognized in earnings before tax | $ (94,491) | $ (29,875) | $ (179,064) | $ (41,087) |

| Effective Portion of Cash Flow Hedges Recognized in Other Comprehensive Income (Loss) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Commodity Contracts | $ 32,035 | $ (25,891) | $ (191,267) | $ (47,030) |

| Gains (Losses) from Fair Value Hedges of Inventory | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues (effect of change in inventory value) | $ - | $ (301) | $ - | $ - |
| Revenues (effect of fair value hedge) | - | 301 | - | - |
| Cost of goods sold (effect of change in inventory value) | (693) | - | 2,453 | - |
| Cost of goods sold (effect of fair value hedge) | 729 | - | (2,049) | - |
| Ineffectiveness recognized in earnings before tax | $ 36 | $ - | $ 404 | $ - |

There were no gains or losses due to the discontinuance of cash flow hedge or fair value hedge treatment during the three and six months ended June 30, 2014 and 2013.

The following table summarizes volumes of open commodity derivative positions as of June 30, 2014 (in thousands):

| June 30, 2014 | | | | | |
|---|---|---|---|---|---|
| Derivative Instruments | Exchange Traded Net Long & (Short) (1) | | Non-Exchange Traded Long (2) | (Short) (2) | Unit of Measure | Commodity |
| Futures | (2,095) | | | | Bushels | Corn, Soybeans and Wheat |
| Futures | 54,550 | (3) | | | Bushels | Corn |
| Futures | 11,970 | | | | Gallons | Ethanol |
| Futures | (282,156) | (3) | | | Gallons | Ethanol |
| Futures | (150) | | | | mmBTU | Natural Gas |
| Futures | (2,092) | (4) | | | mmBTU | Natural Gas |

| | | | | | |
|---|---|---|---|---|---|
| Futures | (1,800) | | | Pounds | Cattle |
| Options | 744 | | | Bushels | Corn, Soybeans and Wheat |
| Options | 17,575 | | | Gallons | Ethanol |
| Options | 4,893 | | | Pounds | Soybean Oil |
| Forwards | | 8,241 | (4,697) | Bushels | Corn and Soybeans |
| Forwards | | 11,299 | (101,570) | Gallons | Ethanol |
| Forwards | | 76 | (535) | Tons | Distillers Grains |
| Forwards | | 2,496 | (125,472) | Pounds | Corn Oil |

(1) Exchange traded futures and options are presented on a net long and (short) position basis. Options are presented on a delta-adjusted basis.
(2) Non-exchange traded forwards are presented on a gross long and (short) position basis including both fixed-price and basis contracts.
(3) Futures used for cash flow hedges.
(4) Futures used for fair value hedges.

Energy trading contracts that do not involve physical delivery are presented net in revenues on the consolidated statements of operations. Revenues and cost of goods sold under such contracts are summarized in the table below for the periods indicated (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues | $ 962 | $ 7,779 | $ 4,582 | $ 9,762 |
| Cost of goods sold | 1,134 | 7,636 | 5,878 | 9,598 |

8. DEBT

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

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| Green Plains Bluffton: | | |
| $70.0 million term loan | $ - | $ 26,621 |
| $20.0 million revolving term loan | - | 15,000 |
| $22.0 million revenue bond | 14,865 | 15,780 |
| Green Plains Central City: | | |
| $55.0 million term loan | - | 33,100 |
| $30.5 million revolving term loan | - | 17,739 |
| Equipment financing loan | - | 36 |
| Green Plains Fairmont and Green Plains Wood River: | | |
| $50.0 million term loan | 45,000 | 50,000 |
| $27.0 million term loan | - | 26,756 |
| Tax increment financing bond | 3,897 | 3,626 |
| Capital leases on grain facilities | 9,994 | 9,994 |
| Capital leases on equipment and other | 4,399 | 5,489 |
| Green Plains Holdings II: | | |
| $46.8 million term loans | 33,010 | 15,914 |
| $20.0 million revolving term loan | 9,954 | 31,960 |
| Green Plains Obion: | | |
| $60.0 million term loan | - | 3,879 |
| $37.4 million revolving term loan | 25,425 | 28,400 |
| Equipment financing loan | 40 | 126 |
| Economic development grant | 1,200 | 1,245 |
| Green Plains Ord: | | |
| $25.0 million term loan | - | 15,143 |
| $13.0 million revolving term loan | - | 2,151 |
| Green Plains Otter Tail: | | |
| $30.3 million term loan | - | 17,960 |
| $19.2 million note payable | - | 19,151 |
| Equipment financing loan | 12 | - |
| Green Plains Processing: | | |
| $225.0 million term loan | 225,000 | - |

| | | |
|---|---|---|
| Green Plains Shenandoah: | | |
| $17.0 million revolving term loan | - | 9,000 |
| Green Plains Superior: | | |
| $40.0 million term loan | 7,000 | 9,750 |
| $10.0 million revolving term loan | 10,000 | 8,000 |
| Equipment financing loan | - | 18 |
| Corporate: | | |
| $90.0 million convertible notes | - | 90,000 |
| $120.0 million convertible notes | 98,707 | 96,653 |
| Capital lease | 76 | 188 |
| Other | 11,560 | 10,000 |
| Total long-term debt | 500,139 | 563,679 |
| Less: current portion of long-term debt | (38,226) | (82,933) |
| Long-term debt | $ 461,913 | $ 480,746 |

Short-term notes payable and other borrowings at June 30, 2014 included working capital revolvers at Green Plains Grain and Green Plains Trade with outstanding balances of $42.0 million and $89.6 million, respectively. Short-term notes payable and other borrowings at December 31, 2013 included working capital revolvers at Green Plains Grain and Green Plains Trade with outstanding balances of $95.0 million and $76.5 million, respectively.

Ethanol Production Segment

Term Loans

Scheduled principal payments are as follows:

| | |
|---|---|
| • Green Plains Fairmont and Green Plains Wood River $50.0 million term loan | $2.5 million per quarter, decreasing to $1.3 million per quarter in 2015 |
| • Green Plains Holdings II | $1.8 million per quarter |
| • Green Plains Processing | $0.6 million per quarter |
| • Green Plains Superior | $1.4 million per quarter |

Final maturity dates (at the latest) are as follows:

| | |
|---|---|
| • Green Plains Fairmont and Green Plains Wood River $50.0 million term loan | November 27, 2015 |
| • Green Plains Holdings II | July 1, 2019 |
| • Green Plains Processing | June 30, 2020 |
| • Green Plains Superior | July 20, 2015 |

Revolving Term Loans – The revolving term loans are generally available for advances throughout the life of the commitment, subject, in certain cases, to borrowing base restrictions. Allowable advances under the Green Plains Superior loan agreement are reduced by $2.5 million each six-month period commencing on the first day of the month beginning six months after repayment of the term loan, but in no event later than January 1, 2016. Allowable advances under the Green Plains Obion loan agreement are reduced by $0.8 million on a quarterly basis commencing on August 20, 2014. Interest-only payments are due each month on all revolving term loans until their final respective maturity

dates.

Final maturity dates (at the latest) are as follows:

- Green Plains Holdings II July 1, 2019
- Green Plains Obion May 20, 2020
- Green Plains Superior July 1, 2017

During the second quarter of 2014, Green Plains Processing LLC, a wholly-owned subsidiary of Green Plains Inc., issued term debt under a $225 million Term Loan B facility, which was used to repay all term loans and revolving term loans at Green Plains Bluffton, Green Plains Central City, Green Plains Ord, Green Plains Otter Tail and Green Plains Shenandoah, including the Green Plains Bluffton Revenue Bonds. The new facility is secured by the Atkinson, Bluffton, Central City, Ord, Otter Tail and Shenandoah ethanol plants and bears interest at a rate equal to 5.5% plus LIBOR, subject to a 1.0% floor. At June 30, 2014, the interest rate on this term debt was 6.5%. The facility matures on June 30, 2020.

In 2007, Green Plains Bluffton issued $22.0 million of Subordinate Solid Waste Disposal Facility Revenue Bonds bearing interest at 7.50% per annum with the City of Bluffton, Indiana. The revenue bonds required: (1) semi-annual principal and interest payments of approximately $1.5 million through March 1, 2019 and (2) a final principal and interest payment of $3.7 million on September 1, 2019. On July 16, 2014, the revenue bonds were paid in full in accordance with the terms of the $225 million Term Loan B facility.

Green Plains Otter Tail issued $19.2 million in senior notes under New Market Tax Credits financing. The notes bear interest at an annual rate equal to the prime rate (as defined) plus 1.5%, but not less than 4.0%, payable monthly, and require monthly principal payments of approximately $0.3 million beginning in September 2014. These senior notes, which were scheduled to mature in September 2018, were extinguished on April 25, 2014, with $2.2 million of the outstanding obligation forgiven according to terms of the financing, which is included in other income in the consolidated financial statements for the three and six months ended June 30, 2014.

Allowable dividends and other non-overhead distributions from each respective subsidiary are subject to certain additional restrictions including compliance with all loan covenants, terms and conditions, as follows:

| | |
|---|---|
| • Green Plains Fairmont and Green Plains Wood River | Up to amounts equal to permitted tax distributions, as defined in the loan agreement |
| • Green Plains Holdings II | Up to 40% of net profit before tax, and unlimited if working capital is greater than or equal to $20.0 million |
| • Green Plains Obion | Up to 40% of net profit before tax, and unlimited if working capital is greater than or equal to $15.0 million |
| • Green Plains Processing | Unlimited amount may be distributed after free cash flow payment is made, as defined in the loan agreement |
| • Green Plains Superior | Up to 40% of net profit before tax, and unlimited after free cash flow payment is made |

In February 2014, the Green Plains Holdings II credit agreement was amended and in June 2014, the Green Plains Obion revolving term loan was amended. The discussions above have been updated to reflect the amendments.

Agribusiness Segment

Green Plains Grain has a $125.0 million senior secured asset-based revolving credit facility with various lenders to provide for working capital financing subject to a borrowing base as defined in the facility. The lenders will make loans up to the maximum commitment based on eligible collateral. The amount of eligible collateral is determined by a calculated borrowing base value equal to the sum of percentages of eligible cash, eligible receivables and eligible inventories, less certain miscellaneous adjustments. Advances are subject to interest charges at a rate per annum equal to the LIBOR rate for the outstanding period plus the applicable margin or a rate per annum equal to the base rate plus the applicable margin. The revolving credit facility matures on August 26, 2016. The revolving credit facility includes total revolving credit commitments of $125.0 million and an accordion feature whereby amounts available under the facility may be increased by up to $75.0 million of new lender commitments upon agent approval. The facility also allows for additional seasonal borrowings up to $50.0 million. The total commitments outstanding under the facility cannot exceed $250.0 million. As security for the revolving credit facility, the lender received a first priority lien on certain cash, inventory, accounts receivable and other assets owned by subsidiaries of the agribusiness segment. In addition to other customary covenants, this revolving credit facility contains restrictions on distributions with respect to capital stock, with exceptions for distributions of up to 40% of net profit before tax, subject to certain conditions.

Marketing and Distribution Segment

Green Plains Trade has a $130.0 million senior secured asset-based revolving credit facility with various lenders to provide for working capital financing subject to a borrowing base as defined in the facility. The lenders will make loans up to $130.0 million based on eligible collateral. The amount of eligible collateral is determined by a calculated borrowing base value equal to the sum of percentages of eligible receivables and eligible inventories, less certain miscellaneous adjustments. The outstanding balance, if any, is subject to interest charges at the lender's floating base rate plus the applicable margin or LIBOR plus the applicable margin. The revolving credit facility matures on April 26, 2016. In addition to other customary covenants, this revolving credit facility contains restrictions on distributions with respect to capital stock, with exceptions for distributions with respect to tax obligations, subject to certain conditions, whereby distributions may be made in an amount up to 50% of net income if, (a) undrawn availability under this facility, on a pro forma basis, is greater than $10.0 million for the preceding 30 days and (b) as of the date of the distribution, the borrower would be in compliance with the fixed charge coverage ratio on a pro forma basis. At June 30, 2014, Green Plains Trade had $18.0 million presented as restricted cash on the consolidated balance sheets, the use of which was restricted for repayment towards the outstanding loan balance.

In June 2013, subsidiaries of the Company executed a New Markets Tax Credits financing transaction related to the Birmingham, Alabama terminal. In order to facilitate this financing transaction, the Company was required to issue promissory notes payable in the amount of $10.0 million and a note receivable in the amount of $8.1 million. The promissory notes payable and note receivable bear interest at 1% per annum, payable quarterly. Beginning in March 2020, the promissory notes and note receivable each require quarterly principal and interest payments of approximately $0.2 million; the Company retains the right to call $8.1 million of the promissory notes in 2020. The promissory notes payable and note receivable mature on September 15, 2031 and will be fully amortized upon maturity. In connection with the New Markets Tax Credits financing transaction, income tax credits were generated for the benefit of the lender. The Company has

guaranteed the lender the value of these income tax credits over their statutory lives, a period of seven years, in the event that the income tax credits are recaptured or reduced. The value of the income tax credits was anticipated to be $5.0 million at the time of the transaction. The Company believes the likelihood of recapture or reduction of the income tax credits is remote, and therefore has not established a liability in connection with this guarantee.

Corporate Activities

In September 2013, the Company issued $120.0 million of 3.25% Convertible Senior Notes due 2018, or the 3.25% Notes. The 3.25% Notes represent senior, unsecured obligations of the Company, with interest payable on April 1 and October 1 of each year. At the time the Company issued the 3.25% Notes, it was only permitted to settle conversions with shares of its common stock. The Company received shareholder approval at its 2014 annual meeting, held in the second quarter, to allow for flexible settlement which gives it the option to settle conversions in cash, shares of common stock, or any combination thereof. The Company intends to satisfy conversion of the 3.25% Notes with cash for the principal amount of the debt and cash or shares of common stock for any related conversion premium. The 3.25% Notes contain liability and equity components which were bifurcated and accounted for separately. The liability component of the 3.25% Notes, as of the issuance date, was calculated by estimating the fair value of a similar liability issued at an 8.21% effective interest rate, which was determined by considering the rate of return investors would require for comparable debt of the Company without conversion rights. The amount of the equity component was calculated by deducting the fair value of the liability component from the principal amount of the 3.25% Notes, resulting in the initial recognition of $24.5 million as debt discount costs recorded in additional paid-in capital. The carrying amount of the 3.25% Notes will be accreted to the principal amount over the remaining term to maturity and the Company will record a corresponding amount of noncash interest expense. Additionally, the Company incurred debt issuance costs of $5.1 million related to the 3.25% Notes and allocated $4.0 million of debt issuance costs to the liability component of the 3.25% Notes. These costs will be amortized to noncash interest expense over the five-year term of the 3.25% Notes. Prior to April 1, 2018, the 3.25% Notes will not be convertible unless certain conditions are satisfied. The initial conversion rate is 47.9627 shares of common stock per $1,000 principal amount of 3.25% Notes, which is equal to an initial conversion price of approximately $20.85 per share. The conversion rate is subject to adjustment upon the occurrence of certain events, including the payment of a quarterly cash dividend that exceeds $0.04 per share. In addition, the Company may be obligated to increase the conversion rate for any conversion that occurs in connection with certain corporate events, including the Company calling the 3.25% Notes for redemption.

The Company may redeem for cash all, but not less than all, of the 3.25% Notes at any time on or after October 1, 2016 if the sale price of the Company's common stock equals or exceeds 140% of the applicable conversion price for a specified time period ending on the trading day immediately prior to the date the Company delivers notice of the redemption. The redemption price will equal 100% of the principal amount of the 3.25% Notes, plus any accrued and unpaid interest. In addition, upon the occurrence of a fundamental change, such as a change in control, holders of the 3.25% Notes will have the right, at their option, to require the Company to repurchase their 3.25% Notes in cash at a price equal to 100% of the principal amount of the 3.25% Notes to be repurchased, plus accrued and unpaid interest. Default with respect to any loan in excess of $10.0 million constitutes an event of default under the 3.25% Notes, which could result in the 3.25% Notes being declared due and payable.

On February 14, 2014, the Company gave notice of its intention to redeem all of its previously-issued and outstanding $90.0 million of 5.75% Convertible Senior Notes due 2015, or the 5.75% Notes, pursuant to the optional redemption right in the indenture governing the 5.75% Notes. The 5.75% Notes were convertible into shares of the Company's common stock at the conversion rate of 72.5846 shares of common stock for each $1,000 principal amount of 5.75% Notes from February 14, 2014 through February 28, 2014. From March 1, 2014 through March 19, 2014, the conversion rate was adjusted to 72.6961 shares of common stock for each $1,000 principal amount as a result of the quarterly cash dividend. Approximately $89.95 million of the 5.75% Notes were submitted for conversion into 6,532,713 shares of common stock through March 19, 2014. On March 20, 2014, the Company redeemed the remaining 5.75% Notes at par value plus accrued and unpaid interest through March 19, 2014. All $90.0 million of the 5.75% Notes were retired effective March 20, 2014.

Covenant Compliance

The Company, including all of its subsidiaries, was in compliance with its debt covenants as of June 30, 2014.

Capitalized Interest

The Company had $25 thousand in capitalized interest during the three and six months ended June 30, 2014.

Restricted Net Assets

At June 30, 2014, there were approximately $663.0 million of net assets at the Company's subsidiaries that were not available to be transferred to the parent company in the form of dividends, loans or advances due to restrictions contained in the credit facilities of these subsidiaries.

9. STOCK-BASED COMPENSATION

The Company has an equity incentive plan which reserves a total of 3.5 million shares of common stock for issuance pursuant to its terms. The plan provides for the granting of shares of stock, including options to purchase shares of common stock, stock appreciation rights tied to the value of common stock, restricted stock, and restricted and deferred stock unit awards to eligible employees, non-employee directors and consultants. The Company measures share-based compensation grants at fair value on the grant date, adjusted for estimated forfeitures. The Company records noncash compensation expense related to equity awards in its consolidated financial statements over the requisite service period on a straight-line basis. Substantially all of the Company's existing share-based compensation awards have been determined to be equity awards.

The following table summarizes stock option activity for the six months ended June 30, 2014:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Outstanding at December 31, 2013 | 610,250 | $ 10.71 | 3.4 | $ 5,310 |
| Granted | - | - | - | - |
| Exercised | (226,400) | 10.99 | - | 3,861 |
| Forfeited | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding at June 30, 2014 | 383,850 | $ 10.54 | 3.4 | $ 8,499 |

| | | | | |
|---|---|---|---|---|
| Exercisable at June 30, 2014 (1) | 383,850 | $ 10.54 | 3.4 | $ 8,499 |

(1) Includes in-the-money options totaling 383,850 shares at a weighted-average exercise price of $10.54.

The Company's option awards allow employees to exercise options through cash payment to the Company for the shares of common stock or through a simultaneous broker-assisted cashless exercise of a share option through which the employee authorizes the exercise of an option and the immediate sale of the option shares in the open market. The Company uses newly-issued shares of common stock to satisfy its share-based payment obligations.

The following table summarizes non-vested stock award and deferred stock unit activity for the six months ended June 30, 2014:

| | Non-Vested Shares and Deferred Stock Units | Weighted-Average Grant-Date Fair Value | Weighted-Average Remaining Vesting Term (in years) |
|---|---|---|---|
| Non-Vested at December 31, 2013 | 738,950 | $ 10.39 | |
| Granted | 404,009 | 23.39 | |
| Forfeited | (5,516) | 10.88 | |
| Vested | (454,438) | 13.41 | |
| Non-Vested at June 30, 2014 | 683,005 | $ 16.07 | 2.1 |

Compensation costs expensed for share-based payment plans described above during the three and six months ended June 30, 2014 were approximately $1.2 million and $4.5 million, respectively, and during the three and six months ended June 30, 2013 were approximately $1.2 million and $3.4 million, respectively. At June 30, 2014, there were $9.2 million of unrecognized compensation costs from share-based compensation arrangements, which are related to non-vested awards.

This compensation is expected to be recognized over a weighted-average period of approximately 2.1 years. The potential tax benefit realizable for the anticipated tax deductions of the exercise of share-based payment arrangements generally would approximate 38.5% of these expense amounts.

10. EARNINGS PER SHARE

Basic earnings per share, or EPS, is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income on an if-converted basis for 2013 and the first quarter of 2014, with respect to the 3.25% Notes and the 5.75% Notes, by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of any outstanding dilutive securities. All of the 5.75% Notes were retired during the first quarter of 2014. During the second quarter of 2014, the Company received shareholder approval to allow for flexible settlement in cash, shares of common stock, or a combination of cash and shares of common stock for the conversion of the 3.25% Notes. The Company intends to settle conversions in cash for the principal amount and cash or shares of the Company's common stock for any related conversion premium. Accordingly, beginning in the second quarter of 2014, diluted EPS is computed using the treasury stock method by dividing net income by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of any outstanding dilutive securities. The calculations of basic and diluted EPS are as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Basic EPS: | | | | |
| Net income | $ 32,314 | $ 5,965 | $ 75,517 | $ 8,520 |
| Weighted average shares outstanding - basic | 37,467 | 30,160 | 35,322 | 30,047 |
| EPS - basic | $ 0.86 | $ 0.20 | $ 2.14 | $ 0.28 |
| | | | | |
| Diluted EPS: | | | | |
| Net income | $ 32,314 | $ 5,965 | $ 75,517 | $ 8,520 |
| Interest and amortization on convertible debt, net of tax effect: | | | | |
| 5.75% Notes | - | 904 | 576 | - |
| 3.25% Notes | - | - | 1,379 | - |
| Net income - diluted | $ 32,314 | $ 6,869 | $ 77,472 | $ 8,520 |
| | | | | |
| Weighted average shares outstanding - basic | 37,467 | 30,160 | 35,322 | 30,047 |
| Effect of dilutive convertible debt: | | | | |
| 5.75% Notes | - | 6,280 | 2,029 | - |
| 3.25% Notes | 1,675 | - | 3,716 | - |
| Effect of dilutive stock-based compensation awards | 217 | 364 | 241 | 320 |
| Weighted average shares outstanding - diluted | 39,359 | 36,804 | 41,308 | 30,367 |
| | | | | |
| EPS - diluted | $ 0.82 | $ 0.19 | $ 1.88 | $ 0.28 |

Excluded from the computations of diluted EPS for the three and six months ended June 30, 2013 were stock-based compensation awards totaling 0.1 million and 0.3 million shares, respectively, because the exercise prices or the grant-date fair value, as applicable, of the corresponding awards were greater than the average market price of the Company's common stock during the respective periods. Also, for the six months ended June 30, 2013, 6.3 million shares related to the effect of the 5.75% Notes were excluded from the computation of diluted EPS as the inclusion of these shares would have been antidilutive.

11. STOCKHOLDERS' EQUITY

Components of stockholders' equity are as follows (in thousands):

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock Shares | Treasury Stock Amount | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2013 | 37,704 | $ 38 | $ 468,962 | $ 148,505 | $ (6,339) | 7,200 | $ (65,808) | $ 545,358 |
| Net income | - | - | - | 75,517 | - | - | - | 75,517 |
| Cash dividends declared | - | - | - | (2,893) | - | - | - | (2,893) |
| Other comprehensive loss before reclassification | - | - | - | - | (119,121) | - | - | (119,121) |
| Amounts reclassified from accum. other comprehensive loss | - | - | - | - | 111,521 | - | - | 111,521 |
| Other comprehensive loss, net of tax | - | - | - | - | (7,600) | - | - | (7,600) |
| Stock-based compensation | 301 | - | 3,065 | - | - | - | - | 3,065 |
| Stock options exercised | 226 | - | 3,576 | - | - | - | - | 3,576 |
| Conversion of 5.75 % Notes | 6,533 | 7 | 90,336 | - | - | - | - | 90,343 |
| Balance, June 30, 2014 | 44,764 | $ 45 | $ 565,939 | $ 221,129 | $ (13,939) | 7,200 | $ (65,808) | $ 707,366 |

Amounts reclassified from accumulated other comprehensive income for the periods indicated are as follows (in thousands):

| | Three Months Ended June 30 | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | Statements of Operations Classification |
| Gains (losses) on cash flow hedges: | | | | | |
| Ethanol commodity derivatives | $ (125,177) | $ (23,841) | $ (213,323) | $ (34,220) | Revenues |
| Corn commodity derivatives | 30,686 | (6,034) | 34,259 | (6,867) | Cost of goods sold |
| Total | (94,491) | (29,875) | (179,064) | (41,087) | Loss before income taxes |

| | | | | | |
|---|---|---|---|---|---|
| Income tax benefit | (36,471) | (12,470) | (67,543) | (16,108) | Income tax benefit |
| Amounts reclassified from accumulated other comprehensive loss | $ (58,020) | $ (17,405) | $ (111,521) | $ (24,979) | |

12. INCOME TAXES

The Company records income tax expense or benefit during interim periods based on its best estimate of the annual effective tax rate. Certain items are given discrete period treatment and, as a result, the tax effects of such items are reported in full in the relevant interim period.

Income tax expense for the three and six months ended June 30, 2014 was $17.8 million and $44.3 million, respectively, compared to an income tax expense of $4.3 million and $5.9 million, respectively, for the same periods in 2013. The effective tax rate (calculated as the ratio of income tax expense to income before income taxes) was approximately 35.5% and 37.0% for the three and six months ended June 30, 2014, respectively, and 41.8% and 40.9% for the three and six months ended June 30, 2013, respectively. The effective tax rate for the three and six months ended June 30, 2014 reflects the release of a valuation allowance for state tax credits, as well as new state tax credits generated, that the Company expects to utilize in the future, and an income tax deduction for qualified production activities. This was partially offset by a change in estimate related to the Company’s filing position in various jurisdictions.

The amount of unrecognized tax benefits for uncertain tax positions was $0.3 million as of June 30, 2014 and $0.2 million as of December 31, 2013. Recognition of these benefits would have a favorable impact on the Company’s effective tax rate. The increase during the six months ended June 30, 2014 is due to a change in estimate related to the Company’s

filings in certain jurisdictions.

The 2014 annual effective tax rate can be affected as a result of variances among the estimates and amounts of full-year sources of taxable income (both among the various states and activity types), the realization of tax credits, adjustments that may arise from the resolution of tax matters under review, variances in the release of valuation allowances and the Company's assessment of its liability for uncertain tax positions.

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain facilities and parcels of land under agreements that expire at various dates. For accounting purposes, rent expense is based on a straight-line amortization of the total payments required over the lease term. The Company incurred lease expenses of $4.6 million and $11.2 million during the three and six months ended June 30, 2014, respectively, and $4.8 million and $9.9 million during the three and six months ended June 30, 2013, respectively. Aggregate minimum lease payments under these agreements for the remainder of 2014 and in future fiscal years are as follows (in thousands):

| Year Ending December 31, | Amount |
|---|---|
| 2014 | $ 12,029 |
| 2015 | 23,221 |
| 2016 | 20,901 |
| 2017 | 15,941 |
| 2018 | 13,534 |
| Thereafter | 18,840 |
| Total | $ 104,466 |

Commodities

As of June 30, 2014 the Company had contracted for future purchases of grain, natural gas, ethanol and distillers grains valued at approximately $407.5 million, $35.2 million, $9.8 million and $17.2 million, respectively.

Legal

The Company is currently involved in litigation that has arisen in the ordinary course of business, but it does not believe that any pending litigation will have a material adverse effect on its financial position, results of operations or cash flows.

Insurance Recoveries

In March 2014, the Green Plains Otter Tail ethanol plant was damaged by a fire, which caused substantial property damage and business interruption costs. The Company has property damage and business interruption insurance coverages and, as a result, the fire has not had a material impact on the Company’s financial results through June 30, 2014.

14. RELATED PARTY TRANSACTIONS

Commercial Contracts

Three subsidiaries of the Company have executed separate financing agreements for equipment with AXIS Capital Inc. Gordon F. Glade, President and Chief Executive Officer of AXIS Capital, is a member of the Company’s Board of Directors. In March 2014, a subsidiary of the Company entered into $1.4 million of new equipment financing agreements with AXIS Capital with monthly payments beginning in April 2014. Totals of $1.3 million and $0.1 million were included in debt at June 30, 2014 and December 31, 2013, respectively, under these financing arrangements. Payments, including principal and interest, totaled $18 thousand and $55 thousand during the three and six months ended June 30, 2014, respectively, and $37 thousand and $74 thousand during the three and six months ended June 30, 2013, respectively. The weighted average interest rate for all financing agreements with AXIS Capital was 6.8%.

Aircraft Lease

Effective April 1, 2014, the Company entered into two agreements with entities controlled by Wayne B. Hoovestol for the lease of two aircrafts. Mr. Hoovestol is Chairman of the Company's Board of Directors. In total, the Company agreed to pay $15,834 per month for combined use of up to 125 hours per year of the aircrafts. Any flight time in excess of 125 hours per year will incur additional hourly-based charges. These agreements replaced a prior agreement with an entity controlled by Mr. Hoovestol for the lease of an aircraft for $6,667 per month for use of up to 100 hours per year, with any flight time in excess of 100 hours resulting in additional hourly-based charges. During the three and six months ended June 30, 2014, payments related to these leases totaled $68 thousand and $99 thousand, respectively, and during the three and six months ended June 30, 2013, payments related to the aircraft lease totaled $39 thousand and $74 thousand, respectively. The Company did not have any outstanding payables related to these agreements at June 30, 2014 or December 31, 2013.

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

General

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated financial condition and results of operations. This discussion should be read in conjunction with the consolidated financial statements included herewith and notes to the consolidated financial statements thereto and our annual report on Form 10-K for the year ended December 31, 2013 including the consolidated financial statements, accompanying notes and the risk factors contained therein.

Cautionary Information Regarding Forward-Looking Statements

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Forward-looking statements generally do not relate strictly to historical or current facts, but rather to plans and objectives for future operations based upon management's reasonable estimates of future results or trends, and include statements preceded by, followed by, or that include words such as "anticipates," "believes," "continue," "estimates," "expects," "intends," "outlook," "plans," "predicts," "may," "could," "should," "will," and words and phrases of s and include, but are not limited to, statements regarding future operating or financial performance, business strategy, business environment, key trends, and benefits of actual or planned acquisitions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe that our expectations regarding future events are based on reasonable assumptions, any or all forward-looking statements in this report may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this report expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in Part I, Item 1A – Risk Factors of our annual report on Form 10-K for the year ended December 31, 2013 and in Item 1A of Part II of this quarterly report on Form 10-Q for the quarter ended June 30, 2014. Specifically, we may experience significant fluctuations in future operating results due to a number of economic conditions, including, but not limited to, competition in the ethanol and other industries in which we operate, commodity market risks including those that may result from current weather conditions, financial market risks, counter-party risks, risks associated with changes to federal policy or regulation, risks related to closing and achieving anticipated results from acquisitions, risks associated with merchant trading, risks associated with the operations of a cattle-feeding business, risks associated with the joint venture to commercialize algae production and the growth potential of the algal biomass industry, and other risk factors detailed in our reports filed with the SEC. Actual results may differ from projected results due, but not limited, to unforeseen developments.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this report or in any document incorporated by reference might not occur. Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference in this report. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a leading, vertically-integrated producer, marketer and distributor of ethanol. We focus on generating stable operating margins through our diversified business segments and our risk management strategy. We believe that owning and operating strategically-located assets throughout the ethanol value chain enables us to mitigate changes in commodity prices and differentiates us from companies focused only on ethanol production. Today, we have operations throughout the ethanol value chain, beginning upstream with our grain handling and storage operations, continuing through our ethanol, distillers grains and corn oil production operations and ending downstream with our ethanol marketing, distribution and blending facilities.

We review our operations within the following four separate operating segments:

- Ethanol Production. We are North America's fourth largest ethanol producer. We operate twelve ethanol plants in Indiana, Iowa, Michigan, Minnesota, Nebraska and Tennessee. We have the capacity to consume approximately 360

million bushels of corn per year and produce over one billion gallons of ethanol and approximately 2.9 million tons of distillers grains annually.

- Corn Oil Production. We operate corn oil extraction systems at our ethanol plants, with the capacity to produce approximately 250 million pounds annually. The corn oil systems are designed to extract non-edible corn oil, a value-added product, from the whole stillage immediately prior to production of distillers grains.
- Agribusiness. Within our bulk grain business, we have four grain elevators with approximately 8.2 million bushels of total storage capacity, approximately 22.6 million bushels of storage capacity at our ethanol plants, and approximately 3.8 million bushels of storage capacity at our cattle-feeding operation. We believe our agribusiness operations provide synergies with our ethanol production segment as it supplies a portion of the feedstock and utilizes a portion of the distillers grains output of our ethanol plants.
- Marketing and Distribution. Our in-house marketing business is responsible for the sale, marketing and distribution of all ethanol, distillers grains and corn oil produced at our ethanol plants. We also market and provide logistical services for ethanol and other commodities for a third-party producer. We purchase and sell ethanol, distillers grains, corn oil, grain, natural gas and other commodities and participate in other merchant trading activities in various markets. Additionally, our wholly-owned subsidiary, BlendStar LLC, operates eight blending or terminaling facilities with approximately 822 million gallons per year, or mmgy, of total throughput capacity in seven south central U.S. states. To optimize the value of our assets, we utilize a portion of our railcar fleet to transport crude oil for third parties.

In June 2014, we acquired the assets of a cattle-feeding business, which includes a feedlot and grain storage facility, near Kismet, Kansas. The operation consists of approximately 2,600 acres of land, which has the capacity to support 70,000 head of cattle. Its current corn storage capacity is approximately 3.8 million bushels. The cattle-feeding business is included as part of our Agribusiness segment.

We intend to continue to take a disciplined approach in evaluating new opportunities related to potential acquisition of additional ethanol plants by considering whether the plants meet our design, engineering, valuation and geographic criteria. In our marketing and distribution segment, our strategy is to expand our marketing efforts by entering into new or renewal contracts with other ethanol producers and realize additional profit margins by optimizing our commodity logistics. In 2013, we began to implement a plan to realign our agribusiness operations by adding grain storage capacity located at or near our ethanol plants to take advantage of our current infrastructure and enhance our corn origination and trading capabilities. We also intend to pursue opportunities to develop or acquire additional grain elevators, specifically those located near our ethanol plants. We intend to continue to add grain storage capacity with the goal of owning approximately 50 million bushels of total storage capacity by the end of 2015. We believe that owning additional grain handling and storage operations in close proximity to our ethanol plants enables us to strengthen relationships with local corn producers, allowing us to source corn more effectively and at a lower average cost. We also own approximately 63% of BioProcess Algae LLC, which was formed to commercialize advanced photo-bioreactor technologies for growing and harvesting algal biomass.

In 2013, we began operation of Green Plains Asset Management LLC, or GPAM, a registered commodity trading advisor and wholly-owned subsidiary that uses discretionary trading strategies driven by fundamental research and technical analysis to trade primarily in agricultural and energy commodity markets. GPAM uses the market knowledge derived from our ethanol production, grain merchandising, grain warehousing, cattle feeding and fuel terminal businesses under strict risk management limits. GPAM has a team of experienced professionals with years of commodity trading experience and expertise in asset and fund management. GPAM is included in our Marketing and

Distribution segment.

Industry Factors Affecting our Results of Operations

Variability of Commodity Prices. Our operations and our industry are highly dependent on commodity prices, especially prices for corn, ethanol, distillers grains and natural gas. Because the market prices of these commodities are not always correlated, at times ethanol production may be unprofitable. As commodity price volatility poses a significant threat to our margin structure, we have developed a risk management strategy focused on locking in favorable operating margins when available. We continually monitor market prices of corn, natural gas and other input costs relative to the prices for ethanol and distillers grains at each of our production facilities. We create offsetting positions by using derivative instruments, fixed-price purchases and sales contracts, or a combination of strategies within strict limits. Our primary focus is not to manage general price movements of individual commodities, for example to minimize the cost of corn consumed, but rather to lock in favorable profit margins whenever possible. By using a variety of risk management tools and hedging strategies, including our internally-developed real-time margin management system, we believe we are able to maintain a disciplined approach to

price risks.

In 2013, U.S. ethanol production was 13.3 billion gallons compared with production of 13.2 billion gallons in 2012 and 13.8 billion gallons mandated by the current Renewable Fuel Standard, or RFS II, for 2013. As a result of the U.S. ethanol industry rationalizing production, inventory stocks reached a low of 628 million gallons at the end of October 2013, the lowest level since October 2010. Domestic inventory stocks were 765 million gallons at June 30, 2014. Lower production, stocks and corn prices had a positive effect on ethanol margins in 2013, especially in the fourth quarter, continuing in the first and second quarter of 2014. Drought conditions in the Midwestern region of the United States during 2012 caused corn to trade at unusually high prices through the third quarter of 2013. Also, during 2012, sugarcane ethanol imported from Brazil, which totaled approximately 530 million gallons, was one of the most economical means for certain parties to comply with an RFS II requirement to blend, in the aggregate, 2.0 billion gallons of advanced biofuels in 2012. Effective May 1, 2013, the Brazilian government increased the required percentage of ethanol in vehicle fuel sold in Brazil to 25 percent (from 20 percent) which, along with more competitively priced ethanol produced from corn, has reduced U.S. ethanol imports from Brazil. In 2013, U.S. ethanol imports were 400 million gallons and exports were 600 million gallons. In the first five months of 2014, the U.S. had ethanol exports, net of imports, of approximately 302 million gallons. We believe that U.S. ethanol production levels will continue to adjust to supply and demand factors for ethanol and corn.

There may be periods of time that, due to the variability of commodity prices and compressed margins, we reduce or cease ethanol production operations at certain of our ethanol plants. In 2013 we produced ethanol at approximately 94% of our total daily average capacity. In the first two quarters of 2014, we produced ethanol at approximately 95.3% of our total daily average capacity. The reduced production rates increase ethanol yields and optimize cash flow in lower margin environments.

Legislation. Federal and state governments have enacted numerous policies and incentives to encourage the usage of domestically-produced alternative fuels. RFS II has been, and we expect will continue to be, a factor in the growth of ethanol usage. Due to drought conditions in 2012 and claims that blending of ethanol into the motor fuel supply will be constrained by unwillingness of the market to accept greater than ten percent ethanol blends, or the blend wall, legislation aimed at reducing or eliminating the renewable fuel use required by RFS II has been introduced into Congress.

To further drive the increased adoption of ethanol, Growth Energy, an ethanol industry trade association, and a number of ethanol producers requested a waiver from the EPA to increase the allowable amount of ethanol blended into gasoline from the current ten percent level, or E10, to a 15% level, or E15. Through a series of decisions beginning in October 2010, the EPA has granted a waiver for the use of E15 in model year 2001 and newer passenger vehicles, including cars, sport utility vehicles, and light pickup trucks. In June 2012, the EPA gave final approval for the sale and use of E15 ethanol blends. On June 24, 2013 the U.S. Supreme Court declined to hear an appeal from the American Petroleum Institute and other organizations challenging the EPA’s decision to permit the sale of E15. According to the EPA, as of June 30, 2014, 82 fuel manufacturers were registered to sell E15. In January 2014, a major fuel retailer announced that it will begin offering E15 to customers with the objective to have 100 of its U.S. stores offering E15 in 2014. As of May 2014, there were 78 gas stations in 12 states offering E15 to consumers.

The Domestic Alternative Fuels Act of 2012 was introduced on January 18, 2012 in the U.S. House of Representatives and was re-introduced on March 15, 2013 as H.R. 1214 to provide liability protection for claims based on the sale or use of certain fuels and fuel additives. Passage of this bill would provide liability protection to consumers in the event they unintentionally put any transportation fuel into their motor vehicle for which such fuel has not been approved. The American Fuel Protection Act of 2013 was introduced on June 5, 2013 in the U.S. House of Representatives to make the United States exclusively liable for certain claims of liability for damages resulting from, or aggravated by, the inclusion of ethanol in transportation fuel.

The Master Limited Partnership Parity Act was introduced on April 24, 2013 in the U.S. House of Representatives as H.R. 1696 to extend the publicly traded partnership ownership structure to renewable energy projects. The legislation would provide a more level financing system and tax burden for renewable energy and fossil energy projects.

Industry Fundamentals. The ethanol industry is supported by a number of market fundamentals that drive its long-term outlook and extend beyond the short-term margin environment. Following the EPA's approval, the industry is working to broadly introduce E15 into the retail fuel market. The RFS II mandate increased to 14.4 billion gallons of corn-derived renewable fuel for 2014, 600 million gallons over the mandated volume in 2013, and continues to increase through 2015. On November 15, 2013, the EPA released its Notice of Proposed Rulemaking for the 2014 Renewable Fuel Standard. The proposal discusses a variety of approaches for setting the 2014 standards, and includes a number of production and consumption ranges for key categories of biofuel covered by the RFS program. The proposal seeks comment on a range of

total renewable fuel volumes for 2014 and proposes a level within that range of 15.2 billion gallons, including 13.0 billion gallons of corn-derived renewable fuel. The proposal addresses two constraints of RFS II: (1) limitations in the volume of ethanol that can be consumed in gasoline given practical constraints on the supply of higher ethanol blends to the vehicles that can use them and (2) limitations in the ability of the industry to produce sufficient volumes of qualifying renewable fuel.

The domestic gasoline market continues to evolve as refiners are producing more CBOB, a sub-grade (84 octane) gasoline, which requires ethanol or other octane sources to meet the minimum octane rating requirements for the U.S. gasoline market. The demand for ethanol is also affected by the overall demand for transportation fuel. Currently, according to the EIA, total gasoline demand in the U.S. is approximately 135 billion gallons annually. The ethanol blend rate in 2014 is projected to be approximately 10% of total gasoline demand, or 13.5 billion gallons annually. Demand for transportation fuel is affected by the number of miles traveled by businesses and consumers and the fuel economy of vehicles. Consumer acceptance of E15 and E85 (85% ethanol blended) fuels and flex-fuel vehicles is needed before ethanol can achieve any significant growth in market share. In addition, ethanol export markets, although affected by competition from other ethanol exporters, mainly from Brazil, are expected to remain active in 2014. Overall, the U.S. ethanol industry is producing at levels to meet current domestic and export demand and ethanol prices have remained at a discount to gasoline, providing blenders and refiners with an economic incentive to blend.

BioProcess Algae Joint Venture

Our BioProcess Algae joint venture is focused on developing technology to grow and harvest algae, which consume carbon dioxide, in commercially viable quantities. Through multiple stages of expansion, BioProcess Algae has constructed a five-acre algae farm next to our Shenandoah, Iowa ethanol plant and has been operating its Grower Harvesters™ bioreactors since January 2011. The joint venture is currently focused on verification of growth rates, energy balances, capital requirements and operating expenses of the technology which are considered to be some of the key steps to commercialization.

BioProcess Algae announced in April 2013, that it had been selected to receive a grant of up to $6.4 million from the U.S. Department of Energy as part of a pilot-scale biorefinery project related to production of hydrocarbon fuels meeting military specification. The project will use renewable carbon dioxide, lignocellulosic sugars and waste heat through BioProcess Algae’s Grower Harvester™ technology platform. The objective of the project is to demonstrate technologies to cost-effectively convert biomass into advanced drop-in biofuels. BioProcess Algae is required to contribute a minimum of 50% matching funds for the project.

BioProcess Algae intends to expand the algae farm with the construction of additional Grower Harvester™ bioreactors and a new processing facility, pending coordination with the U.S. Department of Energy. When construction is completed, annual capacity is expected be 350 to 400 tons of dry wholesale algae. We increased our ownership of BioProcess Algae to approximately 63% during the second quarter of 2014. However, we still do not possess the

requisite control of this investment to consolidate it.

If we and the other BioProcess Algae members determine that the joint venture can achieve the desired economic performance, a larger build-out will be considered, possibly as large as 200 to 400 acres of Grower Harvester™ reactors at the Shenandoah, Iowa site. Such a build-out may be completed in stages and could take up to two years to complete. Funding for such a project would come from a variety of sources including current partners, new equity investors, debt financing or a combination thereof.

Critical Accounting Policies and Estimates

This disclosure is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe are proper and reasonable under the circumstances. We continually evaluate the appropriateness of estimates and assumptions used in the preparation of our consolidated financial statements. Actual results could differ materially from those estimates. Key accounting policies, including but not limited to those relating to revenue recognition, depreciation of property and equipment, impairment of long-lived assets and goodwill, derivative financial instruments, and accounting for income taxes, are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements. See further discussion of our critical accounting policies and estimates, as well as significant accounting policies, in our annual report on Form 10-K for the year ended December 31, 2013.

Recent Accounting Pronouncements

Effective January 1, 2017, we will adopt the amended guidance in ASC Topic 606, Revenue from Contracts with Customers. The amended guidance requires revenue recognition to reflect the transfer of promised goods or services to customers and replaces existing revenue recognition guidance. The updated standard permits the use of either the retrospective or cumulative effect transition method. We have not yet selected a transition method nor have we determined the effect of the updated standard on our consolidated financial statements and related disclosures.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our consolidated financial condition, results of operations or liquidity.

Components of Revenues and Expenses

Revenues. In our ethanol production segment, our revenues are derived primarily from the sale of ethanol and distillers grains, which is a co-product of the ethanol production process. In our corn oil production segment, our revenues are derived from the sale of corn oil, which is extracted from the whole stillage process immediately prior to the production of distillers grains. In our agribusiness segment, the sale of grain is our primary source of revenue. In our marketing and distribution segment, the sale of ethanol, distillers grains and corn oil that we market for our ethanol plants, the sale of ethanol we market for a third-party ethanol plant and the sale of other commodities purchased in the open market represent our primary sources of revenue. Revenues also include net gains or losses from derivatives.

Cost of Goods Sold. Cost of goods sold in our ethanol production and corn oil production segments includes costs for direct labor, materials and certain plant overhead costs. Direct labor includes all compensation and related benefits of non-management personnel involved in the operation of our ethanol plants. Plant overhead costs primarily consist of plant utilities, plant depreciation and outbound freight charges. Our cost of goods sold in these segments is mainly affected by the cost of corn, natural gas, purchased distillers grains and transportation. Within our corn oil segment, we compensate the ethanol plants for the value of distillers grains displaced during the production process. In the ethanol production segment, corn is our most significant raw material cost. We purchase natural gas to power steam generation in our ethanol production process and to dry our distillers grains. Natural gas represents our second largest cost in this business segment. Cost of goods sold also includes net gains or losses from derivatives related to commodities purchased.

Grain acquisition costs represent the primary components of cost of goods sold in our agribusiness segment. Grain inventories held for sale, forward purchase contracts and forward sale contracts are valued at market prices, where available, or other market quotes adjusted for differences, primarily transportation, between the exchange-traded market and the local markets on which the terms of the contracts are based. Changes in the market value of grain inventories, forward purchase and sale contracts, and exchange-traded futures and options contracts are recognized in earnings as a component of cost of goods sold.

In our marketing and distribution segment, purchases of ethanol, distillers grains and corn oil represent the largest components of cost of goods sold. Transportation expense represents an additional major component of our cost of goods sold in this segment. Transportation expense includes rail car leases, freight and shipping of our ethanol and co-products, as well as costs incurred in storing ethanol at destination terminals.

Selling, General and Administrative Expenses. Selling, general and administrative expenses are recognized at the operating segment level, as well as at the corporate level. These expenses consist of employee salaries, incentives and benefits; office expenses; director fees; and professional fees for accounting, legal, consulting, and investor relations activities. Personnel costs, which include employee salaries, incentives and benefits, are the largest single category of expenditures in selling, general and administrative expenses. We refer to selling, general and administrative expenses that are not allocable to a segment as corporate activities.

Other Income (Expense). Other income (expense) includes interest earned, interest expense, equity earnings in nonconsolidated subsidiaries and other non-operating items.

Results of Operations

Segment Results

Our operations fall within the following four segments: (1) production of ethanol and related distillers grains, collectively referred to as ethanol production, (2) corn oil production, (3) grain handling and storage and cattle feedlot operations, collectively referred to as agribusiness, and (4) marketing, merchant trading and logistics services for Company-produced and third-party ethanol, distillers grains, corn oil and other commodities, and the operation of blending and terminaling facilities, collectively referred to as marketing and distribution. Selling, general and administrative expenses, primarily consisting of compensation of corporate employees, professional fees and overhead costs not directly related to a specific operating segment, are reflected in the table below as corporate activities. When the Company's management evaluates segment performance, they review the information provided below, as well as segment earnings before interest, income taxes, noncontrolling interest, depreciation and amortization.

During the normal course of business, our operating segments enter into transactions with one another. For example, our ethanol production and corn oil production segments sell ethanol, distillers grains and corn oil to our marketing and distribution segment and our agribusiness segment sells grain to our ethanol production segment. These intersegment activities are recorded by each segment at prices approximating market and treated as if they are third-party transactions. Consequently, these transactions impact segment performance. However, intersegment revenues and corresponding costs are eliminated in consolidation, and do not impact our consolidated results.

In June 2013, we acquired an ethanol plant located in Atkinson, Nebraska with the capacity to produce approximately 50 mmgy. The plant began ethanol production on July 25, 2013. In June 2013, we also acquired a grain elevator in Archer, Nebraska. In November 2013, we acquired two ethanol plants located in Fairmont, Minnesota and Wood River, Nebraska with combined capacity to produce approximately 230 mmgy. The Wood River plant was operating at the time of acquisition and the Fairmont plant began ethanol production on January 2, 2014. In June 2014, we acquired the assets of a cattle-feeding business consisting of approximately 2,600 acres of land, with capacity to support 70,000 head of cattle and 3.8 million bushels of grain storage capacity. The tables below reflect selected operating segment financial information for the periods indicated (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Revenues: | | | | |
| Ethanol production: | | | | |
| Revenues from external customers (1) | $ (71,054) | $ 34,338 | $ (98,486) | $ 78,745 |
| Intersegment revenues | 603,529 | 496,066 | 1,169,332 | 960,717 |
| Total segment revenues | 532,475 | 530,404 | 1,070,846 | 1,039,462 |

| | | | | |
|---|---|---|---|---|
| Corn oil production: | | | | |
| Revenues from external customers (1) | (7) | - | - | - |
| Intersegment revenues | 20,381 | 16,315 | 36,765 | 32,014 |
| Total segment revenues | 20,374 | 16,315 | 36,765 | 32,014 |
| Agribusiness: | | | | |
| Revenues from external customers (1) | 33,488 | 15,998 | 51,729 | 38,124 |
| Intersegment revenues | 347,116 | 159,170 | 651,354 | 224,088 |
| Total segment revenues | 380,604 | 175,168 | 703,083 | 262,212 |
| Marketing and distribution: | | | | |
| Revenues from external customers (1) | 875,431 | 754,360 | 1,618,504 | 1,453,303 |
| Intersegment revenues | 34,595 | 2,123 | 68,060 | 3,413 |
| Total segment revenues | 910,026 | 756,483 | 1,686,564 | 1,456,716 |
| Revenues including intersegment activity | 1,843,479 | 1,478,370 | 3,497,258 | 2,790,404 |
| Intersegment eliminations | (1,005,621) | (673,674) | (1,925,511) | (1,220,232) |
| Revenues as reported | $ 837,858 | $ 804,696 | $ 1,571,747 | $ 1,570,172 |

(1) Revenues from external customers include realized gains and losses from derivative financial instruments.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Gross profit: | | | | |
| Ethanol production | $ 35,171 | $ 10,729 | $ 106,859 | $ 11,959 |
| Corn oil production | 10,931 | 7,873 | 18,746 | 15,782 |
| Agribusiness | 2,499 | 945 | 5,475 | 2,171 |
| Marketing and distribution | 9,899 | 13,404 | 50,615 | 30,459 |
| Intersegment eliminations | 19,815 | (340) | (2,631) | (546) |
| | $ 78,315 | $ 32,611 | $ 179,064 | $ 59,825 |
| Operating income: | | | | |
| Ethanol production | $ 30,111 | $ 7,006 | $ 96,337 | $ 4,657 |
| Corn oil production | 10,874 | 7,821 | 18,582 | 15,631 |
| Agribusiness | 1,269 | 248 | 2,205 | 617 |
| Marketing and distribution | 4,391 | 9,210 | 36,885 | 22,196 |
| Intersegment eliminations | 19,815 | (340) | (2,571) | (500) |
| Corporate activities | (7,514) | (5,383) | (14,148) | (11,334) |
| | $ 58,946 | $ 18,562 | $ 137,290 | $ 31,267 |

Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013

Consolidated Results

Consolidated revenues increased by $33.2 million for the three months ended June 30, 2014 compared to the same period in 2013. Revenues from sales of distillers grains and other grains increased by $20.7 million and $15.6 million, respectively. Distillers grains revenues were affected by an increase in volumes produced and merchant trading activities, offset partially by a decrease in average realized prices. Grain revenues were impacted by an increase in merchant trading activity. Gross profit increased by $45.7 million for the three months ended June 30, 2014 compared to the same period in 2013 primarily as a result of increased volumes of ethanol and corn oil production as well as improved margins for ethanol production, partially offset by reduced income from crude oil transportation. Operating income increased by $40.4 million for the three months ended June 30, 2014 compared to the same period in 2013 as a result of the factors discussed above partially offset by a $5.3 million increase in selling, general and administrative expenses. Selling, general and administrative expenses were higher for the three months ended June 30, 2014 compared to the same period in 2013 due primarily to an increase in personnel costs and the expanded scope of operations following the acquisitions of Atkinson, Fairmont and Wood River ethanol plants in the second and fourth quarters of 2013. Interest expense increased by $1.9 million for the three months ended June 30, 2014 compared to the same period in 2013 due to higher average debt balances outstanding. Income tax expense was $17.8 million for the three months ended June 30, 2014 compared to $4.3 million for the same period in 2013.

The following discussion of segment results provides greater detail on period-to-period results.

Ethanol Production Segment

The table below presents key operating data within our ethanol production segment for the periods indicated:

| | Three Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Ethanol sold (thousands of gallons) | 241,871 | 172,529 |
| Distillers grains sold (thousands of equivalent dried tons) | 653 | 483 |
| Corn consumed (thousands of bushels) | 86,140 | 60,965 |

Revenues in the ethanol production segment increased by $2.1 million for the three months ended June 30, 2014 compared to the same period in 2013 primarily due to higher volumes produced and sold, partially offset by lower average ethanol and distillers grains prices. Revenues in the second quarter of 2014 included production from our Atkinson, Fairmont

and Wood River plants, which were acquired in 2013 and contributed an additional combined 62.2 million gallons of ethanol production and $133.5 million in revenue. The ethanol production segment produced 241.9 million gallons of ethanol, which represents approximately 95.1% of daily average production capacity, during the second quarter of 2014.

Cost of goods sold in the ethanol production segment decreased by $22.4 million for the three months ended June 30, 2014 compared to the same period in 2013. Corn consumption increased by 25.2 million bushels, but the average cost per bushel decreased by 32% during the three months ended June 30, 2014 compared to the same period in 2013. As a result of the factors identified above, gross profit and operating income for the ethanol production segment increased by $24.4 million and $23.1 million, respectively, for the three months ended June 30, 2014 compared to the same period in 2013. Depreciation and amortization expense for the ethanol production segment was $12.8 million for the three months ended June 30, 2014 compared to $11.1 million during the same period in 2013 due to the increased expenses from our Atkinson, Fairmont and Wood River plants, which were acquired in 2013.

Corn Oil Production Segment

Revenues in the corn oil production segment increased by $4.1 million for the three months ended June 30, 2014 compared to the same period in 2013. During the three months ended June 30, 2014, we sold 58.0 million pounds of corn oil compared to 39.4 million pounds in the same period of 2013. Production in the second quarter of 2014 included 14.1 million pounds from our ethanol plants acquired in 2013. The average price realized for corn oil was approximately 14% lower for the second quarter of 2014 compared to the same period in 2013.

Gross profit and operating income in the corn oil production segment increased by $3.1 million for the three months ended June 30, 2014 compared to the same period in 2013. The increase in revenues was offset by $1.0 million of additional cost of goods sold related to increased volumes produced, partially offset by lower input costs during the three months ended June 30, 2014 compared to the same period in 2013.

Agribusiness Segment

Revenues in the agribusiness segment increased by $205.4 million, and gross profit and operating income increased by $1.6 million and $1.0 million, respectively, for the three months ended June 30, 2014 compared to the same period in 2013. We sold 81.6 million bushels of grain, including 76.7 million bushels to our ethanol production segment during the three months ended June 30, 2014 compared to sales of 27.2 million bushels of grain, including 25.4 million bushels to our ethanol production segment during the same period in 2013. The increase in volumes sold during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 is due to an increase in the number of ethanol plants in our ethanol production segment that the agribusiness segment supplied corn to, including our ethanol plants in Atkinson, Fairmont and Wood River, which were acquired in 2013.

Marketing and Distribution Segment

Revenues in our marketing and distribution segment increased by $153.5 million for the three months ended June 30, 2014 compared to the same period in 2013. The increase in revenues was primarily due to a $120.8 million increase in ethanol and distillers grain revenues due to additional volumes produced by our recently-acquired ethanol plants and an increase in merchant trading of distillers grains and other grains. In addition, revenues from the sale of natural gas to our ethanol production segment increased by $23.9 million. Effective in the fourth quarter of 2013, the marketing and distribution segment provides natural gas procurement for our ethanol plants. The marketing and distribution segment sold 303.5 million and 240.1 million gallons of ethanol during the three months ended June 30, 2014 and 2013, respectively.

Gross profit and operating income for the marketing and distribution segment decreased by $3.5 million and $4.8 million, respectively, for the three months ended June 30, 2014 compared to the same period in 2013, primarily due to reduced crude oil transportation activities.

Intersegment Eliminations

Intersegment eliminations of revenues increased by $331.9 million for the three months ended June 30, 2014 compared to the same period in 2013 due to the following factors: increased corn sales from the agribusiness segment to the ethanol production segment of $192.8 million, increased natural gas sales from the marketing and distribution segment to the ethanol production segment of $23.9 million, and increased sales of ethanol from the ethanol production segment to the marketing and distribution segment of $110.3 million.

Intersegment eliminations of gross profit and operating income decreased by $20.2 million for the three months ended

June 30, 2014 compared to the same period in 2013 due primarily to a change in the title transfer point for ethanol between segments beginning in the fourth quarter of 2013 and decreased product in transit to customers during the second quarter of 2014. As of October 1, 2013, ethanol is sold from the ethanol production segment to the marketing and distribution segment as it is produced and transferred into storage tanks located at each respective plant. The finished product is then sold by the marketing and distribution segment to external customers. Profit is recognized by the ethanol production segment upon sale to the marketing and distribution segment but is eliminated from consolidated results until title to the product has been transferred to a third party. During the three months ended March 31, 2014 finished ethanol inventory levels increased primarily due to product that was in-transit to external customers which, along with higher margins per unit, resulted in a significant increase in intersegment profits that were deferred in the first quarter of 2014. The volume of ethanol and distillers grains in transit to customers declined as a result of easing of transportation constraints during the second quarter of 2014. The decrease in deferred profit resulted in $19.8 million of additional consolidated gross profit and operating income during the second quarter of 2014.

Corporate Activities

Operating income was impacted by an increase in operating expenses for corporate activities of $2.1 million for the three months ended June 30, 2014 compared to the same period in 2013, primarily due to an increase in personnel costs.

Income Taxes

We recorded income tax expense of $17.8 million for the three months ended June 30, 2014 compared to $4.3 million for the same period in 2013. The effective tax rate (calculated as the ratio of income tax expense to income before income taxes) was approximately 35.5% for the three months ended June 30, 2014 compared to 41.8% for the three months ended June 30, 2013. The annual effective tax rate was favorably impacted by an income tax deduction for qualified production activities and an increase in expected credit utilization during the three months ended June 30, 2014. The annual effective tax rate for the three months ended June 30, 2013 was impacted by tax shortfalls on stock compensation.

Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013

Consolidated Results

Consolidated revenues increased by $1.6 million for the six months ended June 30, 2014 compared to the same period in 2013. Revenues from sales of distillers grain and other grains increased by $26.2 million and $18.5, respectively, offset by a decrease in ethanol revenues due to a decrease in revenue per gallon. Distillers grains revenues were affected by an increase in volumes produced and merchant trading activities, offset partially by a decrease in average realized prices. Grain revenues were impacted by an increase in merchant trading activities. Gross profit increased by $119.2 million for the six months ended June 30, 2014 compared to the same period in 2013 primarily as a result of increased volumes of ethanol and corn oil production as well as improved margins for ethanol production. Operating income increased by $106.0 million for the six months ended June 30, 2014 compared to the same period in 2013 as a result of the factors discussed above, partially offset by an increase in selling, general and administrative expenses of $13.2 million. Selling, general and administrative expenses were higher for the six months ended June 30, 2014 compared to the same period in 2013 due most significantly to an increase in personnel costs and the expanded scope of operations following the acquisitions of the Atkinson, Fairmont and Wood River ethanol plants in the second and fourth quarters of 2013. Income tax expense was $44.3 million for the six months ended June 30, 2014 compared to $5.9 million for the same period in 2013.

The following discussion of segment results provides greater detail on period-to-period results.

Ethanol Production Segment

The table below presents key operating data within our ethanol production segment for the periods indicated:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2014 | 2013 |
| Ethanol sold (thousands of gallons) | 472,643 | 343,370 |
| Distillers grains sold (thousands of equivalent dried tons) | 1,290 | 965 |
| Corn consumed (thousands of bushels) | 168,198 | 120,714 |

Revenues in the ethanol production segment increased by $31.4 million for the six months ended June 30, 2014 compared to the same period in 2013 primarily due to higher volumes produced and sold, partially offset by lower average ethanol and distillers grains prices. Revenues in the first six months of 2014 included production from our Atkinson, Fairmont and Wood River plants, which were acquired in 2013 and contributed an additional combined 119.4 million gallons of ethanol production and $267.8 million in revenue. The ethanol production segment produced 472.6 million gallons of ethanol, which represents approximately 95.3% of daily average production capacity, during the first six months of 2014.

Cost of goods sold in the ethanol production segment decreased by $63.5 million for the six months ended June 30, 2014 compared to the same period in 2013. Corn consumption increased by 47.5 million bushels, but the average cost per bushel decreased by 36% during the six months ended June 30, 2014 compared to the same period in 2013. As a result of the factors identified above, gross profit and operating income for the ethanol production segment increased by $94.9 million and $91.7 million, respectively, for the six months ended June 30, 2014 compared to the same period in 2013.

Corn Oil Production Segment

Revenues in the corn oil production segment increased by $4.8 million for the six months ended June 30, 2014 compared to the same period in 2013. During the six months ended June 30, 2014, we sold 108.5 million pounds of corn oil compared to 77.5 million pounds in the same period of 2013. The average price realized for corn oil was approximately 17% lower for the six months ended June 30, 2014 compared to the same period in 2013.

Gross profit and operating income in the corn oil production segment increased by $3.0 million for the six months ended June 30, 2014 compared to the same period in 2013. The increases in revenues were offset by $1.8 million of additional cost of goods sold related to increased volumes produced, partially offset by lower input costs during the six months ended June 30, 2014 compared to the same period in 2013.

Agribusiness Segment

Revenues in the agribusiness segment increased by $440.9 million and gross profit and operating income increased by $3.3 million and $1.6 million, respectively, for the six months ended June 30, 2014 compared to the same period in 2013. We sold 150.9 million bushels of grain, including 143.9 million to our ethanol production segment during the six months ended June 30, 2014 compared to sales of 38.2 million bushels of grain, including 34.1 million bushels to our ethanol production segment during the same period in 2013. The increase in bushels sold during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 is due to an increase in the number of ethanol plants in our ethanol production segment that the agribusiness segment supplied corn to, including our ethanol plants in Atkinson, Fairmont and Wood River, which were acquired in 2013.

Marketing and Distribution Segment

Revenues in our marketing and distribution segment increased by $229.8 million for the six months ended June 30, 2014 compared to the same period in 2013. The increase in revenues was primarily due to a $152.6 million increase in ethanol and distillers grain revenues due to additional volumes produced by our recently-acquired ethanol plants and an increase in merchant trading of distillers grains and grain. In addition, revenues from the sale of natural gas to our ethanol production segment increased by $46.5 million. The marketing and distribution segment sold 562.7 million and 479.3 million gallons of ethanol during the six months ended June 30, 2014 and 2013, respectively.

Gross profit and operating income for the marketing and distribution segment increased by $20.2 million and $14.7 million, respectively, for the six months ended June 30, 2014 compared to the same period in 2013, primarily due to increased trading activities, offset by reduced crude oil transportation activities.

Intersegment Eliminations

Intersegment eliminations of revenues increased by $705.3 million for the six months ended June 30, 2014 compared to the same period in 2013 due to the following factors: increased corn sales from the agribusiness segment to the ethanol production segment of $435.9 million, increased natural gas sales from the marketing and distribution segment to the ethanol production segment of $46.5 million, and increased sales of ethanol from the ethanol production segment to the marketing and distribution segment of $221.0 million.

Corporate Activities

Operating income was impacted by an increase in operating expenses for corporate activities of $2.8 million for the six months ended June 30, 2014 compared to the same period in 2013, primarily due to an increase in personnel costs.

Income Taxes

We recorded income tax expense of $44.3 million for the six months ended June 30, 2014 compared to $5.9 million for the same period in 2013. The effective tax rate (calculated as the ratio of income tax expense to income before income taxes) was approximately 37.0% for the six months ended June 30, 2014 compared to 40.9% for the six months ended June 30, 2013. The annual effective tax rate was favorably impacted by an income tax deduction for qualified production activities and an increase in expected credit utilization, which was offset by a change in estimate related to our filing positions in various jurisdictions during the six months ended June 30, 2014. The annual effective tax rate for the six months ended June 30, 2013 was impacted by tax shortfalls on stock compensation.

EBITDA

Management uses earnings before interest, income taxes, depreciation and amortization, or EBITDA, to measure our financial performance and to internally manage our businesses. Management believes that EBITDA provides useful information to investors as a measure of comparison with peer and other companies. EBITDA should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with

generally accepted accounting principles. EBITDA calculations may vary from company to company. Accordingly, our computation of EBITDA may not be comparable with a similarly-titled measure of another company. The following sets forth the reconciliation of net income to EBITDA for the periods indicated (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $ 32,314 | $ 5,965 | $ 75,517 | $ 8,520 |
| Interest expense | 9,704 | 7,762 | 19,463 | 15,833 |
| Income tax expense | 17,775 | 4,288 | 44,299 | 5,886 |
| Depreciation and amortization | 14,735 | 12,435 | 29,362 | 25,044 |
| EBITDA | $ 74,528 | $ 30,450 | $ 168,641 | $ 55,283 |

Liquidity and Capital Resources

On June 30, 2014, we had $333.4 million in cash and equivalents, excluding restricted cash, comprised of $225.8 million held at our parent company and the remainder at our subsidiaries. We also had up to an additional $145.4 million available under revolving credit agreements at our subsidiaries, some of which was subject to borrowing base restrictions or other specified lending conditions at June 30, 2014. Funds held at our subsidiaries are generally required for their ongoing operational needs and distributions from our subsidiaries are restricted pursuant to their credit agreements. At June 30, 2014, there were approximately $663.0 million of net assets at our subsidiaries that were not available to be transferred to the parent company in the form of dividends, loans or advances due to restrictions contained in the credit facilities of these subsidiaries.

We incurred capital expenditures of $28.9 million in the first six months of 2014 for various projects, mainly installation of fine grind technology at several of our ethanol plants and improvement of property at our recently-acquired Fairmont

ethanol plant. Capital spending for the remainder of 2014 is expected to be approximately $34.1 million. The remainder of our capital spending is expected to be financed with available borrowings under our credit facilities and cash provided by operating activities.

Net cash provided by operating activities was $151.0 million for the six months ended June 30, 2014 compared to $69.8 million for the same period in 2013. Operating activities were affected by a decrease in working capital for the six months ended June 30, 2014, primarily consisting of a decrease in finished goods inventory and an increase in accrued and other liabilities. On June 30, 2014, we had $69.4 million in margin deposits for broker margin requirements. Cash provided by operating activities for the six months ended June 30, 2013 reflected cash outflows related to payments for deferred grain contract payables, accrued expenses and derivative financial instruments. Net cash used by investing activities was $56.1 million for the six months ended June 30, 2014, due primarily to capital expenditures at our ethanol plants, as well as the acquisition of the cattle-feeding business. Net cash used by financing activities was $33.5 million for the six months ended June 30, 2014. Green Plains Trade and Green Plains Grain utilize revolving credit facilities to finance working capital requirements. These facilities are frequently drawn upon and repaid, resulting in significant cash movements that are reflected on a gross basis within financing activities as proceeds from and payments on short-term borrowings.

Our business is highly impacted by commodity prices, including prices for corn, ethanol, distillers grains and natural gas. We attempt to reduce the market risk associated with fluctuations in commodity prices through the use of derivative financial instruments. Sudden changes in commodity prices may require cash deposits with brokers or margin calls. Depending on our open derivative positions, we may require significant liquidity with little advanced notice to meet margin calls. We continuously monitor our exposure to margin calls and believe that we will continue to maintain adequate liquidity to cover such margin calls from operating results and borrowings. Increases in grain prices and hedging activity have led to more frequent and larger margin calls.

We were in compliance with our debt covenants at June 30, 2014. Based upon our forecasts and the current margin environment, we believe we will maintain compliance at each of our subsidiaries for the upcoming twelve months, or if necessary have sufficient liquidity available on a consolidated basis to resolve a subsidiary’s noncompliance. No assurance can be provided that actual operating results will approximate our forecasts or that we will inject the necessary capital into a subsidiary to maintain compliance with its respective covenants. In the event actual results differ significantly from our forecasts and a subsidiary is unable to comply with its respective debt covenants, the subsidiary’s lenders may determine that an event of default has occurred. Upon the occurrence of an event of default, and following notice, the lenders may terminate any commitment and declare the entire unpaid balance due and payable.

In August 2013, our Board of Directors approved the initiation of a quarterly cash dividend. We have paid a quarterly cash dividend of $0.04 per share since initiation and anticipate declaring a cash dividend in future quarters on a regular basis; however, future declarations of dividends are subject to Board approval and may be adjusted as our cash position, business needs or market conditions change.

We believe that we have sufficient working capital for our existing operations. However, a sustained period of unprofitable operations may strain our liquidity and make it difficult to maintain compliance with our financing arrangements. While we may seek additional sources of working capital in response, we can provide no assurance that we will be able to secure this funding if necessary. We may sell additional equity or borrow additional amounts to improve or preserve our liquidity, expand our existing businesses, or build additional or acquire existing businesses. We can provide no assurance that we will be able to secure the funding necessary for these additional projects or for additional working capital needs at reasonable terms, if at all.

Debt

For additional information related to our debt, see Note 8 – Debt included herein as part of the Notes to Consolidated Financial Statements and Note 10 – Debt included as part of the Notes to Consolidated Financial Statements included in our annual report on Form 10-K for the year ended December 31, 2013.

Ethanol Production Segment

Our ethanol production segment has credit facilities with various lender groups that provide for term and revolving term loans to finance construction and operation of the production facilities.

During the second quarter of 2014, Green Plains Processing LLC, a wholly-owned subsidiary of Green Plains Inc., issued term debt under a $225 million Term Loan B facility, which was used to repay all term loans and revolving term loans

at Green Plains Bluffton, Green Plains Central City, Green Plains Ord, Green Plains Otter Tail and Green Plains Shenandoah, including the Green Plains Bluffton Revenue Bonds. The new facility is secured by the Atkinson, Bluffton, Central City, Ord, Otter Tail and Shenandoah ethanol plants and requires quarterly principal payments of $0.6 million and interest payments through maturity. The facility bears interest at a rate equal to 5.5% plus LIBOR, subject to a 1.0% floor. At June 30, 2014, the interest rate on this term debt was 6.5%. The facility matures on June 30, 2020.

Green Plains Bluffton debt included a $70.0 million amortizing term loan and a $20.0 million revolving term loan. All outstanding principal under these term loans, which were scheduled to mature in January 2015, was repaid on June 10, 2014, using proceeds from the Green Plains Processing term loan discussed above, and the loan commitments were extinguished.

Green Plains Central City debt included a $55.0 million amortizing term loan and a $30.5 million revolving term loan. All outstanding principal under these term loans, which were scheduled to mature in July 2016, was repaid on June 10, 2014, using proceeds from the Green Plains Processing term loan discussed above, and the loan commitments were extinguished.

Green Plains Fairmont and Green Plains Wood River combined debt included a $27.0 million short-term loan that was scheduled to mature on November 27, 2014 and a $50.0 million term loan that matures on November 27, 2015. On June 10, 2014, the short-term loan balance was repaid using cash made available from the parent company and the loan commitment was extinguished. At June 30, 2014, $45.0 million was outstanding on the term loan. The term loan requires quarterly principal payments of $2.5 million in 2014 and $1.3 million in 2015.

In February 2014, the Green Plains Holdings II credit agreement was amended. Subsequent to the amendment, Green Plains Holdings II debt includes three individual amortizing term loans totaling $46.8 million and a $20.0 million revolving term loan. The amortizing term loans require total quarterly payments of $1.8 million. The final maturity date of the amortizing term loans is July 1, 2019 and the maturity date of the revolving term loan is July 1, 2019.

Green Plains Obion debt included a $60.0 million amortizing term loan and includes a revolving term loan of $37.4 million, which was amended in June 2014. The outstanding balance of the amortizing term loan was paid in full on its maturity date of May 20, 2014. At June 30, 2014, $25.4 million related to the revolving term loan was outstanding. The revolving term loan matures on June 1, 2018.

Green Plains Ord debt included a $25.0 million amortizing term loan and a $13.0 million revolving term loan. All outstanding principal under these term loans, which were scheduled to mature in July 2016, was repaid on June 10, 2014, using proceeds from the Green Plains Processing term loan discussed above, and the loan commitments were extinguished.

Green Plains Otter Tail debt included a $30.3 million amortizing term loan. This term loan, which was scheduled to mature in September 2018, was paid in full on June 10, 2014, using proceeds from the Green Plains Processing term loan discussed above.

Green Plains Shenandoah debt included a $17.0 million revolving term loan. This term loan, which was scheduled to mature in September 2018, was paid in full on June 10, 2014, using proceeds from the Green Plains Processing term loan discussed above.

Green Plains Superior debt includes a $40.0 million amortizing term loan and a $10.0 million revolving term loan. At June 30, 2014, $7.0 million related to the amortizing term loan was outstanding along with $10.0 million on the revolving term loan. The amortizing term loan requires quarterly principal payments of $1.4 million. The amortizing term loan matures on July 20, 2015 and the revolving term loan matures on July 1, 2017.

Each term loan, except for the Green Plains Fairmont and Green Plains Wood River combined loan and the Green Plains Holdings II loan, has a provision that requires us to make quarterly or annual special payments ranging from 50% to 75% of the available free cash flow from the related entity’s operations (as defined in the respective loan agreements), subject to certain limitations.

The term loans and revolving term loans bear interest at various rates, with the majority of all such loans having interest rates between LIBOR plus 3.50% to 5.50% or lender-established prime rates. Some have established a floor on the underlying LIBOR index. In some cases, the lender may allow us to elect to pay interest at a fixed interest rate to be determined. As security for the loans, the lenders received a first-priority lien on all personal property and real estate owned by the respective borrower, including an assignment of all contracts and rights pertinent to the on-going operations of the plant. Each respective borrower is required to maintain certain financial and non-financial covenants during the term of the loans.

Green Plains Bluffton issued a $22.0 million Subordinate Solid Waste Disposal Facility Revenue Bond with the city of Bluffton, Indiana, with $14.9 million outstanding at June 30, 2014. The revenue bond requires semi-annual principal and interest payments of approximately $1.5 million through March 1, 2019 and a final principal and interest payment of $3.7 million on September 1, 2019. The revenue bond bears interest at 7.50% per annum. On July 16, 2014, all outstanding principal was repaid using proceeds from the Green Plains Processing term loan discussed above.

Green Plains Otter Tail issued $19.2 million in senior notes under New Market Tax Credits financing that were scheduled to mature in September 2018. These senior notes were paid in full in April 2014, with $2.2 million of the outstanding obligation forgiven according to terms of the financing and recorded as a gain in other income for the three and six months ended June 30, 2014.

Additionally, certain subsidiaries have small equipment financing loans, capital leases on equipment or facilities, or other forms of debt financing.

Agribusiness Segment

Green Plains Grain has a $125.0 million senior secured revolving credit facility to provide the agribusiness segment with working capital funding subject to a borrowing base as defined in the facility. The revolving credit facility matures on August 26, 2016. The revolving credit facility includes total revolving credit commitments of $125.0 million and an accordion feature whereby amounts available under the facility may be increased by up to $75.0 million of new lender commitments upon agent approval. The facility also allows for additional seasonal borrowings up to $50.0 million. The total commitments outstanding under the facility cannot exceed $250.0 million. As security for the revolving credit facility, the lender received a first priority lien on certain cash, inventory, accounts receivable and other assets owned by subsidiaries of the agribusiness segment. Advances on the revolving credit facility are subject to interest charges at a rate per annum equal to the LIBOR rate for the outstanding period, or the base rate, plus the respective applicable margin. At June 30, 2014, $42.0 million on the revolving credit facility was outstanding. As security for the revolving credit facility, the lender received a first priority lien on certain cash, inventory, accounts receivable and other assets owned by subsidiaries of the agribusiness segment.

Marketing and Distribution Segment

Green Plains Trade has a senior secured asset-based revolving credit facility of up to $130.0 million, subject to a borrowing base value equal to the sum of percentages of eligible receivables and eligible inventories, less certain miscellaneous adjustments. At June 30, 2014, $89.6 million was outstanding on the revolving credit facility. The

revolving credit facility expires on April 26, 2016 and bears interest at the lender's commercial floating rate plus the applicable margin or LIBOR plus the applicable margin. As security for the loan, the lender received a first-position lien on substantially all of the assets of Green Plains Trade, including accounts receivable, inventory and other property and collateral owned by Green Plains Trade.

In June 2013, certain of our subsidiaries executed a New Markets Tax Credits financing transaction. In order to facilitate this financing transaction, we were required to issue promissory notes payable in the amount of $10.0 million and a note receivable in the amount of $8.1 million. The promissory notes payable and note receivable bear interest at 1% per annum, payable quarterly. Beginning in March 2020, the promissory notes and note receivable each require quarterly principal and interest payments of approximately $0.2 million. The Company retains the right to call $8.1 million of the promissory notes in 2020. The promissory notes payable and note receivable mature on September 15, 2031 and will be fully amortized upon maturity. In connection with the New Markets Tax Credits financing transaction, income tax credits were generated for the benefit of the lender. We have guaranteed the lender the face value of these income tax credits over their statutory lives, a period of seven years, in the event that the income tax credits are recaptured or reduced. The value of the income tax credits was anticipated to be $5.0 million at the time of the transaction. We believe the likelihood of recapture or reduction of the income tax credits is remote, and therefore we have not established a liability in connection with this guarantee.

Corporate Activities

In September 2013, we issued $120.0 million of 3.25% Convertible Senior Notes due 2018, or the 3.25% Notes. The 3.25% Notes represent senior, unsecured obligations, with interest payable on April 1 and October 1 of each year. At the time we issued the 3.25% Notes, we were only permitted to settle conversions with shares of our common stock. We received shareholder approval at our 2014 annual meeting to allow for flexible settlement which gives us the option to settle conversions in cash, shares of common stock, or any combination thereof. We intend to satisfy conversion of the 3.25% Notes with cash for the principal amount of the debt and cash or shares of common stock for any related conversion

premium. The 3.25% Notes contain liability and equity components which were bifurcated and accounted for separately. The liability component of the 3.25% Notes, as of the issuance date, was calculated by estimating the fair value of a similar liability issued at an 8.21% effective interest rate, which was determined by considering the rate of return investors would require for comparable debt without conversion rights. The amount of the equity component was calculated by deducting the fair value of the liability component from the principal amount of the 3.25% Notes, resulting in the initial recognition of $24.5 million as debt discount costs recorded in additional paid-in capital. The carrying amount of the 3.25% Notes will be accreted to the principal amount over the remaining term to maturity, and we will record a corresponding amount of noncash interest expense. Additionally, we incurred debt issuance costs of $5.1 million related to the 3.25% Notes and allocated $4.0 million of debt issuance costs to the liability component of the 3.25% Notes. These costs will be amortized to noncash interest expense over the five-year term of the 3.25% Notes. Prior to April 1, 2018, the 3.25% Notes will not be convertible unless certain conditions are satisfied. The initial conversion rate is 47.9627 shares of common stock per $1,000 principal amount of 3.25% Notes, which is equal to an initial conversion price of approximately $20.85 per share. The conversion rate is subject to adjustment upon the occurrence of certain events, including the payment of a quarterly cash dividend that exceeds $0.04 per share. In addition, we may be obligated to increase the conversion rate for any conversion that occurs in connection with certain corporate events, including calling the 3.25% Notes for redemption.

We may redeem for cash all, but not less than all, of the 3.25% Notes at any time on or after October 1, 2016 if the sale price of our common stock equals or exceeds 140% of the applicable conversion price for a specified time period ending on the trading day immediately prior to the date we deliver notice of the redemption. The redemption price will equal 100% of the principal amount of the 3.25% Notes, plus any accrued and unpaid interest. In addition, upon the occurrence of a fundamental change, such as a change in control, holders of the 3.25% Notes will have the right, at their option, to require us to repurchase their 3.25% Notes in cash at a price equal to 100% of the principal amount of the 3.25% Notes to be repurchased, plus accrued and unpaid interest. Default with respect to any loan in excess of $10.0 million constitutes an event of default under the 3.25% Notes, which could result in the 3.25% Notes being declared due and payable.

On February 14, 2014, we gave notice of our intention to redeem all of our previously-issued and outstanding $90.0 million of 5.75% Convertible Senior Notes due 2015, or the 5.75% Notes, pursuant to the optional redemption right in the indenture governing the 5.75% Notes. The 5.75% Notes were convertible into shares of the Company’s common stock at the conversion rate of 72.5846 shares of common stock for each $1,000 principal amount of 5.75% Notes from February 14, 2014 through February 28, 2014. From March 1, 2014 to March 19, 2014, the conversion rate was adjusted to 72.6961 shares of common stock for each $1,000 principal amount as a result of the quarterly cash dividend. Approximately $89.95 million of the 5.75% Notes were submitted for conversion into 6,532,713 shares of common stock through March 19, 2014. On March 20, 2014, the Company redeemed the remaining 5.75% Notes at par value plus accrued and unpaid interest through March 19, 2014. All $90.0 million of the 5.75% Notes were retired effective March 20, 2014.

Contractual Obligations

Our contractual obligations as of June 30, 2014 were as follows (in thousands):

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term and short-term debt obligations (1) | $ 653,021 | $ 169,815 | $ 58,250 | $ 155,229 | $ 269,727 |
| Interest and fees on debt obligations (2) | 149,643 | 34,722 | 49,566 | 38,166 | 27,189 |
| Operating lease obligations (3) | 104,466 | 23,559 | 40,550 | 27,308 | 13,049 |
| Purchase obligations | | | | | |
| Forward grain purchase contracts (4) | 407,471 | 390,310 | 8,760 | 4,000 | 4,401 |
| Other commodity purchase contracts (5) | 64,374 | 64,374 | - | - | - |
| Other | 240 | 72 | 115 | 52 | 1 |
| Total contractual obligations | $ 1,379,215 | $ 682,852 | $ 157,241 | $ 224,755 | $ 314,367 |

(1) Includes the current portion of long-term debt and excludes the effect of any debt discounts.
(2) Interest amounts are calculated over the terms of the loans using current interest rates, assuming scheduled principal and interest amounts are
paid pursuant to the debt agreements. Includes administrative and/or commitment fees on debt obligations.
(3) Operating lease costs are primarily for railcars and office space.
(4) Purchase contracts represent index-priced and fixed-price contracts. Index purchase contracts are valued at current quarter-end prices.
(5) Includes fixed-price ethanol, dried distillers grains and natural gas purchase contracts.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to various market risks, including changes in commodity prices and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. In the ordinary course of business, we enter into various types of transactions involving financial instruments to manage and reduce the impact of changes in commodity prices and interest rates. At this time, we do not expect to have exposure to foreign currency risk as we expect to conduct all of our business in U.S. dollars.

Interest Rate Risk

We are exposed to market risk from changes in interest rates. Exposure to interest rate risk results primarily from holding term and revolving loans that bear variable interest rates. Specifically, we had $631.7 million outstanding in debt as of June 30, 2014, $480.3 million of which is variable-rate in nature. Interest rates on our variable-rate debt are determined based upon the market interest rate of either the lender's prime rate or LIBOR, as applicable. A 10% change in interest rates would affect our interest cost on such debt by approximately $2.8 million per year in the aggregate. Other details of our outstanding debt are discussed in the notes to the consolidated financial statements included as a part of this report.

Commodity Price Risk

We produce ethanol, distillers grains and corn oil from corn and our business is sensitive to changes in the prices of each of these commodities. The price of corn is subject to fluctuations due to unpredictable factors such as weather; corn planted and harvested acreage; changes in national and global supply and demand; and government programs and policies. We use natural gas in the ethanol production process and, as a result, our business is also sensitive to changes in the price of natural gas. The price of natural gas is influenced by such weather factors as extreme heat or cold in the summer and winter, or other natural events like hurricanes in the spring, summer and fall. Other natural gas price factors include North American exploration and production, and the amount of natural gas in underground storage during both the injection and withdrawal seasons. Ethanol prices are sensitive to world crude-oil supply and demand; crude-oil refining capacity and utilization; government regulation; and consumer demand for alternative fuels. Distillers grains prices are sensitive to various demand factors such as numbers of livestock on feed, prices for feed alternatives, and supply factors, primarily production by ethanol plants and other sources.

We attempt to reduce the market risk associated with fluctuations in the price of corn, natural gas, ethanol, distillers grains and corn oil by employing a variety of risk management and economic hedging strategies. Strategies include the use of forward fixed-price physical contracts and derivative financial instruments, such as futures and options

executed on the Chicago Board of Trade and the New York Mercantile Exchange.

We focus on locking in operating margins based on a model that continually monitors market prices of corn, natural gas and other input costs against prices for ethanol and distillers grains at each of our production facilities. We create offsetting positions by using a combination of forward fixed-price physical purchases and sales contracts and derivative financial instruments. As a result of this approach, we frequently have gains on derivative financial instruments that are conversely offset by losses on forward fixed-price physical contracts or inventories and vice versa. In our ethanol production segment, gains and losses on derivative financial instruments are recognized each period in operating results while corresponding gains and losses on physical contracts are generally designated as normal purchase or normal sale contracts and are not recognized until quantities are delivered or utilized in production. For cash flow hedges, any ineffectiveness is recognized in current period results, while other unrealized gains and losses are deferred in accumulated other comprehensive income until gains and losses from the underlying hedged transaction are realized. In the event that it becomes probable that a forecasted transaction will not occur, we would discontinue cash flow hedge treatment, which would affect earnings. During the three and six months ended June 30, 2014, revenues included net losses of $129.8 million and $200.0 million, respectively, and cost of goods sold included net gains of $32.6 million and $35.9 million, respectively, from derivative financial instruments. To the extent net gains or losses from settled derivative instruments are related to hedging current period production, they are generally offset by physical commodity purchases or sales resulting in the realization of the intended operating margins. However, our results of operations are impacted when there is a mismatch of gains or losses associated with the change in fair value of derivative instruments at the reporting period when the physical commodity purchase or sales has not yet occurred since they are designated as a normal purchase or normal sale.

In our agribusiness segment, inventory positions, physical purchase and sale contracts, and financial derivatives are marked to market with gains and losses included in results of operations. The market value of derivative financial instruments

such as exchange-traded futures and options has a high, but not perfect, correlation to the underlying market value of grain inventories and related purchase and sale contracts.

Ethanol Production Segment

A sensitivity analysis has been prepared to estimate our ethanol production segment exposure to ethanol, corn, distillers grains and natural gas price risk. Market risk related to these factors is estimated as the potential change in net income resulting from hypothetical 10% changes in prices of our expected corn and natural gas requirements, and ethanol and distillers grains output for a one-year period from June 30, 2014. This analysis includes the impact of risk management activities that result from our use of fixed-price purchase and sale contracts and derivatives. The results of this analysis, which may differ from actual results, are as follows (in thousands):

| Commodity | Estimated Total Volume Requirements for the Next 12 Months (1) | Unit of Measure | Net Income Effect of Approximate 10% Change in Price |
|---|---|---|---|
| Ethanol | 1,020,000 | Gallons | $ 91,350 |
| Corn | 360,000 | Bushels | $ 74,855 |
| Distillers grains | 2,900 | Tons (2) | $ 21,352 |
| Natural gas | 28,900 | MMBTU (3) | $ 5,925 |

(1) Assumes production at full capacity.
(2) Distillers grains quantities are stated on an equivalent dried ton basis.
(3) Millions of British Thermal Units.

Corn Oil Production Segment

A sensitivity analysis has been prepared to estimate our corn oil production segment exposure to corn oil price risk. Market risk related to these factors is estimated as the potential change in net income resulting from hypothetical 10% changes in prices of our expected corn oil output for a one-year period from June 30, 2014. This analysis includes the impact of risk management activities that result from our use of fixed-price sale contracts. Market risk at June 30, 2014, based on the estimated net income effect resulting from a hypothetical 10% change in such prices, was

approximately $2.5 million.

Agribusiness Segment

The availability and price of agricultural commodities are subject to wide fluctuations due to unpredictable factors such as weather, plantings, foreign and domestic government farm programs and policies, changes in global demand created by population changes and changes in standards of living, and global production of similar and competitive crops. To reduce price risk caused by market fluctuations in purchase and sale commitments for grain and grain held in inventory, we enter into exchange-traded futures and options contracts that function as economic hedges. The market value of exchange-traded futures and options used for hedging has a high, but not perfect correlation, to the underlying market value of grain inventories and related purchase and sale contracts. The less correlated portion of inventory and purchase and sale contract market value, known as basis, is much less volatile than the overall market value of exchange-traded futures and tends to follow historical patterns. We manage this less volatile risk by constantly monitoring our position relative to the price changes in the market. In addition, inventory values are affected by the month-to-month spread relationships in the regulated futures markets, as we carry inventories over time. These spread relationships are also less volatile than the overall market value and tend to follow historical patterns, but also represent a risk that cannot be directly mitigated. Our accounting policy for our futures and options, as well as the underlying inventory held for sale and purchase and sale contracts, is to mark them to the market and include gains and losses in the consolidated statement of operations in sales and merchandising revenues.

A sensitivity analysis has been prepared to estimate agribusiness segment exposure to market risk of our commodity position (exclusive of basis risk). Our daily net commodity position consists of inventories related to purchase and sale contracts and exchange-traded contracts. The fair value of our position, which is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures market prices, is approximately $24 thousand at June 30, 2014. Market risk at that date, based on the estimated net income effect resulting from a hypothetical 10% change in such prices, was approximately $1 thousand.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, or Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the 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. These disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. Based upon that evaluation, our management, including our Chief Executive Officer and the Chief Financial Officer, concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles. There were no material changes in our internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently involved in litigation that has arisen in the ordinary course of business; however, we do not believe that any of this litigation will have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

Investors should carefully consider the discussion of risks and the other information included in our annual report on Form 10-K for the year ended December 31, 2013 and in this quarterly report on Form 10-Q, including Cautionary Information Regarding Forward-Looking Information, which is included in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Although we have attempted to discuss key factors, our investors need to be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance. The following risk factors should be considered in conjunction with the other information included in, or incorporated by reference in, this quarterly report on Form 10-Q.

Tank cars used to transport crude oil and ethanol may need to be retrofitted or replaced to meet proposed new rail safety regulations.

The U.S. ethanol industry has long relied on railroads to deliver its product to market. Tank cars are in high demand amid strong domestic crude and ethanol production. We have approximately 2,200 leased tank cars. These leased tank cars may need to be retrofitted or replaced if new regulations proposed by the U.S. Department of Transportation to address concerns related to safety are adopted, which could in turn cause a shortage in compliant tank cars. The proposed regulations call for a phase out within four years of the use of legacy DOT-111 tank cars for transporting highly-flammable liquids, including ethanol. According to the proposed rule, the U.S. Department of Transportation expects about 66,000 tank cars to be retrofitted and about 23,000 cars to be shifted to transporting other liquids. The Canadian government has also proposed that its nation’s rail shippers use sturdier tank cars for transportation of crude oil and ethanol. Adoption of the proposed regulations, which could result in upgrades or replacements of our tank cars, would likely have an adverse effect on our

operations as lease costs for tank cars would likely increase. Additionally, existing tank cars could be out of service for a period of time while such upgrades are made, tightening supply in an industry that is highly dependent on such railcars to transport its product.

Our access to capital may be negatively impacted if disruptions in credit markets occur or if credit rating downgrades occur.

Events may occur which could cause us to seek additional capital. If rating agencies downgrade our credit rating or disruptions in credit markets were to occur, the cost of debt under our existing financing arrangements, as well as future financing arrangements and borrowings, could increase. Access to capital markets could become unavailable or may only be available under less favorable terms. A downgrade of our credit ratings may also affect our ability to trade with various commercial counterparties or cause our counterparties to require other forms of credit support.

Owning and operating a cattle-feeding business is affected by many external factions that could negatively impact our business, results of operations and financial condition.

Cattle-feeding operations involve numerous risks, including:

- the cost and supply of livestock and feed ingredients and the selling price of our cattle, which are determined by constantly changing and potentially volatile market forces of supply and demand as well as other factors over which we have little or no control;
- any outbreak of disease in our feedlot or elsewhere in the U.S. or even in other countries, or the perception by the public that an outbreak has occurred, could reduce consumer confidence in the safety and quality of beef products, generate adverse publicity, lead to inadequate supply, result in cancellation of orders by customers or result in the imposition of import or export restrictions;
- any contamination, or allegations of contamination, of our products or those of our competitors that may subject us to product liability claims or product recalls;
- potential for liability in excess of insurance policy limits, or related to uninsurable risks, if outbreaks of disease or other conditions result in significant losses;
- an inability to attract sufficient custom-feeding customers to maximize operational efficiencies;
- the loss of one or more significant customers, a significant decline in the volume of orders from customers or a significant decrease in beef product prices for a sustained period of time;
- defaults by customers on financing of cattle or feed and other inputs;
- diminished access to international markets, including the closing of borders by foreign countries to product imports due to disease or other perceived health or food safety issues, changes in political or economic conditions, or general trade restrictions;
- potential reductions in consumption of red meat (whether due to dietary changes or other issues) leading to depressed cattle prices;
- water use restrictions, including those related to diminishing water table levels, that increase costs;
- operational restrictions resulting from government regulations; and
- risks relating to environmental hazards.

These items may lead to increased costs or decreased demand or prices for beef products, any of which could have an adverse effect on our business, results of operations and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Employees surrender shares upon the vesting of restricted stock grants to satisfy statutory minimum required payroll tax withholding obligations. The following table sets forth the shares that were surrendered by month during the second quarter of 2014.

| Month | Total Number of Shares Withheld | Average Price Paid per Share |
|---|---|---|
| April | 677 | $ 31.01 |
| May | 5,849 | 27.04 |
| June | - | - |
| Total | 6,526 | $ 27.45 |

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Index

| Exhibit No. | Description of Exhibit |
|---|---|
| 10.1 | Revolving Term Loan Supplement, dated June 26, 2014, by and between Green Plains Obion LLC and Farm Credit Mid-America, FLCA |
| 10.12(a) | Term Loan Agreement, dated as of June 10, 2014, among Green Plains Processing, LLC, as Borrower, the Lenders Party Hereto, BNP Paribas, as Administrative Agent and as Collateral Agent, and BMO Capital Markets and BNP Paribas Securities Corp., as Joint Lead Arrangers and Joint Book Runners (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(b) | Guaranty - Green Plains Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(c) | Guaranty - Green Plains Processing Subsidiaries (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(d) | Pledge Agreement (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(e) | Security Agreement (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(f) | Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement by Green Plains Atkinson LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(g) | Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement by Green Plains Central City LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(h) | Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement by Green Plains Ord LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(i) | Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement by Green Plains Bluffton LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(j) | Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing |

| | |
|---|---|
| | Statement by Green Plains Otter Tail LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 10.12(k) | Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing Statement by Green Plains Shenandoah LLC (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated June 12, 2014) |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following information from Green Plains Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements |

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 hereunto duly authorized.

GREEN PLAINS INC.

(Registrant)

Date: July 31, 2014

By: /s/ Todd A. Becker _

Todd A. Becker
President and Chief Executive Officer

(Principal Executive Officer)

Date: July 31, 2014

By: /s/ Jerry L. Peters _

Jerry L. Peters
Chief Financial Officer

(Principal Financial Officer)