

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2012

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-35397

**RENEWABLE ENERGY GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**26-4785427**  
(I.R.S. Employer  
Identification No.)

**416 South Bell Avenue, Ames, Iowa**  
(Address of principal executive offices)

**50010**  
(Zip Code)

**Registrant's telephone number, including area code: (515) 239-8000**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class:  
**Common Stock, par value \$.0001 per share**

Name of each exchange on which registered:  
**NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act:

**None**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of June 30, 2012, the aggregate market value of Common Stock held by non-affiliates was \$53,496,000.

As of February 28, 2013, 30,590,062 shares of Common Stock of the registrant were issued and outstanding.

**Documents Incorporated By Reference**

All or a portion of Items 10 through 14 in Part III of this Form 10-K are incorporated by reference to the Registrant's definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if the Registrant's Schedule 14A is not filed within such period, will be included in an amendment to this Report on Form 10-K which will be filed within such 120 day period.

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**PART I**

**Cautionary Statement Regarding Forward-Looking Information**

This annual report on Form 10-K contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “would,” “might,” “could,” “estimate,” “continue,” “anticipate,” “design,” “intend,” “plan,” “seek,” “potential,” “expect” and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives, and financial needs. Forward-looking statements include, but are not limited to, statements about:

- the effect of governmental programs on our business;
- government policymaking and mandates relating to renewable fuels;
- the future price and volatility of feedstocks;
- the future price and volatility of petroleum and products derived from petroleum;
- our utilization of forward contracting and hedging strategies to minimize feedstock and other input and output price risks;
- expected future financial performance;
- our liquidity and working capital requirements;
- availability of federal and state governmental tax credits and incentives;
- anticipated trends and challenges in our business and competition in the markets in which we operate;
- our ability to estimate our feedstock demands and biodiesel sales;
- our ability to procure feedstocks;
- our dependence on sales to a limited number of customers and distributors;
- our ability to incorporate new feedstocks into our production process
- technological obsolescence;
- the acquisition of licenses or other rights to technology from third parties;
- our expectations regarding future expenses;
- our ability to successfully implement our acquisition strategy and integration strategy;
- our ability to manage facilities for others;
- government regulatory and industry certification, approval and acceptance of our product;
- progressing facilities currently under development to the construction and operational stages, including planned capital expenditures and our ability to obtain financing for such construction;
- our ability to protect our proprietary technology and trade secrets;
- market acceptance of biodiesel;
- the development of competing alternative fuels and energy services;
- our risk management activities;
- product performance, in cold weather or otherwise;

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- seasonal fluctuations in our business;
- critical accounting policies and estimates, the impact or anticipated impact of recent accounting pronouncements, guidance or changes in accounting principles and future recognition of impairments for the fair value of assets, including goodwill, financial instruments, intangible assets and other assets acquired; and
- assumptions underlying or relating to any of the foregoing.

These statements reflect current views with respect to future events and are based on assumptions and subject to risks and uncertainties. We note that a variety of factors could cause actual results and experience to differ materially from the anticipated results or expectations expressed in our forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements are also subject to risks and uncertainties that could cause actual results to differ materially from those expected. These risks and uncertainties include, but are not limited to, those risks discussed in Item 1A of this report.

Forward-looking statements contained in this report present management's views only as of the date of this report. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our 10-Q and 8-K reports filed with the Securities and Exchange Commission.

### **ITEM 1. Business**

#### **General**

We are the largest producer of biodiesel in the United States based on gallons produced. We participate in each aspect of biodiesel production, from acquiring feedstock, managing construction and operating biodiesel production facilities to marketing, selling and distributing biodiesel and its co-products. During 2012, we sold approximately 188 million gallons of biodiesel and had total revenues of \$1.02 billion.

We operate a network of seven biodiesel plants, with an aggregate nameplate production capacity of 227 mmgy. We have acquired five of our seven facilities since February 2010. We believe our fully integrated approach, which includes acquiring feedstock, managing biorefinery facility construction and upgrades, operating biorefineries and marketing renewable products, positions us to capitalize on growing demand for biodiesel, renewable chemicals and other advanced biofuels. Our experience has enabled us to develop extensive expertise in biorefinery operations, from facility construction management and feedstock procurement to biodiesel production, marketing, logistics and risk management.

We are a low-cost biodiesel producer. We primarily produce our biodiesel from a wide variety of lower cost feedstocks, including inedible corn oil, used cooking oil and inedible animal fat. We also produce a smaller portion of our biodiesel from higher cost virgin vegetable oils. We believe our ability to process a wide variety of feedstocks provides us with a cost advantage over many biodiesel producers, particularly those that rely on higher cost virgin vegetable oils, such as soybean oil or canola oil.

During 2008, we took advantage of the downturn in the biodiesel industry and began acquiring biodiesel businesses and biodiesel production capacity. In 2010, we became the largest biodiesel producer in the United States by selectively acquiring two strategically located biodiesel facilities in Danville, Illinois and Newton, Iowa and began leasing a biodiesel facility in Seneca, Illinois, which we then acquired in January 2012. We also acquired a partially constructed biodiesel facility in Clovis, New Mexico in August 2010. On July 12, 2011, we completed the acquisition of the former SoyMor biodiesel facility in Albert Lea, Minnesota. On October 26, 2012, we acquired an idled biodiesel facility in New Boston, Texas, which has remained idled pending completion of certain upgrades we expect to complete in second quarter 2013. We also acquired a biodiesel facility near Atlanta, Georgia, on November 16, 2012 that had been idled prior to our acquisition and will remain so until certain repairs or upgrades are made.

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Biodiesel benefits from many government programs. The most important of these programs is RFS2, which we expect will create significant, stable and growing demand for our biodiesel. On July 1, 2010, RFS2 became effective, requiring for the first time that a portion of the diesel fuel consumed in the United States be renewable. In response, the EPA, based on data from its EPA Moderated Transaction System, or EMTS, which was put in place beginning July 1, 2010 for RFS2 compliance, reports total production of biomass-based diesel for 2012 of approximately 1.14 billion gallons, of which approximately 33 million gallons was imported and 60 million gallons was generated from foreign renewable fuel producers. Per EMTS, approximately 1.1 billion of the 1.14 billion gallons of biomass-based diesel produced in 2012 was biodiesel, the remaining being non-ester renewable diesel. During 2011, the EMTS reported total production of biomass-based diesel of approximately 1.1 billion gallons, of which approximately 43 million was imported. Per EMTS, approximately 1 billion of the 1.1 billion gallons of biomass-based diesel produced in 2011 was biodiesel, the remaining being non-ester renewable diesel.

### **Fully Integrated Platform**

Our integrated approach to biodiesel production consists of:

- *Design, Build and Upgrade.* We have developed expertise in designing, managing the construction of and upgrading biodiesel plants. We have managed the design and construction of ten commercial-scale biodiesel plants on our own behalf and for third parties. Our design, build and upgrade experience has enabled us to improve and test new production technologies that enable lower operating costs, improved yields, and expand our ability to use lower cost feedstocks. This expertise has also allowed us to quickly and cost effectively upgrade and integrate the biodiesel plants we have acquired. We intend to leverage this experience into the design and construction of renewable chemical and other advanced biofuel production facilities as we expand into these areas.
- *Operate and Manage.* We manage the operation of our seven biodiesel production facilities and have managed production facilities for others. In total, we have operated eleven different biodiesel plants over the last six years. This operational experience allows us to improve our production process efficiency and quality and to deploy best practices throughout our network. A key element in successfully managing a biodiesel plant is the procurement of feedstock. We believe our strong knowledge and history in feedstock markets allows us to procure feedstock more efficiently and reliably than our competitors. We believe our operational expertise also enables us to effectively integrate new facilities we acquire and manage facilities for others.
- *Marketing.* We market both the biodiesel we produce as well as biodiesel produced by others throughout the United States. We believe we are able to capture business from the largest customers, namely large United States petroleum refiners and national travel center chains, whose demand cannot be met by smaller producers or marketers that do not have our scale or national reach.

We believe our biorefinery platform and experience running a fully integrated biorefining company is highly attractive to technology companies working on developing renewable chemicals and advanced biofuels. We are able to offer to co-locate these companies' equipment and production processes at our existing facilities, as well as to offer design-build, operations and management capabilities to accelerate the commercialization of these companies' products.

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### Plant Network

Our production network consists of the following facilities;

<u>Property</u>	<u>Nameplate Production Capacity<sup>1</sup></u>	<u>Production Capacity for Current Feedstock Mix</u>	<u>REG Operations Commenced</u>	<u>Feedstock Capability</u>
<i>Completed</i>				
Ralston, Iowa	12	12	2003	Refined Oils and Fats
Albert Lea, Minnesota <sup>2</sup>	30	30	2006 <sup>2</sup>	Refined Oils and Fats <sup>3</sup>
Newton, Iowa	30	24	2007	Crude, High FFA and Refined Oils and Fats
Seabrook, Texas	35	33	2008	Refined Oils and Fats <sup>3</sup>
Danville, Illinois	45	37	2009	Crude, High FFA and Refined Oils and Fats
Seneca, Illinois	60	55 <sup>4</sup>	2010	Crude, High FFA and Refined Oils and Fats
New Boston, Texas <sup>5</sup>	15	12	2013	Crude, High FFA and Refined Oils and Fats
Ellenwood, Georgia <sup>6</sup>	15	n/a	n/a	Crude, High FFA and Refined Oils and Fats
<i>Partially Constructed</i>			<b>% Complete</b>	
St. Rose, Louisiana	60	n/a	~45%	Crude, High FFA and Refined Oils and Fats
Emporia, Kansas	60	n/a	~20%	Crude, High FFA and Refined Oils and Fats
Clovis, New Mexico	15	n/a	~50%	Crude, High FFA and Refined Oils and Fats

<sup>1</sup> The nameplate capacity listed above is based on soy.

<sup>2</sup> SoyMor began operations of the biodiesel facility located in Albert Lea, Minnesota in 2006 under our management. In February 2008, SoyMor stopped production and idled the facility. In July 2011, one of our subsidiaries acquired the biodiesel facility and recommenced operations of the facility.

<sup>3</sup> We are in the process of completing a \$20 million upgrade to this facility to produce biodiesel using crude and high FFA oils and fats, which is anticipated to be completed by the second quarter of 2013.

<sup>4</sup> Our Seneca facility includes three production lines, each with a 20 mmgy production capacity. One of these three production lines was not operating at December 31, 2011, but the production line became operational during January 2012.

<sup>5</sup> We are currently upgrading our New Boston facility and expect this facility to begin production in second quarter 2013.

<sup>6</sup> Idled by prior owner at time of purchase and remains idled pending repairs or upgrades. We have not yet set a production date.

In addition to the production facilities listed above, REG maintains a testing laboratory in its corporate headquarters in Ames, Iowa. The testing laboratory allows us to test various feedstocks for their conversion into biodiesel, as well as various manufacturing processes available in the production of biodiesel. Through a subsidiary we are a 50% owner of 416 South Bell, LLC, which owns and leases to us our corporate headquarters located at 416 South Bell Avenue, Ames, Iowa 50010, comprised of 60,480 square feet of office and laboratory space, under a lease that expires in December 2017 and is renewable at our option for an additional ten years.

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### **Our Feedstocks and Other Inputs**

Our ability to use a wide range of feedstocks gives us the flexibility to quickly respond to changes in feedstock pricing to maintain our feedstock cost advantage. We have the ability to rapidly change our processing techniques to accommodate different feedstocks and feedstock mixes. For 2012, approximately 84% of our total feedstock usage was lower cost inedible corn oil, used cooking oil or inedible animal fat feedstock and 16% was higher cost soybean oil. Our lower cost feedstock plants generally run on a mix of lower cost feedstocks. As different feedstocks are delivered to the plant, they are combined or segregated into our feedstock storage tanks. Feedstock tanks are then tested and the plant is tuned to optimize the processing of that specific feedstock mix.

We procure our feedstocks from numerous vendors in small to medium quantities. There is no established futures market for lower cost feedstocks. We generally purchase inedible animal fats on a freight delivered basis and purchase in one to four week forward positions. Used cooking oil and inedible corn oil can be purchased in nearby forward positions of three to twelve months, and are sometimes indexed to the New York Mercantile Exchange, or NYMEX, heating oil index. We maintain both long term contractual arrangements and long term trading relationships with key feedstock suppliers, which provide us with an advantage. Some of these relationships are with our investors including West Central and Bunge. Higher cost virgin vegetable oil feedstocks like soybean oil can be purchased on a spot or forward contract basis from a number of suppliers.

We work with developers of next generation feedstocks, such as algae, camelina and jatropha oil, to assist them in bringing these new feedstocks to market. We have converted each of these feedstocks, as well as other second generation feedstocks, into high quality biodiesel in our laboratory. We believe we are well positioned to incorporate these new feedstocks into our production process as they become commercially available.

We procure methanol, chemical catalysts such as sodium methylate and hydrochloric acid, under fixed-price contracts and formula-indexed contracts based upon competitive bidding. These procurement contracts typically last from three months to one year. The price of methanol is indexed to the monthly reported published price of methanol plus or minus a negotiated basis.

### **Distribution**

We have established a national distribution system to supply biodiesel throughout the United States. Each of our facilities is equipped with an on-site rail loading system, a truck loading system, or both, and a logistics and supply chain management staff. We also manage some customers' biodiesel storage tanks and replenishment process. We lease more than 330 railcars for transportation and lease biodiesel storage tanks in 18 terminals as of December 31, 2012. Typically, the terminals where we lease our biodiesel storage tanks are petroleum fuel terminals so that fuel distributors and other biodiesel customers can create a biodiesel blend at the terminal before further distribution. Terminal leases typically have one to three-year terms and are generally renewable subject to certain terms and conditions. We have sold biodiesel in 43 states and Canada.

### **Risk Management**

The prices for feedstocks and biodiesel can be volatile and are not always closely correlated. Lower cost feedstocks are particularly difficult to risk manage given that such feedstocks are not traded in any public futures market. To manage feedstock and biodiesel price risks, we utilize forward contracting, hedging and other risk management strategies, including the use of futures, swaps, options and over-the-counter products.

In establishing our risk management strategies, we draw from our own in-house risk management expertise and we consult with industry experts. We utilize research conducted by outside firms to provide additional market information and risk management strategies. We believe combining these sources of knowledge, experience and expertise gives us a more sophisticated and global view of the fluctuating commodity markets for raw materials and energies, which we then can incorporate into our risk management strategies.

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### **Seasonality**

Biodiesel producers have historically experienced seasonal fluctuations in demand for biodiesel. Biodiesel demand has tended to be lower during the winter in Northern and Midwestern states due to concerns about biodiesel's ability to operate optimally in cold weather, as compared to the most commonly used petroleum based diesel fuel. This seasonal fluctuation is strongest for biodiesel made from inedible animal fats and used cooking oil. Biodiesel made from those feedstocks has a higher cloud point, the point at which a fuel begins to gel, than biodiesel produced from soybean oil, canola oil or inedible corn oil, which may cause cold weather performance issues.

### **Competition**

We face competition in the distillate fuel market from producers and suppliers of petroleum-based diesel fuel and in the biodiesel sub-market from other biodiesel producers, marketers and distributors. Our principal methods of competition are product quality, both biodiesel and Renewable Identification Number, or RIN, quality, supply reliability and price. We also face competition in the biomass-based diesel RIN compliance market from producers of renewable diesel, in the advanced biofuel RIN compliance market from producers of other advanced biofuels. In the United States and Canadian biodiesel markets, we compete with large, multi-product companies that have greater resources than we do. Archer Daniels Midland Company, Cargill, Incorporated, Louis Dreyfus Commodities Group and Ag Processing Inc. are major international agribusiness corporations and biodiesel producers with the financial, sourcing and marketing resources to be formidable competitors in the biodiesel industry. These agribusiness competitors tend to make biodiesel from higher cost virgin vegetable oils such as soybean or canola oil, which they produce as part of their integrated agribusinesses.

We also face competition from independent biodiesel producers. Unlike us, most of these competitors own only one biodiesel plant and thus, do not enjoy the benefits of scale that we do. Many of our competitors own biodiesel plants that can process only higher cost virgin vegetable oils. Furthermore, in our marketing and distribution, we face competition from biodiesel traders such as Astra, Gaviolon, Glencore, Tenaska and Traffigura. These trading companies have far greater financial resources than we do and are able to take significant biodiesel positions in the marketplace. These competitors are often customers and/or suppliers of ours as well.

In the amended Renewable Fuel Standard, or RFS2, biomass-based diesel and the Canadian renewable fuel requirement markets, we are also in competition with producers of renewable diesel, such as the Dynamic Fuels, LLC, the joint venture between Syntroleum Corporation and Tyson Foods, Inc. Renewable diesel, like biodiesel, is a petroleum-based diesel substitute made from renewable feedstocks. Renewable diesel can also satisfy the RFS2 biomass-based diesel requirement if the renewable diesel meets the greenhouse gas reduction requirements and may satisfy Canadian renewable fuel requirements. Some of the producers of renewable diesel, including future producers like Diamond Green Diesel, LLC, the joint venture between Valero Energy Corp. and Darling International, may have greater financial resources than we do. In the RFS2 advanced biofuel market, we also compete with other producers and importers of advanced biofuels such as Brazilian sugarcane ethanol producers.

The biodiesel industry is also in competition with the petroleum-based diesel fuel industry. The size of the biodiesel industry is small compared to the size of the petroleum-based diesel fuel industry and large petroleum companies have greater resources than we do. Without government incentives and requirements, biodiesel may be more expensive than petroleum-based diesel, making it difficult to compete with petroleum-based diesel on price.

### **Government Programs Favoring Biodiesel Production and Use**

The biodiesel industry benefits from numerous federal and state government programs, the most important of which is RFS2.



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### ***Renewable Fuel Standard***

On July 1, 2010, RFS2's biomass-based diesel requirement became effective, requiring for the first time that a certain percentage of the diesel fuel consumed in the United States be made from renewable sources. The biomass-based diesel requirement can be satisfied by two primary fuels, biodiesel and renewable diesel. Historically, Renewable diesel has not been available in the United States in significant commercial quantities and thus, biodiesel has satisfied the vast majority of the RFS2 biomass-based diesel requirement. Based on recent announcements, an increased volume of renewable diesel is expected to come online in late 2013 and would be available to satisfy the RFS2 biomass-based diesel requirement in addition to biodiesel. RFS2 required the use of one billion gallons of biomass-based diesel in 2012, requires 1.28 billion gallons in 2013 and at least one billion gallons each year thereafter, with such higher amounts subject to EPA proposals and the Office of Management and Budget, or OMB, approval. As of this filing, the EPA has not proposed or finalized the 2014 biomass-based diesel requirement. We expect RFS2 to create demand for biodiesel.

The biomass-based diesel requirement is one of four separate renewable fuel requirements under RFS2. The RFS2 requirements are based on two primary categories and two subcategories. The two primary categories are conventional renewable fuel, which is intended to be satisfied by corn ethanol, and advanced biofuel, which is defined as a biofuel that reduces lifecycle greenhouse gas emissions by at least 50% compared to the petroleum-based fuel the biofuel is replacing. The advanced biofuel category has two subcategories, cellulosic biofuel, which is intended to be satisfied by newly developed cellulosic biofuels, such as ethanol made from woody biomass, and biomass-based diesel, which is intended to be satisfied by biodiesel and renewable diesel. RFS2's total advanced biofuel requirement is larger than the combined cellulosic fuel and biomass-based diesel requirements, thus requiring the use of additional volumes of advanced biofuels.

The RFS2 requirement for additional volumes of advanced biofuels can be satisfied by any advanced biofuel, including biodiesel, renewable diesel, biobutanol, cellulosic ethanol or sugarcane-based ethanol. The additional advanced biofuel requirement is 500 million gallons in 2012 and one billion gallons in 2013. Biodiesel comprises the vast majority of advanced biofuel produced in the United States. As such, we expect the RFS2 advanced biofuel requirement to increase demand for biodiesel.

The advanced biofuel renewable volume obligation, or RVO, is expressed in terms of ethanol equivalent volumes, or EEV, which is based on the fuel's renewable energy content compared to ethanol. Biodiesel has an EEV of 1.5 compared to 1.0 for sugarcane-based ethanol. Accordingly, it requires less biodiesel than sugarcane-based ethanol to meet the required volumes as each gallon of biodiesel counts as 1.5 gallons for purposes of fulfilling the advanced biofuel RVO, providing an incentive for Obligated Parties to purchase biodiesel to meet their advanced biofuel RVO.

The RFS2 volume requirements apply to petroleum refiners and petroleum fuel importers in the 48 contiguous states and Hawaii, who are defined as "Obligated Parties" in the RFS2 regulations, and requires these Obligated Parties to incorporate into their petroleum-based fuel a certain percentage of renewable fuel or purchase credits in the form of RINs from those who do. An Obligated Party's RVO is based on the volume of petroleum-based fuel they produce or import. The largest United States petroleum companies, such as Valero, Phillips 66, ExxonMobil, British Petroleum, Chevron and Shell, represent the majority of the total RVOs, with the remainder made up of smaller refiners and importers.

### ***Renewable Identification Numbers***

The EPA created the renewable identification number, or RIN, system to track renewable fuel production and compliance with the renewable fuel standard. EPA registered producers of renewable fuel may generate RINs for each gallon of renewable fuel they produce. In the case of biodiesel, 1.5 biomass-based diesel RINs may be generated for each gallon of biodiesel produced. Most renewable fuel, including biodiesel, is then sold with its associated RINs attached. Under the RFS2 regulations, the RINs may also be separated from the gallons of renewable fuel and once separated they may be sold as a separate commodity. RINs are ultimately used by

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Obligated Parties to demonstrate compliance with the RFS2. Obligated Parties must obtain and retire the required number of RINs to satisfy their RVO during a particular compliance period. An Obligated Party can obtain RINs by buying renewable fuels with RINs attached, buying RINs that have been separated, or producing renewable fuels themselves. All RIN activity under RFS2 must be entered into the EPA's moderated transaction system, which tracks RIN generation, transfer and retirement. RINs are retired when used for compliance with the RFS2 requirements.

The value of RINs is significant to the price of biodiesel. In July 2010 when RFS2 became effective, biomass-based diesel RINs began trading at approximately \$0.55 per RIN. By the end of 2010, the 2010 biomass-based diesel RIN value had become increasingly significant to the price of biodiesel, contributing approximately \$1.11, or 26% of the average The Jacobsen B100 Upper Midwest spot price of a gallon of biodiesel. As of December 31, 2011, RINs contributed approximately \$1.83, or 38% of the average The Jacobsen B100 Upper Midwest spot price of a gallon of biodiesel. During 2012, the value of RINs, as reported by OPIS, have contributed to the average B100 spot price of a gallon of biodiesel, as reported by The Jacobsen, and range from a low of \$0.63 per gallon, or 24%, in October to a high of \$2.39, or 50%, per gallon in January. There was a sharp decline in RIN prices during third quarter 2012 that carried through the end of the year. During this period, RIN pricing declined from \$1.17 per RIN at June 30, 2012 to \$0.64 per RIN at December 31, 2012, as reported by OPIS, which contributed to the decline in price of biodiesel.

### ***Blenders Tax Credit***

The blenders tax credit provides a \$1.00 per gallon excise tax credit to the first blender of biodiesel with at least 0.1% petroleum-based diesel fuel. The blenders tax credit can then be credited against such blenders federal excise tax liability or the blender can obtain a cash refund from the United States Treasury for the value of the credit. The blenders tax credit became effective January 1, 2005 and then lapsed January 1, 2010 before being reinstated retroactively on December 17, 2010. The blenders tax credit again expired as of December 31, 2011 and on January 2, 2013, it was again reinstated retroactively for 2012 through December 31, 2013. The blenders tax credit is set to expire again on December 31, 2013 and it is uncertain whether it will be extended.

### ***State Programs***

Several states have enacted legislation providing incentives for the use of biodiesel, requiring the use of biodiesel, or both. For example, Illinois offers an exemption from the generally applicable 6.25% sales tax for biodiesel blends that incentivizes blending at 11% biodiesel, or B11, however such taxes will not apply after December 31, 2018 unless such exemption is extended. Illinois' program has made that state the largest biodiesel market in the country. During 2011, Iowa offered a \$0.03 per gallon income tax credit to petroleum marketers of B2 blends. In May 2011, Iowa signed into law a bill that encourages Iowa's petroleum marketers to blend biodiesel into on-road and off-road diesel in a multi-year incentive program beginning in 2012. In 2012, retailers earn \$0.02 per gallon for B2 blends or \$0.045 per gallon for B5 blends. For 2013 through 2017, retailers earn \$0.045 per gallon of B5. The new law also creates a biodiesel production incentive of \$0.03 per gallon in 2012, \$0.025 per gallon in 2013, and \$0.02 per gallon in 2014, for each gallon produced in an Iowa facility up to the first 25 million gallons per production plant. In Texas, biodiesel blends are exempt from state excise tax, which results in a \$0.20 per gallon incentive for B100. In addition, recent regulatory changes by the Texas Department of Revenue and Texas Commission on Environmental Equality have removed regulatory barriers and eliminated limitations to blending biodiesel under the Texas Low Emissions Diesel program.

According to the U.S. Department of Energy, more than 40 states currently have implemented various programs that encourage the use of biodiesel through blending requirements as well as various tax incentives. Currently, Minnesota requires a B5 blend. Minnesota legislation also calls for future steps to increase blends to B10 and then B20, in the summer months. Oregon has implemented a B5 biodiesel blend requirement. New Mexico, Pennsylvania and Washington have all adopted legislation requiring biodiesel blends beginning at B2 (and B5 in New Mexico) with incremental increases, provided certain feedstock or production minimums are met. Several

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northeast states, including Connecticut and Vermont, have adopted legislation requiring biodiesel blends in home heating oil. The City of New York has adopted legislation requiring biodiesel blends at a 2% rate for heating oil and the state of New York will debate adopting a state-wide requirement during 2013.

In addition, several states have adopted or are considering adopting a low carbon fuel standard, or LCFS, requiring a reduction in the amount of lifecycle carbon intensity in their transportation fuels. Biodiesel has lower carbon emissions than petroleum-based diesel and is thus expected to benefit from increased demand in states like California that have adopted LCFS. California's LCFS calls for a reduction in greenhouse gas emissions from transportation fuels of 10% by 2020.

Although we believe that state requirements for the use of biofuels increase demand for our biodiesel within such states, they generally may not increase overall demand in excess of RFS2 requirements. Rather, existing demand for our biofuel from Obligated Parties in connection with federal requirements may shift to states that have use requirements or tax incentive programs.

### **Environmental Matters**

Our biofuel facilities, like other fuel and chemical production facilities, are subject to various federal, state and local environmental laws and regulations, including those relating to the discharge of materials into the air, water and ground; the generation, storage, handling, use, transportation and disposal of hazardous materials; ecological and natural resources; and the health and safety of our employees, contractors and the public. These laws and regulations require us to obtain and comply with numerous environmental permits to construct and operate each network facility. They can require expensive pollution control equipment or operational changes to limit actual or potential impacts to human health and the environment. A violation of these laws, regulations or permit conditions could result in substantial fines, natural resource damage, criminal sanctions, permit revocations and or facility shutdowns. However, we do not currently have any such proceedings either pending or threatened against our facilities. Furthermore, we do not anticipate a material adverse effect on our business or financial condition as a result of our efforts to comply with these requirements as presently in effect.

We also do not expect to incur material capital expenditures for environmental controls in this or the succeeding fiscal year. However, new laws, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments could require us to make additional significant expenditures. Continued government and public emphasis on environmental issues can be expected to result in increased future investments for environmental controls at our ongoing operations. Future environmental laws and regulations and related interpretations applicable to our operations, more vigorous enforcement policies and discovery of currently unknown conditions may require substantial capital and other expenditures.

Our air emissions are subject to the federal Clean Air Act and similar state and local laws and associated regulations. For example, the EPA has promulgated National Emissions Standards for Hazardous Air Pollutants, or NESHAPs, under the federal Clean Air Act that apply to facilities that we own or manage if the emissions of hazardous air pollutants exceed certain thresholds. If a facility we operate is authorized to emit hazardous air pollutants above the threshold level, then we are required to comply with the NESHAP related to our manufacturing process, boilers and process heaters. New or expanded facilities would be required to comply with such standards upon startup if they exceed the hazardous air pollutant threshold. In addition to costs for achieving and maintaining compliance with these laws, more stringent standards also may limit our operating flexibility. Other federal and state emission limitations, such as New Source Performance Standards, may also apply to facilities we own or manage. Because other domestic biodiesel manufacturers will have similar restrictions, however, we believe that compliance with more stringent air emission control or other environmental laws and regulations is not likely to materially affect our competitive position.

We do transport and dispose of small quantities of hazardous materials from our on-site research and testing laboratories. The facilities in our network have been and may in the future be located on or adjacent to industrial property. There is a risk of liability for the investigation and cleanup of environmental contamination at each of

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the properties that we own or operate and at off-site locations where we arranged for the disposal of hazardous substances. If these substances have been or are disposed of or released at sites that undergo investigation or remediation by regulatory agencies or private parties, we may be responsible under the Comprehensive Environmental Response Compensation and Liability Act or other environmental laws for all or part of the costs of investigation or remediation and for damage to natural resources. We also may be subject to related claims by private parties alleging property damage and personal injury due to exposure to hazardous or other materials at or from these properties. Some of these matters may require us to expend significant amounts for investigation, cleanup or other costs. We are not aware of any material environmental liabilities relating to contamination at or from our facilities or at off-site locations where we have transported or arranged for the disposal of hazardous substances.

The hazards and risks associated with producing and transporting our products, such as fires, natural disasters, explosions, abnormal pressures, blowouts and pipeline ruptures also may result in personal injury claims or damage to property and third parties. As protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses. Our coverage includes physical damage to assets, employer's liability, comprehensive general liability, automobile liability and workers' compensation. We believe that our insurance is adequate and customary for our industry, but losses could occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. We do not currently have pending material claims for damages or liability to third parties relating to the hazards or risks of our business.

### **History**

Our predecessor, REG Biofuels, LLC, formerly named REG Biofuels Inc., which was formerly named Renewable Energy Group, Inc., was formed under the laws of the State of Delaware in August 2006 upon acquiring the assets and operations of the biodiesel division of West Central Cooperative, or West Central, and two of West Central's affiliated companies, InterWest, L.C. and REG, LLC. Prior to February 26, 2010, the "Company," "REG," "we," "us," "our" and similar references refer to the business, results of operations and cash flows of REG Biofuels, Inc., formerly Renewable Energy Group, Inc., which is considered the accounting predecessor to Renewable Energy Group, Inc., formerly, REG Newco, Inc. After February 26, 2010, such references refer to the business, results of operations and cash flows of Renewable Energy Group, Inc., and its consolidated subsidiaries.

In June 2008, we acquired our Houston facility, which has access to deepwater ports, from United States Biodiesel Group, Inc., or USBG, through a transaction which included an equity investment in the Company by USBG. We also acquired a terminal facility with the option to build a biodiesel plant at the Port of Stockton in Stockton, California. In July 2009, we sold the Stockton terminal facility for \$3.0 million in cash.

On February 26, 2010, we acquired our Danville facility by merger from Blackhawk Biofuels, LLC. On March 8, 2010, we acquired our Newton Facility, through the purchase of substantially all of the assets and liabilities of Central Iowa Energy, LLC. On April 8, 2010, we closed a transaction in which we agreed to lease and operate the Seneca facility and certain related assets.

On July 16, 2010, we acquired certain assets of Tellurian Biodiesel, Inc., or Tellurian, and American BDF, LLC, or ABDF. Tellurian was a California-based biodiesel company and marketer. ABDF was a joint venture owned by Golden State Service Industries, Restaurant Technologies, Inc., or RTI, and Tellurian. ABDF previously focused on building a national array of small biodiesel plants that would convert used cooking oil into high quality, sustainable biodiesel. The purchase connects RTI's national used cooking oil collection system, with more than 16,000 installations, with our national network of biodiesel manufacturing facilities.

On September 21, 2010, we acquired for stock the partially constructed Clovis facility and \$8.0 million in cash.

On July 12, 2011, we acquired for stock all the assets and certain liabilities of SoyMor cooperative and SoyMor Biodiesel, LLC.

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On January 24, 2012, we exercised an option to purchase our Seneca facility, which we previously operated under lease. The exercise price of the option was \$12 million, of which approximately \$937,000 was previously paid, and 60,000 shares of our Common Stock.

On January 24, 2012, we completed our initial public offering in which we sold 6.8 million shares of our Common Stock at a price to the public of \$10.00 per share. Our Common Stock is currently traded publicly on the NASDAQ Global Market under the symbol "REGI."

On October 26, 2012, the Company issued 900,000 shares of common stock and approximately \$324,000 in cash in connection to the purchase of substantially all the assets of North Texas Bio Energy, LLC, or NTBE.

On November 16, 2012, the Company acquired substantially all the assets of BullDog Biodiesel, LLC, or BullDog, in exchange for approximately \$1.3 million in cash and approximately \$1.3 million of in-kind contribution.

### **Employees**

As of December 31, 2012, we employed 279 full-time employees, including 207 in operations, procurement, logistics and technical, 20 in sales and marketing and 52 in administration. None of our employees are represented by a labor organization or under any collective bargaining agreements. We consider our relationship with our employees to be good.

### **Intellectual Property**

We rely primarily on trade secret laws and contractual restrictions to protect our technology. As of December 31, 2012, we had five issued United States patents, two United States patent applications, including eighteen foreign patents and eighteen foreign patent applications. We also jointly own with Crown Iron Works Company thirteen issued foreign patents, one United States patent application and three pending foreign patent applications. In addition, we own one United States patent and jointly own with POS Pilot Plant Corporation of Saskatchewan, Canada one United States patent, which we acquired from SoyMor on July 12, 2011 as part of the SoyMor acquisition.

### **Customers**

As of December 31, 2012, we had 328 customers, only one of which, Pilot Travel Centers LLC, or Pilot, accounted for 10% or more of our total revenues. Sales to Pilot for 2012 and 2011 were \$363.4 million and \$189.8 million, respectively, representing approximately 36% and 23%, respectively, of our total revenues.

### **Executive Officers of the Registrant**

*Daniel J. Oh*, age 48, has served as our Chief Executive Officer and as a director since September 2011 and President since April 2009. Mr. Oh served as our Chief Operating Officer from June 2007 to September 2011, our Chief Financial Officer and Executive Vice President from June 2006 to June 2007 and as Secretary from August 2006 until March 2009. From May 2004 to May 2006, Mr. Oh served at Agri Business Group, Inc., or ABG, an agribusiness management consulting firm, including as Associate Director, Director and Vice President. Prior to joining ABG, Mr. Oh served in several different positions, including Senior Financial Analyst, Financial Team Member and Manager, in the Corporate Finance and Investment Banking area of the Corporate Strategy and Business Development Group at Eli Lilly and Company, a global pharmaceutical company, from August 2001 to May 2004. From 2000 to August 2001, Mr. Oh served as a consultant with McKinsey & Company, a leading consulting firm, where he focused on the pharmaceutical industry. From 1987 to 1998, Mr. Oh served as an officer in the United States Army, earning the rank of Major. Mr. Oh holds an M.B.A. from the University of Chicago with concentrations in finance, accounting and strategic management as well as a B.S. with a concentration in economics from the United States Military Academy. Mr. Oh serves as a director for the Ames Economic Development Commission. Mr. Oh's employment agreement with us provides that he will serve as a director.

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*Chad Stone*, age 43, has served as our Chief Financial Officer since August 2009. Prior to joining us, he was a Director at Protiviti Inc., a global business consulting and internal audit firm, from October 2007 to May 2009. From August 1997 to September 2007, Mr. Stone served as Director with PricewaterhouseCoopers and was a manager at Arthur Andersen from July 1992 to August 1997. He has been an executive Board Member of the Iowa Biodiesel Board since 2011. Mr. Stone holds an M.B.A. with concentrations in finance, economics and accounting from the University of Chicago, Graduate School of Business and a B.B.A in Accounting from the University of Iowa. He is also a Certified Public Accountant.

*Brad Albin*, age 50, has served as our Vice President, Manufacturing since February 2008. Mr. Albin also served as Vice President of Construction Services from April 2007 through February 2008. From September 2006 through April 2007, Mr. Albin served as Director, Construction. Prior to joining us, Mr. Albin served as General Manager for West Central, one of our predecessors from July 2006 through September 2006. From November 2002 to January 2006, Mr. Albin served as Executive Director of Operations for Material Sciences Corporation, where he directed multi-plant operations for automotive and global appliance industries. From 1996 to 2002, Mr. Albin was the Vice President of Operations for Griffin Industries. Mr. Albin has over 23 years of experience in executive operations positions in multi-feedstock biodiesel, chemical, food and automotive supplier companies, such as The Monsanto Company, The NutraSweet Company and Griffin Industries. Mr. Albin is a charter member of the National Biodiesel Accreditation Committee. Mr. Albin is currently the Past-President of the Iowa Renewable Fuels Association and was the President in 2012, as well as, Vice President in 2011. Mr. Albin holds a B.S. in chemistry from Eastern Illinois University.

*David Elsenbast*, age 51, has served as our Vice President, Supply Chain Management since April 2009. From August 2006 to April 2009, Mr. Elsenbast served as our Vice President, Procurement. Prior to joining us, Mr. Elsenbast served in the same role for West Central, since April 2006. Mr. Elsenbast has also served on the Board of the American Fats and Oils Association since October 2009. From 1990 to March 2006, Mr. Elsenbast served in various roles for Milk Specialties Company, an animal nutrition company, including Vice President of Business Development, Vice President of Operations and Purchasing and General Manager. Mr. Elsenbast has over 28 years in agricultural business development, supply chain management, operations, and purchasing. Mr. Elsenbast holds a B.S. in agricultural business from Iowa State University.

*Gary Haer*, age 59, has served as our Vice President, Sales and Marketing since we commenced operations in August 2006. From October 1998 to August 2006, Mr. Haer served as the National Sales and Marketing Manager for biodiesel for West Central and was responsible for developing the marketing and distribution infrastructure for biodiesel sales in the United States. Mr. Haer has over 16 years of experience in the biodiesel industry. Mr. Haer is currently Chairman of the National Biodiesel Board's Governing Board and has been elected to various officer positions during his tenure from 1998 to 2011. Mr. Haer holds a M.B.A. from Baker University and a B.S. in accounting from Northwest Missouri State University.

### **ITEM 1A. Risk Factors**

Our business, financial condition, results of operations and liquidity are subject to various risks and uncertainties, including those described below, and as a result, the trading price of our common stock could decline.

#### ***Risk Associated With Our Business***

##### **Loss or reductions of governmental requirements for the use of biofuels could have a material adverse affect on our revenues and operating margins.**

The biodiesel industry relies substantially on federal requirements and state policies for use of biofuels. Since biodiesel has been more expensive to produce than petroleum-based diesel fuel over the past few years, the biodiesel industry depends on governmental programs that support a market for biodiesel that might not otherwise exist.

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The most important of these government programs in the United States is RFS2, which requires that a certain volume of biomass-based diesel fuel, which includes biodiesel, be consumed. RFS2 became effective on July 1, 2010 and applies through 2022. We believe that the increase in demand for our biodiesel in 2011 and 2012 is directly attributable to the implementation of RFS2. In addition, we believe that biodiesel prices in 2011 and 2012 benefited significantly from RFS2.

There can be no assurance that Congress will not repeal, curtail or otherwise change, or that the EPA will not curtail or otherwise change the RFS2 program in a manner adverse to us. The petroleum industry is generally opposed to RFS2 and can be expected to continue to press for changes that eliminate or reduce its impact. Any repeal or reduction in the RFS2 requirements or reinterpretation of RFS2 resulting in our biodiesel failing to qualify as a required fuel would materially decrease the demand for and price of our biodiesel, which would materially and adversely harm our revenues and cash flows.

If Congress decides to repeal or curtail RFS2, or if the EPA is not able or willing to enforce RFS2 requirements, the demand for our biodiesel based on this program and any increases in demand that we expect due to RFS2 would be significantly reduced or eliminated and our revenues and operating margins would be materially harmed. In addition, although we believe that state requirements for the use of biofuels increase demand for our biodiesel within such states, they generally may not increase overall demand in excess of RFS2 requirements. Rather, existing demand for our biofuel from petroleum refiners and petroleum fuel importers in the 48 contiguous states or Hawaii, which are defined as "Obligated Parties" in the RFS2 regulations, in connection with federal requirements, may shift to states that have use requirements or tax incentive programs.

The EPA is required to determine the volume of biomass-based diesel that will be required each year beginning in 2013 based on the EPA's consideration of a variety of factors, including biomass-based diesel production, consumption, and infrastructure issues, the likely impact of biomass-based diesel production and use in a variety of areas, including climate change, energy security, the agricultural sector, air quality, transportation fuel costs, job creation, and water quality, and other factors. RFS2 requires that the biomass-based diesel annual volume requirement be at least 1 billion gallons in each of those years. The biomass-based diesel volume requirement for 2013 is 1.28 billion gallons. As of the filing of this report, EPA has not proposed the 2014 requirement for biomass-based diesel. Once proposed by EPA, the Office of Management and Budget, or OMB, has to approve EPA's proposal, based on the same factors outlined above. Extended delay in the proposal and/or final determination or a determination that the biomass-based diesel requirement would be equal to or less than the 1.28 billion gallons required for 2013 may reduce the demand for and price of our biodiesel, which would adversely harm our revenues and cash flows.

### **Our gross margins are dependent on the spread between biodiesel prices and feedstock costs.**

Our gross margins depend on the spread between biodiesel prices and feedstock costs. Historically, the spread between biodiesel prices and feedstock costs has varied significantly. Although actual yields vary depending on the feedstock quality, the average monthly spread between the price per gallon of 100% pure biodiesel, or B100, as reported by The Jacobsen Publishing Company, or The Jacobsen, and the price per gallon for the amount of choice white grease, a common inedible animal fat used by us to make biodiesel, was \$1.83 in 2008, \$1.25 in 2009, \$1.06 in 2010, \$1.32 in 2011 and \$1.26 in 2012 assuming 8.0 pounds of choice white grease yields one gallon of biodiesel. The average monthly spread for the amount of crude soybean oil required to produce one gallon of biodiesel, based on the nearby futures contract as reported on the Chicago Board of Trade, or CBOT, was \$0.61 per gallon in 2008, \$0.39 in 2009, \$0.25 per gallon in 2010, \$0.89 in 2011 and \$0.65 in 2012 assuming 7.5 pounds of soybean oil yields one gallon of biodiesel. For 2011 and 2012, approximately 83% and 84%, respectively, of our total feedstock usage was inedible animal fat, used cooking oil or inedible corn oil and 17% and 16%, respectively, was soybean oil, compared to approximately 91% for inedible animal fat, used cooking or inedible corn oil and 9% for soybean oil in 2010. We expect to see lower feedstock availability in 2013 as a result of recent drought conditions in the Midwest, which is expected to put upward pricing pressure on feedstock prices in the period described.

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Biodiesel has traditionally been marketed primarily as an additive or alternative to petroleum-based diesel fuel and as a result biodiesel prices have been influenced by the price of petroleum-based diesel fuel, adjusted for government incentives supporting renewable fuels, rather than biodiesel production costs. A lack of close correlation between production costs and biodiesel prices means that we may be unable to pass increased production costs on to our customers in the form of higher prices. Any decrease in the spread between biodiesel prices and feedstock costs, whether as a result of an increase in feedstock prices or a reduction in biodiesel prices, including, but not limited to, a reduction in the value of RINs, such as the decrease that occurred in the last few months of 2012, would adversely affect our gross margins, cash flow and results of operations. For a detailed description of RINs, see “Business—Government Programs Favoring Biodiesel Production and Use—Renewable Identification Numbers.”

### **The costs of raw materials that we use as feedstocks are volatile and our results of operations could fluctuate substantially as a result.**

The cost of feedstocks is a significant uncertainty for our business. The success of our operations is dependent on the price of feedstocks and certain other raw materials that we use to produce biodiesel. A decrease in the availability or an increase in the price of feedstocks may have a material adverse effect on our financial condition and operating results. At elevated price levels, these feedstocks may be uneconomical to use, as we may be unable to pass feedstock cost increases on to our customers.

The price and availability of feedstocks and other raw materials may be influenced by general economic, market and regulatory factors. These factors include weather conditions, farming decisions, government policies and subsidies with respect to agriculture and international trade, and global supply and demand. The significance and relative impact of these factors on the price of feedstocks is difficult to predict, especially without knowing what types of feedstock materials will be optimal for use in the future, particularly at new facilities that we may construct or acquire.

Since 2009, we have principally used inedible animal fats, used cooking oil and inedible corn oil as our feedstocks for the production of biodiesel. Our decision to shift to these feedstocks resulted from the reduction in profit caused by a significant increase in soybean oil prices, which rose from \$0.1435 per pound in February 2001 to \$0.7040 per pound in March 2008, and soybean oil having generally remained at high levels since that time. While prices for these alternative feedstocks can experience price volatility similar to soybean oil, their prices can also vary significantly from soybean oil based on market conditions. Since January 1, 2008, the cost per pound of choice white grease, an inedible animal fat commonly used by us in the production of biodiesel, has traded in a range of \$0.0950 to \$0.5250 based on the closing nearby futures prices on the CBOT. The recent drought conditions experienced in the Midwest are expected to increase the cost of corn and other feedstocks, including animal fat. Historically, the price of animal fat has been affected by the amount of rendering volumes in the United States, as well as demand from other markets. As the cost of animal feed rises as a result of the drought in the Midwest, the price of animal products may also rise, thereby reducing demand and rendering volumes. If biodiesel production continues to increase in response to RFS2, we expect that more biodiesel producers will seek to use lower cost feedstocks, potentially increasing our costs of production. In addition, because the market for animal fat is less developed than markets for vegetable oils such as soybean oil, we generally are unable to enter into forward contracts at fixed prices. Further, the markets for used cooking oil and inedible corn oil are in their nascent stages.

The market and supply for used cooking oil as a feedstock for biodiesel is growing. The commercial supply of inedible corn oil is growing as more ethanol producers are installing corn oil extraction technology in their ethanol plants. It is not generally available in quantities sufficient to cover all of our operations. Approximately half of U.S. ethanol plants have the equipment necessary to extract inedible corn oil that can be used in biodiesel production. There are a number of additional ethanol producers who have announced plans to install corn oil extraction equipment in their ethanol plants. If more ethanol plants do not acquire and utilize corn oil extraction equipment or if ethanol plants are idled, we may not be able to obtain additional amounts of inedible corn oil for use in our production of biodiesel and may be forced to utilize higher cost feedstocks to meet increased demand, which may not be economical.



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### **Loss of or reductions in tax incentives for biodiesel production or consumption would have a material adverse affect on our revenues and operating margins.**

The biodiesel industry is also substantially aided by federal and state tax incentives. Prior to RFS2, the biodiesel industry relied principally on these tax incentives to bring the price of biodiesel more in line with the price of petroleum-based diesel fuel to the end user. The most significant tax incentive program was the federal blenders tax credit. The blenders tax credit provided a \$1.00 refundable tax credit per gallon of pure biodiesel, or B100, to the first blender of biodiesel with petroleum-based diesel fuel. The blenders tax credit expired on December 31, 2009 and was re-enacted in December 2010, retroactively for all of 2010 and prospectively for 2011. The blenders tax credit expired again on December 31, 2011 and was again re-enacted on January 2, 2013, retroactively for all of 2012 and prospectively for 2013. There is no assurance that it will be reinstated when it expires at the end of 2013. Unlike RFS2, the blenders tax credit has a direct effect on federal government spending and could be changed or eliminated as a result of changes in the federal budget policy. The absence of and uncertainty around the blenders tax credit during 2012 materially curtailed demand for biodiesel and reduced margins. Although the blenders tax credit was reinstated for all of 2012, it was restated in January of 2013 and thus will be reflected in our 2013 earnings. It is uncertain what action, if any, Congress may take with respect to extending the blenders tax credit beyond 2013 or when such action might be effective. If Congress does not reinstate the credit, demand for our biodiesel and the price we are able to charge for our product may be significantly reduced, harming revenues and profitability. With the blenders tax credit expiring on December 31, 2011, we believe that we experienced an industry-wide acceleration of gallons sold in the fourth quarter of 2011, which was further influenced by the ability of Obligated Parties to satisfy up to 20% of their renewable volume obligation, or RVO, for 2012 through RINs obtained in 2011. We believe the resulting buildup of biodiesel inventories reduced gallons sold in the first quarter of 2012. We may experience something similar with the blenders tax credit scheduled to expire again on December 31, 2013.

In addition, several states have enacted tax incentives for the use of biodiesel. For example, Illinois offers an exemption from the generally applicable 6.25% sales tax for biodiesel blends that incentivizes blending at 11% biodiesel, or B11. Like the federal blenders tax credit, the Illinois tax incentive program and the tax incentive programs of other state could be changed as a result of state budget considerations or otherwise. Reduction or elimination of such incentives could materially and adversely harm our revenues and profitability.

### **Risk management transactions could significantly increase our operating costs and working capital requirements and may not be effective.**

In an attempt to partially offset the effects of volatile feedstock costs and biodiesel fuel prices, we may enter into contracts that establish market positions in feedstocks, such as inedible corn oil, used cooking oil, inedible animal fats and soybean oil, and related commodities, such as heating oil and ultra-low sulfur diesel, or ULSD. The financial impact of such market positions will depend on commodity prices at the time that we are required to perform our obligations under these contracts. Risk management arrangements will also expose us to the risk of financial loss in situations where the counterparty defaults on its contract or, in the case of exchange-traded or over-the-counter futures or options contracts, where there is a change in the expected differential between the underlying price in the contract and the actual prices paid or received by us. Risk management activities can themselves result in losses when a position is purchased in a declining market or a position is sold in a rising market. Changes in the value of these futures instruments are recognized in current income and may result in margin calls. We may also vary the amount of risk management strategies we undertake, or we may choose not to engage in risk management transactions at all. Further, our ability to reduce the risk of falling biodiesel prices and rising feedstock costs will be limited as currently there is no established futures market for biodiesel or the vast majority of our feedstocks, nor are fixed-price long-term contracts generally available. As a result, our results of operations and financial position may be adversely affected by increases in the price of feedstocks or decreases in the price of biodiesel that are not managed effectively. For example, we had losses of \$4.6 million from risk management trading activity for the year ended December 31, 2012, compared to gains of \$3.0 million from risk management trading for the year ended December 31, 2011, respectively. Our increased losses were

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largely due to a decrease in soybean oil prices in September 2012 and an increase in heating oil prices during the third quarter of 2012 which resulted in reduced market value of our derivative financial instruments related to fourth quarter biodiesel sales.

### **Our success depends on our ability to manage our growing and changing operations.**

Since our formation, our business has grown significantly in size and complexity. This growth has placed, and is expected to continue to place, significant demands on our management, systems, internal controls and financial and physical resources. In addition, we expect that we will need to further develop our financial and managerial controls and reporting systems to accommodate future growth. This will require us to incur expenses related to hiring additional qualified personnel, retaining professionals to assist in developing the appropriate control systems and expanding our information technology infrastructure. Our inability to manage growth effectively could have a material adverse effect on our results of operations, financial position and cash flows.

### **One customer accounted for a meaningful percentage of revenues and a loss of this customer could have an adverse impact on our total revenues.**

One customer, Pilot Travel Centers LLC, or Pilot, accounted for 36% and 23% of our total revenues in 2012 and 2011, respectively. Our agreements with Pilot have typically had a one-year term and our current agreement with Pilot expires December 31, 2013. In the event we lose Pilot as a customer or Pilot significantly reduces the volume of biodiesel it buys from us, it could be difficult to replace the lost revenues in the short term and potentially over an extended period, and our profitability and cash flow could be materially harmed.

### **Our business is primarily dependent upon one product. As a consequence, we may not be able to adapt to changing market conditions or endure any decline in the biodiesel industry.**

Our business is currently focused almost entirely on the production and sale of biodiesel, with glycerin and fatty acid sales and the operations of our Services segment representing only a small portion of revenues. Our reliance on biodiesel means that we may not be able to adapt to changing market conditions or to withstand any significant decline in the size or profitability of the biodiesel industry. For example, in 2009, the beginning of 2010, we were required to periodically idle our plants due to insufficient demand at profitable price points which materially affected our revenues. If we are required to idle our plants in the future or are unable to adapt to changing market conditions, our revenues and results of operations may be materially harmed.

### **Technological advances and changes in production methods in the biodiesel industry could render our plants obsolete and adversely affect our ability to compete.**

It is expected that technological advances in biodiesel production methods will continue to occur and new technologies for biodiesel production may develop. Advances in the process of converting oils and fats into biodiesel could allow our competitors to produce biodiesel faster and more efficiently and at a substantially lower cost. If we are unable to adapt or incorporate technological advances into our operations, our production facilities could become less competitive or obsolete. Further, it may be necessary for us to make significant expenditures to acquire any new technology and retrofit our plants in order to incorporate new technologies and remain competitive. There is no assurance that third-party licenses for any proprietary technologies that we would need access to in order to remain competitive for either existing processes or new technology will be available to us on commercially reasonable terms or that any new technologies could be incorporated into our plants. In order to execute our strategy to expand into the production of renewable chemicals, additional advanced biofuels, next generation feedstocks and related renewable products, we may need to acquire licenses or other rights to technology from third parties. We can provide no assurance that we will be able to obtain such licenses or rights on favorable terms. If we are unable to obtain, implement or finance new technologies, our production facilities could be less efficient than our competitors, we may not be able to successfully execute our strategy and our results of operations could be substantially harmed.

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### **If we are unable to respond to changes in ASTM or customer standards, our ability to sell biodiesel may be harmed.**

We currently produce biodiesel to conform to or exceed standards established by ASTM. ASTM standards for biodiesel and biodiesel blends may be modified in response to new observations from the industries involved with diesel fuel. New tests or more stringent standards may require us to make additional capital investments in, or modify, plant operations to meet these standards. In addition, some biodiesel customers have developed their own biodiesel standards which are stricter than the ASTM standards. If we are unable to meet new ASTM standards or our biodiesel customers' standards cost effectively or at all, our production technology may become obsolete, and our ability to sell biodiesel may be harmed, negatively impacting our revenues and profitability.

### **Increases in our transportation costs or disruptions in our transportation services could have a material adverse effect on our business.**

Our business depends on transportation services to deliver our products to our customers and to deliver raw materials to us. The costs of these transportation services are affected by the volatility in fuel prices, such as those caused by recent geopolitical and economic events. For example, in 2012, the market rates of leasing new rail cars nearly doubled as a result of increased demand to move domestically drilled crude oil from new supply fields in the upper Midwest to various refineries. We have not been able in the past, and may not be able in the future, to pass along part or all of any of these increases to customers. If we continue to be unable to increase our prices as a result of increased fuel costs charged to us by transportation providers, our gross margins may be materially adversely affected.

If any transportation providers fail to deliver raw materials to us in a timely manner, we may be unable to manufacture products on a timely basis. Shipments of products and raw materials may be delayed due to weather conditions, strikes or other events. Any failure of a third-party transportation provider to deliver raw materials or products in a timely manner could harm our reputation, negatively affect our customer relationships and have a material adverse effect on our business, financial condition and results of operations.

### **We are dependent upon our key management personnel and the loss of any of these persons could adversely affect our results of operations.**

We are highly dependent upon key members of our management team for the execution of our business plan. We believe that our future success is highly dependent on the contributions of these key employees. There can be no assurance that any individual will continue in his or her capacity for any particular period of time. The loss of any of these key employees could delay or prevent the achievement of our business objectives and have a material adverse effect upon our results of operations and financial position.

### **We and certain subsidiaries have indebtedness, which subjects us to potential defaults, could adversely affect our ability to raise additional capital to fund our operations and limits our ability to react to changes in the economy or the biodiesel industry.**

At December 31, 2012, our total long-term debt was \$31.8 million. This includes consolidated long-term debt owed by our Variable Interest Entities, or VIEs, including 416 South Bell, LLC, or Bell, LLC. In December 2011, certain of our subsidiaries entered into a new revolving credit agreement with a bank group and Wells Fargo Capital Finance, LLC, which we refer to as the Wells Fargo Revolver. At December 31, 2012, there was no balance outstanding under our lines of credit, all of which we guarantee.

All of the agreements for our indebtedness contain financial covenants the breach of which would result in an event of default by us or our subsidiary obligor. For a discussion of the financial covenants related to our debt agreements, see "Management's discussion and analysis of financial condition and results of operations—Liquidity."

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Our subsidiaries are required annually to pay a certain portion of our excess cash flow at our Danville and Newton facilities to their respective lenders, which reduces the cash flow that we receive from these facilities.

Our indebtedness could:

- require us to dedicate a substantial portion of our cash flow from operations to payments of principal, interest on, and other fees related to such indebtedness, thereby reducing the availability of our cash flow to fund working capital and capital expenditures, and for other general corporate purposes;
- increase our vulnerability to general adverse economic and biodiesel industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business and the biodiesel industry, which may place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit among other things, our ability to borrow additional funds.

**Despite our current debt levels, we and our subsidiaries may incur substantially more debt. This could exacerbate the risks associated with our substantial indebtedness.**

We and our subsidiaries may incur substantial additional debt in the future, including secured debt. We and certain of our subsidiaries are not currently prohibited under the terms of our debt from incurring additional debt, pledging assets, refinancing our debt or taking a number of other actions that could diminish our ability to make payments thereunder. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

**We have partially constructed or non-operational plants and planned plant upgrades that require capital that we may not be able to raise and an impairment could negatively impact our financial position, results of operations and future cash flows.**

We have three partially constructed plants, one near New Orleans, Louisiana, one in Emporia, Kansas and one in Clovis, New Mexico. We expect it will require additional investments of approximately \$130 to \$140 million in the aggregate, excluding working capital requirements, before these plants would be able to commence production. Our Clovis plant is currently being operated as a terminal facility to fulfill biodiesel contracts for customers in the Southwest. In order to complete construction or upgrade these facilities as planned, we will require additional capital. In November 2012, we acquired a biodiesel facility near Atlanta, Georgia that had been idled prior to our acquisition and will remain so until certain repairs or upgrades are made. We also have various upgrades planned for our operating facilities, including the upgrades we are currently completing at our Albert Lea, Minnesota and New Boston, Texas facility. While we intend to finance certain upgrades to our existing facilities from our cash flow from operations, we will need to raise significant capital to complete construction of the three partially constructed facilities and to fund related working capital requirements. It is uncertain when or if financing will be available. It is also likely that the terms of any project financing would include customary financial and other covenants restricting our project subsidiaries, including restrictions on the ability to make distributions, to guarantee indebtedness and to incur liens on the plants of such subsidiaries. We also may engage in acquisitions of assets or facilities in the future that require significant investment to complete or operate. If we are unable to obtain such capital on satisfactory terms, or if such capital is otherwise unavailable, or if we encounter cost overruns on these projects such that we have insufficient capital, we may have to postpone completion of these projects indefinitely, which may adversely affect our ability to implement our strategy and our future revenues and future cash flows.

**We may not successfully identify and complete acquisitions and other strategic relationships on favorable terms or achieve anticipated synergies relating to any such transactions, and integration of acquisitions may disrupt our business and management.**

We regularly review domestic and international acquisitions of biodiesel production facilities and have acquired most of our facilities from third parties. However, we may be unable to identify suitable acquisition candidates in

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the future. Even if we identify appropriate acquisition candidates, we may be unable to complete such acquisitions on favorable terms, if at all. In addition, we may not realize the anticipated benefits of any or all of our past or future transactions and each transaction has numerous risks. These risks include:

- difficulty in integrating the operations and personnel of the acquired company;
- difficulty in effectively integrating the acquired technologies, products or services with our current technologies, products or services;
- disruption of our ongoing business and distraction of our management and employees from other opportunities and challenges;
- inability to achieve the financial and strategic goals for the acquired and combined businesses;
- incurring acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- the need to fund significant working capital requirements of any acquired production facilities;
- potential failure of the due diligence processes to identify significant problems, liabilities or other shortcomings or challenges of an acquired company or technology, including but not limited to, issues with the acquired company's intellectual property, product quality, environmental liabilities, data back-up and security, revenue recognition or other accounting practices, employee, customer or partner issues or legal and financial contingencies;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to, claims from terminated employees, customers, former stockholders or other third parties; and
- incurring significant exit charges if products or services acquired in business combinations are unsuccessful.

In addition, one of our strategic goals is to expand our biodiesel production capabilities into international markets. In the event we expand our operations into international markets through acquisitions or otherwise, we may be exposed to additional risks, including unexpected changes in foreign laws and regulations, political and economic instability, challenges in managing foreign operations, increased costs to adapt our systems and practices to those used in foreign countries, export duties, currency fluctuations and restrictions, tariffs and other trade barriers, and the burdens of complying with a wide variety of foreign laws, each of which could have a material adverse effect on our business, financial condition, results of operations and liquidity.

**We intend to pursue strategic initiatives to diversify our business that will require significant funding and management attention and these initiatives may not be successful.**

We are seeking opportunities to diversify our product lines, as a commercialization partner for companies engaged in the development of new advanced biofuels, by using our biorefinery platform to produce renewable chemicals from bio-mass feedstocks and by entering entirely new industries through acquisitions or otherwise. There is no assurance that new technologies capable of economically producing advanced biofuels will be developed, that the developers of these technologies will select us as their commercialization partner or that the terms of any such collaborative arrangement will be favorable to us. Further, the renewable chemicals market is underdeveloped. Any chemicals that we produce from renewable sources may not prove to be as effective as chemicals produced from petroleum or other sources and, regardless of their effectiveness, renewable chemicals may not be accepted in the chemical marketplace. Furthermore, we may not be able to acquire companies in different industries at attractive valuations or at all. These strategic initiatives will require significant funding and management attention, and if we are not successful in implementing them, our financial condition and results of operations may be harmed.

**We may be obligated to redeem our Series B preferred stock beginning in 2015.**

On June 30, 2015, each holder of the then-outstanding shares of Series B preferred stock may require that up to all of such holder's shares of Series B preferred stock be redeemed by us out of funds lawfully available at a

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price per share equal to \$25 per share plus any accumulated and unpaid dividends. As of the date of this filing, the amount of this potential obligation would be approximately \$74.9 million. In order to satisfy any redemption request, we may need to use limited cash resources on hand, be required to borrow money, issue equity securities or sell assets to meet this obligation, which could impair our working capital, reduce the funds necessary to operate and grow our business, involve significant dilution to holders of our Common Stock or require the disposition of our key assets. If we are subject to a redemption request, it could have a material adverse effect on our financial condition, results of operations and cash flows, and cause the price of our Common Stock to decline.

### **Our business is subject to seasonal fluctuations, which are likely to cause our revenues and operating results to fluctuate.**

Our operating results are influenced by seasonal fluctuations in the price of and demand for biodiesel. Our sales tend to decrease during the winter season due to perceptions that biodiesel will not perform adequately in colder weather. Colder seasonal temperatures can cause the higher cloud point biodiesel we make from inedible animal fats to become cloudy and eventually gel at a higher temperature than petroleum-based diesel or lower cloud point biodiesel made from soybean, canola, used cooking oil or inedible corn oil. Such gelling can lead to plugged fuel filters and other fuel handling and performance problems for customers and suppliers. Reduced demand in the winter for our higher cloud point biodiesel may result in excess supply of such higher cloud point biodiesel and lower prices for such higher cloud point biodiesel. In addition, most of our production facilities are located in colder Midwestern states and our costs of shipping biodiesel to warmer climates generally increase in cold weather months. As a result of these seasonal fluctuations, comparisons of operating measures between consecutive quarters may not be as meaningful as comparisons between longer reporting periods.

### **Failure to comply with governmental regulations, including EPA requirements relating to RFS2, could result in the imposition of penalties, fines, or restrictions on our operations and remedial liabilities.**

The biodiesel industry is subject to extensive federal, state and local laws and regulations related to the general population's health and safety and compliance and permitting obligations, including those related to the use, storage, handling, discharge, emission and disposal of municipal solid waste and other waste, pollutants or hazardous substances, discharges, air and other emissions, as well as land use and development. Existing laws also impose obligations to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Compliance with these laws, regulations and obligations could require substantial capital expenditures. Failure to comply could result in the imposition of penalties, fines or restrictions on operations and remedial liabilities. These costs and liabilities could adversely affect our operations.

Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to attain and maintain compliance and may otherwise have a material adverse effect on our business in general and on our results of operations, competitive position or financial condition. We are unable to predict the effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would significantly increase our cost of doing business or affect our operations in any area.

Under certain environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or contamination, or if current or prior operations were conducted consistent with accepted standards of practice. Such liabilities can be significant and, if imposed, could have a material adverse effect on our financial condition or results of operations.

In addition to the regulations mentioned above, we are subject to various laws and regulations related to RFS2, most significantly regulations related to the generation and dissemination of RINs. These regulations are highly

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complex and evolving, requiring us to periodically update our compliance systems. For example, in 2008, we unintentionally generated duplicate RINs as a result of a change to the software we use to manage RIN generation. We voluntarily reported this violation to the EPA and followed EPA guidance in correcting the issue promptly. In 2011, we entered into an administrative settlement agreement with the EPA regarding this violation and paid a fine for this inadvertent violation. Any violation of these regulations by us, inadvertently or otherwise, could result in significant fines and harm our customers' confidence in the RINs we issue, either of which could have a material adverse effect on our business. For a detailed description of RINs, see "Business—Government Programs Favoring Biodiesel Production and Use—Renewable Identification Numbers."

In response to certain cases of RIN fraud whereby biodiesel producers were selling biomass-based diesel RINs without having produced the required renewable fuel, the EPA has recently instituted a quality assurance program for RIN compliance. Compliance with these or any new regulations or Obligated Party verification procedures could require significant expenditures to attain and maintain compliance. Failure to comply could result in the imposition of penalties, fines, restrictions on operations, loss of customers and remedial liabilities. These costs and liabilities may have a material adverse effect on our business in general and on our results of operations, competitive position or financial condition. We are unable to predict the effect of any additional regulatory or customer requirements which may be adopted in the future, including whether any such regulations or verification procedures would significantly increase our cost of doing business or affect our operations in any area.

### **We are a holding company and there are limitations on our ability to receive dividends and distributions from our subsidiaries.**

All of our principal assets, including our biodiesel production facilities, are owned by subsidiaries and some of these subsidiaries are subject to loan covenants that generally restrict them from paying dividends, making distributions or making loans to us or to any other subsidiary. These limitations will restrict our ability to repay indebtedness, finance capital projects or pay dividends to stockholders from our subsidiaries' cash flows from operations.

### **Our business may suffer if we are unable to attract or retain talented personnel.**

Our success depends on the abilities, expertise, judgment, discretion, integrity, and good faith of our management and employees to manage the business and respond to economic, market and other conditions. We have a relatively small management team and employee base, and the inability to attract suitably qualified replacements or additional staff could adversely affect our business. No assurance can be given that our management team or employee base will continue their employment, or that replacement personnel with comparable skills could be found. If we are unable to attract and retain key personnel and additional employees, our business may be adversely affected.

### **If we fail to maintain effective internal control over financial reporting, we might not be able to report our financial results accurately or prevent fraud; in that case, our stockholders could lose confidence in our financial reporting, which would harm our business and could negatively impact the value of our stock.**

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. The process of maintaining our internal controls may be expensive and time consuming and may require significant attention from management. Although we have concluded as of December 31, 2012 that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness, the disclosure of that fact could harm the value of our stock and our business.

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### **A natural disaster, leak, fire or explosion at any of our production plants or customer's facilities could increase our costs and liabilities.**

Because biodiesel and some of its inputs and outputs are combustible and flammable, a leak, fire or explosion may occur at a plant or customer's facility which could result in damage to the plant and nearby properties, injury to employees and others, and interruption of operations. In addition, our Houston facility, due to its coastal location, is vulnerable to hurricanes, which may cause plant damage, injury to employees and others and interruption of operations and all of our plants could incur damage from other natural disasters. A majority of our facilities are also located in the Midwest, which is subject to tornado activity. If any of the foregoing events occur, we may incur significant additional costs including, among other things, loss of profits due to unplanned temporary or permanent shutdowns of our facilities, clean-up costs, liability for damages or injuries, legal expenses, and reconstruction expenses, which would seriously harm our results of operations and financial condition.

### **Our insurance may not protect us against our business and operating risks.**

We maintain insurance for some, but not all, of the potential risks and liabilities associated with our business. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially and, in some instances, certain insurance policies may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. Although we intend to maintain insurance at levels we believe are appropriate for our business and consistent with industry practice, we will not be fully insured against all risks. In addition, pollution, environmental risks and the risk of natural disasters generally are not fully insurable. Losses and liabilities from uninsured and underinsured events and delay in the payment of insurance proceeds could have a material adverse effect on our financial condition and results of operations.

### **Confidentiality agreements with employees and others may not adequately prevent disclosures of confidential information, trade secrets and other proprietary information.**

We rely in part on trade secret protection to protect our confidential and proprietary information and processes. However, trade secrets are difficult to protect. We have taken measures to protect our trade secrets and proprietary information, but these measures may not be effective. For example, we require new employees and consultants to execute confidentiality agreements upon the commencement of their employment or consulting arrangement with us. These agreements generally require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. These agreements also generally provide that knowhow and inventions conceived by the individual in the course of rendering services to us are our exclusive property. Nevertheless, these agreements may be breached, or may not be enforceable, and our proprietary information may be disclosed. Further, despite the existence of these agreements, third parties may independently develop substantially equivalent proprietary information and techniques. Accordingly, it may be difficult for us to protect our trade secrets. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Moreover, we cannot assure you that our technology does not infringe upon any valid claims of patents that other parties own. In the future, if we are found to be infringing on a patent owned by a third party, we might have to seek a license from such third party to use the patented technology. We cannot assure you that, if required, we would be able to obtain such a license on terms acceptable to us, if at all. If a third party brought a legal action against us or our licensors, we could incur substantial costs in defending ourselves, and we cannot assure you that such an action would be resolved in our favor. If such a dispute were to be resolved against us, we could be subject to significant damages.



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### **Insiders have substantial control over us and will continue to be able to exercise influence over corporate matters.**

As of February 28, 2013, our five largest stockholders beneficially owned, in the aggregate, sufficient shares of our voting stock to exercise control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. In addition, subject to certain exceptions, two of our largest stockholders, USRG Holdco V, LLC, which together with its affiliates we refer to as USRG, and NGP Energy Technology Partners, L.P., will hold rights to each designate a member of our board of directors for the next two years. This concentration of ownership and contractual power over the appointment of directors could limit other stockholders' ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

### **In the event we enter into new construction contracts, we may be exposed to a variety of risks that could affect our ability to realize profit.**

While our construction services management business has had only limited external operations over the last three years, we intend to continue to pursue opportunities to provide these services. Substantially all of our revenues from our new facility construction services business have been derived from fixed unit price contracts. Fixed unit price contracts require us to perform the contract for a fixed unit price irrespective of our actual costs. As a result, we realize a profit on these contracts only if we and our subcontractors successfully estimate our costs and then successfully control actual costs and avoid cost overruns. Further, we have historically subcontracted substantially all of our construction work to Todd & Sargent, Inc. and TSW, LLC on a time and materials, rather than fixed, basis. As a result, we have less control over the largest component of our plant construction costs and the risk of cost overruns generally falls on us rather than our subcontractors. If we or our subcontractors do not perform a contract within cost estimates, then cost overruns may cause us to incur losses or cause the contract not to be as profitable as we initially expected. This, in turn, could negatively affect our cash flow, earnings and financial position. As we have acquired assets and begun consolidating the industry, our construction services management business has almost exclusively been focused on internal intercompany projects.

If we or our subcontractors perform extra or change order work that is not approved by the customer in advance we may have a dispute with the customer over whether the work performed is beyond the scope of the work included in the original project plans and specifications or, if the customer agrees that the work performed qualifies as extra work, the price that the customer is willing to pay for the extra work. These disputes may result in us not receiving payment for all or a significant portion of work that we or our subcontractors have performed. Even where the customer agrees to pay for the extra work, we may be required to fund the cost of that work for a lengthy period of time until the change order is approved and paid by the customer. To the extent actual recoveries with respect to change orders or amounts subject to contract disputes or claims are less than the estimates used in our financial statements, the amount of any shortfall will reduce our revenues and profits, and this could have a material adverse effect on our working capital and results of operations.

### ***Risks Related to the Biodiesel Industry***

**The market price of biodiesel is influenced by the price of petroleum-based distillate fuels, such as ultra-low sulfur diesel, and decreases in the price of petroleum-based distillate fuels or RIN values would very likely decrease the price we can charge for our biodiesel, which could harm our revenues and profitability.**

Historically, biodiesel prices have been strongly correlated to petroleum-based diesel prices and in particular ULSD, regardless of the cost of producing biodiesel itself. We market our biofuel as an alternative to petroleum-based fuels. Therefore, if the price of petroleum-based diesel falls, the price of biodiesel could decline, and we may be unable to produce products that are an economically viable alternative to petroleum-based fuels. Petroleum prices are volatile due to global factors, such as the impact of wars, political uprisings, OPEC production quotas, worldwide economic conditions, changes in refining capacity and natural disasters. Additionally, demand for liquid transportation fuels, including biodiesel, is impacted by economic conditions.

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Just as a small reduction in the real or anticipated supply of crude oil can have a significant upward impact on the price of petroleum-based fuels, a perceived reduction of such threats can result in a significant reduction in petroleum-based fuel prices. A reduction in petroleum-based fuel prices may have a material adverse affect on our revenues and profits if such price decrease reduces the price we are able to charge for our biodiesel.

There was a sharp decline in RIN prices during third quarter 2012 that carried through the end of the year. During this period, RIN pricing declined from \$1.17 per RIN at June 30, 2012 to \$0.64 per RIN at December 31, 2012, as reported by OPIS, which contributed to the decline in price of biodiesel. A reduction in RIN values, such as those experienced in the second half of 2012, may have a material adverse affect on our revenues and profits as such price decrease reduce the price we are able to charge for our biodiesel.

### **We operate in a highly competitive industry and competition in our industry would increase if new participants enter the biodiesel business.**

We operate in a very competitive environment. The biodiesel industry is primarily comprised of smaller entities that engage exclusively in biodiesel production, large integrated agribusiness companies that produce biodiesel along with their soybean crush businesses and increasingly, integrated petroleum companies. We face competition for capital, labor, feedstocks and other resources from these companies. In the United States, we compete with soybean processors and refiners, including Archer-Daniels-Midland Company, LLC, Cargill, Inc. and Louis Dreyfus Commodities. In addition, petroleum refiners are increasingly entering into biodiesel and renewable diesel production. These and other competitors that are divisions of larger enterprises may have greater financial resources than we do. We also have many smaller competitors. If our competitors consolidate or otherwise grow and we are unable to similarly increase our scale, our business and prospects may be significantly and adversely affected.

In addition, petroleum companies and diesel retailers form the primary distribution networks for marketing biodiesel through blended petroleum-based diesel. If these companies increase their direct or indirect biodiesel and renewable diesel production, there will be less of a need to purchase biodiesel from independent biodiesel producers like us. Such a shift in the market would materially harm our operations, cash flows and financial position.

### **The development of alternative fuels and energy sources may reduce the demand for biodiesel, resulting in a reduction in our revenues and profitability.**

The development of alternative fuels, including a variety of energy alternatives to biodiesel has attracted significant attention and investment. Neste Oil operates four renewable diesel plants: a 240 million gallon per year plant in Singapore, a 240 million gallon per year plant in Rotterdam, Netherlands, and two 60 million gallon per year plants in Porvoo, Finland. Dynamic Fuels, LLC, has recently announced that their 75 million gallon per year renewable diesel plant in Geismar, Louisiana was producing near its reported capacity. Diamond Green Diesel, LLC has announced that it expects to complete construction of its 137 million gallon per year renewable diesel plant in Norco, Louisiana in 2013. Under RFS2, renewable diesel made from biomass meets the definition of biomass-based diesel and thus is eligible, along with biodiesel, to satisfy the RFS2 biomass-based diesel requirement described in "Business—Government Programs Favoring Biodiesel Production and Use." Furthermore, under RFS2, renewable diesel may receive up to 1.7 RINs per gallon, whereas biodiesel currently receives 1.5 RINs per gallon. For a detailed description of RINs and RIN values, see "Business—Government Programs Favoring Biodiesel Production and Use—Renewable Identification Numbers." As the value of RINs increases, this 0.2 RIN advantage may make renewable diesel more cost-effective, both as a petroleum-based diesel substitute and for meeting RFS2 requirements. If renewable diesel proves to be more cost-effective than biodiesel, our revenues and results of operations would be adversely impacted.

In addition, the EPA may allow other fuels to satisfy the RFS2 requirements and allow RINs to be attached to these fuels. The EPA recently proposed regulations to amend the definition of "Home Heating Oil" under RFS2,

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which may expand the scope of fuels eligible to generate RINs. If the proposed rule is finalized, this could increase competition within heating oil markets by introducing fuels that could generate more RINs (i.e., cellulosic diesel) and or be more cost competitive than biodiesel utilized as heating oil.

The biodiesel industry will also face increased competition resulting from the advancement of technology by automotive, industrial and power generation manufacturers which are developing more efficient engines, hybrid engines and alternative clean power systems. Improved engines and alternative clean power systems offer a technological solution to address increasing worldwide energy costs, the long-term availability of petroleum reserves and environmental concerns. If and when these clean power systems are able to offer significant efficiency and environmental benefits and become widely available, the biodiesel industry may not be able to compete effectively with these technologies and government requirements for the use of biodiesel may not continue.

The development of alternative fuels and renewable chemicals also puts pressure on feedstock supply and availability to the biodiesel industry. If these emerging technologies compete with biodiesel for feedstocks, are more profitable or have greater governmental support than biodiesel does, then the biodiesel industry may have difficulty in procuring the feedstocks necessary to be successful.

### **Increased industry-wide production of biodiesel could have a negative effect on our margins and there remains excess production capacity in the biodiesel industry.**

According to EPA EMTS data, approximately 1.1 billion gallons of biomass-based diesel was produced in the United States in 2011, and 1.14 billion was produced in 2012, primarily reflecting the recommencement of, or increase in, operations at underutilized facilities in response to RFS2 requirements. Such production was in excess of the 800 million gallon RFS2 requirement for 2011 and one billion gallon requirement for 2012. Should biodiesel production continue to remain above RFS2 required volumes, which is 1.28 billion for 2013, the resulting supply could put downward pressure on our margins for biodiesel, negatively affecting our profitability. In addition, because the level of production in 2011 and 2012 exceeded the 2011 and 2012 RFS2 requirements, respectively, the demand for biodiesel in 2013 could be less than 2013 RFS2 required volumes. Under RFS2, Obligated Parties are entitled to satisfy up to 20% of their annual volume requirement for any given year with gallons used in the previous year so long as they are in compliance with the RFS2. The carry-over of gallons from 2012 may have some adverse effect on biodiesel demand in 2013.

Many biodiesel plants in the United States do not currently operate, and of those that do, many do not operate at full capacity. According to the NBB, as of September 12, 2012, 2.7 billion gallons per year of biodiesel production capacity in the United States were registered under the RFS2 program by NBB members. In addition to this amount, several hundred more gallons of U.S. based biomass-based diesel production capacity was registered by non-NBB members and another 1.2 billion gallons of biomass-based diesel production was registered by foreign producers. Furthermore, plants under construction and expansion in the United States as of December 31 2011, if completed, could add an additional several hundred million gallons of annual biodiesel production capacity. The annual production capacity of existing plants and plants under construction far exceeds both historic consumption of biodiesel in the United States and required consumption under RFS2. If this excess production capacity was fully utilized for the U.S. market, it would increase competition for our feedstocks, increase the volume of biomass-based diesel on the market and may reduce biodiesel gross margins, harming our revenues and profitability.

### **The European Commission has imposed anti-dumping and countervailing duties on biodiesel blends imported into Europe, which have effectively eliminated our ability to sell those biodiesel blends in Europe.**

In March 2009, as a response to the federal blenders tax credit, the European Commission imposed anti-dumping and anti-subsidy tariffs on biodiesel produced in the United States. These tariffs have effectively eliminated

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European demand for 20% biodiesel blends, or B20, or higher imported from the United States. The European Commission has extended these tariffs through 2014. In May 2011, the European Commission imposed similar anti-dumping and countervailing duties on biodiesel blends below B20. These duties significantly increase the price at which we and other United States biodiesel producers will be able to sell such biodiesel blends in European markets, making it difficult or impossible to compete in the European biodiesel market. These anti-dumping and countervailing duties therefore decrease the demand for biodiesel produced in the United States and increase the supply of biodiesel available in the United States market. Such market dynamics may negatively impact our revenues and profitability.

**If automobile manufacturers and other industry groups express reservations regarding the use of biodiesel, our ability to sell biodiesel will be negatively impacted.**

Because it is a relatively new product, research on biodiesel use in automobiles is ongoing. Some industry groups have recommended that blends of no more than 5% biodiesel be used for automobile fuel due to concerns about fuel quality, engine performance problems and possible detrimental effects of biodiesel on rubber components and other engine parts. Although some manufacturers have encouraged use of biodiesel fuel in their vehicles, cautionary pronouncements by other manufacturers or industry groups may impact our ability to market our biodiesel.

**Perception about “food vs. fuel” could impact public policy which could impair our ability to operate at a profit and substantially harm our revenues and operating margins.**

Some people believe that biodiesel may increase the cost of food, as some feedstocks such as soybean oil used to make biodiesel can also be used for food products. This debate is often referred to as “food vs. fuel.” This is a concern to the biodiesel industry because biodiesel demand is heavily influenced by government policy and if public opinion were to erode, it is possible that these policies would lose political support. These views could also negatively impact public perception of biodiesel. Such claims have led some, including members of Congress, to urge the modification of current government policies which affect the production and sale of biofuels in the United States.

**Concerns regarding the environmental impact of biodiesel production could affect public policy which could impair our ability to operate at a profit and substantially harm our revenues and operating margins.**

Because biodiesel is a relatively new product, the environmental impacts associated with biodiesel production and uses have not yet been fully analyzed. Under the 2007 Energy Independence and Security Act, the EPA is required to produce a study every three years of the environmental impacts associated with current and future biofuel production and use, including effects on air and water quality, soil quality and conservation, water availability, energy recovery from secondary materials, ecosystem health and biodiversity, invasive species and international impacts. The first such triennial report was released in February 2012. The 2012 report concludes that (1) the extent of negative impacts to date are limited in magnitude and are primarily associated with the intensification of corn production; (2) whether future impacts are positive or negative will be determined by the choice of feedstock, land use change, cultivation and conservation practices; and (3) realizing potential benefits will require implementation and monitoring of conservation and best management practices, improvements in production efficiency, and implementation of innovative technologies at commercial scales. Should future EPA triennial studies, or other analyses find that biodiesel production and use has resulted in, or could in the future result in, adverse environmental impacts, such findings could also negatively impact public perception of biodiesel and acceptance of biodiesel as an alternative fuel, which also could result in the loss of political support.

To the extent that state or federal laws are modified or public perception turns against biodiesel, use requirements such as RFS2 and state tax incentives may not continue, which could materially harm our ability to operate profitably.

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### **Problems with product performance, in cold weather or otherwise, could cause consumers to lose confidence in the reliability of biodiesel which, in turn, would have an adverse impact on our ability to successfully market and sell biodiesel.**

Concerns about the performance of biodiesel could result in a decrease in customers and revenues and an unexpected increase in expenses. Biodiesel typically has a higher cloud point than petroleum-based diesel. The cloud point is the temperature below which a fuel exhibits a noticeable cloudiness and is the conventional indicator of a fuel's potential for cold weather problems. The lower the cloud point, the better the fuel should perform in cold weather. According to an article published by Iowa State University Extension, the cloud point of biodiesel is typically between 30 °F and 60 °F, while the cloud point of the most common form of pure petroleum-based diesel fuel is typically less than 20 °F. It is our experience that when biodiesel is mixed with pure petroleum-based diesel to make a two percent biodiesel blend, the cloud point of the blended fuel can be 2 °F to 6 °F higher than petroleum-based diesel and the cloud point of a twenty percent biodiesel blend can be 15 °F to 35 °F higher than petroleum based diesel, depending on the individual cloud points of the biodiesel and petroleum-based diesel. Cold temperatures can therefore cause biodiesel blended fuel to become cloudy and eventually to gel when pure petroleum-based diesel would not, and this can lead to plugged fuel filters and other fuel handling and performance problems for customers and suppliers. The consequences of these higher cloud points may cause demand for biodiesel in northern and eastern United States markets to diminish during the colder months, which are the primary markets in which we currently operate.

The tendency of biodiesel to gel in colder weather may also result in long-term storage problems. In cold climates, fuel may need to be stored in a heated building or heated storage tanks, which result in higher storage costs. This and other performance problems, including the possibility of particulate formation above the cloud point of a blend of biodiesel and petroleum-based diesel, may also result in increased expenses as we try to remedy these performance problems, including the costs of extra cold weather treatment additives. Remedying these performance problems may result in decreased yields, lower process throughput or both, as well as substantial capital costs. Any reduction in the demand for our biodiesel product, or the production capacity of our facilities will reduce our revenues and have an adverse effect on our cash flows and results of operations.

### **Growth in the sale and distribution of biodiesel is dependent on the expansion of related infrastructure which may not occur on a timely basis, if at all, and our operations could be adversely affected by infrastructure limitations or disruptions.**

Growth in the biodiesel industry depends on substantial development of infrastructure for the distribution of biodiesel. Substantial investment required for these infrastructure changes and expansions may not be made on a timely basis or at all. The scope and timing of any infrastructure expansion are generally beyond our control. Also, we compete with other biofuel companies for access to some of the key infrastructure components such as pipeline and terminal capacity. As a result, increased production of biodiesel or other biofuels will increase the demand and competition for necessary infrastructure. Any delay or failure in expanding distribution infrastructure could hurt the demand for or prices of biodiesel, impede delivery of our biodiesel, and impose additional costs, each of which would have a material adverse effect on our results of operations and financial condition. Our business will be dependent on the continuing availability of infrastructure for the distribution of increasing volumes of biodiesel and any infrastructure disruptions could materially harm our business.

### **We may face competition from imported biodiesel and renewable diesel, which may reduce demand for biodiesel produced by us and cause our revenues to decline.**

Biodiesel and renewable diesel produced in Canada, South America, Europe, Eastern Asia, the Pacific Rim, or other regions may be imported into the United States market to compete with United States produced biodiesel. These regions may benefit from production incentives or other financial incentives in their home countries that offset some of their production costs and enable them to profitably sell biodiesel or renewable diesel in the United States at lower prices than United States-based biodiesel producers. Under RFS2, imported biodiesel and

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renewable diesel may be eligible and, therefore, may compete to meet the volumetric requirements for biomass-based diesel. This could make it more challenging for us to market or sell biodiesel in the United States, which would have a material adverse effect on our revenues.

### **Nitrogen oxide emissions from biodiesel may harm its appeal as a renewable fuel and increase costs.**

In some instances biodiesel may increase emissions of nitrogen oxide as compared to petroleum-based diesel fuel, which could harm air quality. Nitrogen oxide is a contributor to ozone and smog. These emissions may decrease the appeal of biodiesel to environmental groups and agencies who have been historic supporters of the biodiesel industry, potentially harming our ability to market our biodiesel.

In addition, several states may act to regulate potential nitrogen oxide emissions from biodiesel. California is in the process of formulating biodiesel regulations that may also require such an additive. In states where such an additive is required to sell biodiesel, the additional cost of the additive may make biodiesel less profitable or make biodiesel less cost competitive against petroleum-based diesel or renewable diesel, which would negatively impact our ability to sell our products in such states and therefore have an adverse effect on our revenues and profitability.

### **Several biofuels companies throughout the United States have filed for bankruptcy over the last several years due to industry and economic conditions.**

Unfavorable worldwide economic conditions, lack of credit and volatile biofuel prices and feedstock costs have likely contributed to the necessity of bankruptcy filings by biofuel producers. Our business has been, and in the future may be, negatively impacted by the industry conditions that influenced the bankruptcy proceedings of other biofuel producers, or we may encounter new competition from buyers of distressed biodiesel properties who enter the industry at a lower cost than original plant investors.

### ***Risks Related to Our Common Stock***

#### **The market price for our Common Stock may be volatile.**

The market price for our Common Stock is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our financial condition and operating results;
- changes in the performance or market valuations of other companies engaged in our industry;
- issuance of new or updated research reports by securities or industry analysts;
- changes in financial estimates by us or of securities or industry analysts;
- investors' general perception of us and the industry in which we operate;
- changes in the political climate in the industry in which we operate, existing laws, regulations and policies applicable to our business and products, including RFS2, and the continuation or adoption or failure to continue or adopt renewable energy requirements and incentives, including the blenders tax credit;
- other regulatory developments in our industry affecting us, our customers or our competitors;
- announcements of technological innovations by us or our competitors;
- announcement or expectation of additional financing efforts, including sales or expected sales of additional common stock;
- additions or departures of key management or other personnel;
- litigation;

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- inadequate trading volume;
- general market conditions in our industry; and
- general economic and market conditions, including continued dislocations and downward pressure in the capital markets.

In addition, stock markets generally and from time to time experience significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may have material adverse effect on the market price of our Common Stock.

### **We may issue additional Common Stock as consideration for future investments or acquisitions.**

We have issued in the past, and may issue in the future, our securities in connection with investments and acquisitions. The amount of our Common Stock or securities convertible into or exchangeable for our Common Stock issued in connection with an investment or acquisition could constitute a material portion of our then outstanding Common Stock.

### **We have never paid dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future.**

We have paid no cash dividends on any of our classes of common stock to date, have contractual restrictions against paying cash dividends and currently intend to retain our future earnings to fund the development and growth of our business. As a result, stockholders must look solely to appreciation of our Common Stock to realize a gain on their investment. This appreciation may not occur. Investors seeking cash dividends should not invest in our Common Stock.

### **Delaware law and our amended and restated certificate of incorporation and bylaws will contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.**

Provisions in our amended and restated certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors;
- the requirement for advance notice for nominations for election to the board of directors or for proposing matters that can be acted upon at a stockholders' meeting;
- the ability of the board of directors to alter our bylaws without obtaining stockholder approval;
- the ability of the board of directors to issue, without stockholder approval, up to 10,000,000 shares of preferred stock with rights set by the board of directors, which rights could be senior to those of common stock;
- a classified board;
- the required approval of holders of at least two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or amend or repeal the provisions of our amended and restated certificate of incorporation regarding the classified board, the election and removal of directors and the ability of stockholders to take action by written consent; and
- the elimination of the right of stockholders to call a special meeting of stockholders and to take action by written consent.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, or DGCL. These provisions may prohibit or restrict large stockholders, in

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particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our amended and restated certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts and could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in our market price being lower than it would without these provisions.

### **If securities or industry analysts issue an adverse or misleading opinion regarding our stock or do not publish research or reports about our business, our stock price and trading volume could decline.**

The trading market for our Common Stock relies in part on the research and reports that equity research analysts publish about us and our business. It is difficult for companies such as ours to attract independent equity research analysts to cover our Common Stock. We do not control these analysts or the content and opinions included in their reports. The price of our Common Stock could decline if one or more equity research analysts downgrade our Common Stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more equity research analysts ceases coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

### **ITEM 1B. Unresolved Staff Comments**

None.

### **ITEM 2. Properties**

The following table lists each of our biodiesel production facilities and its location, use, and nameplate production capacity. Each facility listed below is used by our Biodiesel Segment.

#### **COMPLETED FACILITIES**

<u>Location</u>	<u>Use</u>	<u>Nameplate Production Capacity (mmgy)</u>
Ralston, Iowa	Biodiesel production	12
Newton, Iowa	Biodiesel production	30
Seabrook, Texas	Biodiesel production	35
Danville, Illinois	Biodiesel production	45
Seneca, Illinois	Biodiesel production	60
Albert Lea, Minnesota	Biodiesel production	30
New Boston, Texas	Biodiesel production	15
Ellenwood, Georgia	Biodiesel production	15

We are currently upgrading our New Boston facility and expect this facility to begin production in second quarter 2013. Our Ellenwood facility was idled by the previous owners prior to our acquisition and will remain so until repairs or upgrades are made. We have not yet set a production date for our Ellenwood facility.

The following table lists our partially constructed or idled biodiesel production facilities, the planned nameplate capacity and the approximate level of completion.

#### **PARTIALLY CONSTRUCTED FACILITIES**

<u>Location</u>	<u>Use</u>	<u>Production Capacity (mmgy)</u>	<u>Approximate Completion Level</u>
St. Rose, Louisiana	Biodiesel production	60	45%
Emporia, Kansas	Biodiesel production	60	20%
Clovis, New Mexico	Biodiesel production	15	50%



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**ITEM 3. Legal Proceedings**

The Company is not a party to any material pending legal proceeding, nor is any of its property the subject of any material pending legal proceeding, except ordinary routine litigation arising in the ordinary course of the Company's business and incidental to its business, none of which is expected to have a material adverse impact upon the Company's business, financial position or results of operations.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

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**PART II**

**ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market For Our Common Equity**

Our Common Stock began trading on the NASDAQ Global market on January 19, 2012. Prior to that time, there was no public market for our stock. The table below sets forth the high and low sales price of our Common Stock.

<u>2012</u>	<u>High</u>	<u>Low</u>
Fourth Quarter	\$ 7.50	\$ 4.28
Third Quarter	\$ 9.00	\$ 4.62
Second Quarter	\$ 10.58	\$ 6.11
First Quarter (from January 19, 2012)	\$ 10.65	\$ 8.56

**Holders**

As of February 28, 2013, there were approximately 2,116 holders of our Common Stock.

**Dividends**

We have never paid, and do not intend to pay in the future, a cash dividend on our Common Stock. Holders of our Series B preferred stock are entitled to receive cumulative dividends semi-annually in arrears on June 30 and December 30 of each year at an annual rate of \$1.125 per share. We may, at our option, defer a regularly scheduled dividend payment and instead pay accumulated and unpaid dividends on the following dividend payment date, however, we may only defer two such dividend payments and may not defer consecutive dividend payments. We may pay any dividend in cash, by delivering shares of Common Stock, or through any combination of cash and shares of Common Stock. Unless all accumulated and unpaid dividends on the Series B preferred stock are paid in full, we may not pay any dividends on our capital stock. In addition, we have entered into agreements that contractually restrict our subsidiaries from paying dividends, making distributions or making loans to our parent company or to any other subsidiaries.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides certain information as of December 31, 2012, with respect to our equity compensation plans:

<u>PLAN CATEGORY</u>	<u>NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS</u>	<u>WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS</u>	<u>NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS</u>
Equity compensation plans approved by security holders	1,646,487 <sup>1</sup>	\$ 10.51 <sup>2</sup>	2,513,513
Equity compensation plans not Approved by security holders	—	—	—
<b>Total</b>	<b>1,646,487</b>	<b>\$ 10.51</b>	<b>2,513,513</b>

1 Includes stock options of 87,026, restricted stock units of 505,616 and stock appreciation rights of 1,053,845.

2 Restricted stock units do not have an exercise price and therefore have not been included in the calculation of weighted average exercise price.

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### **Issuer Purchases of Equity Securities**

There are currently no authorized repurchase programs in effect under which we may repurchase shares of our outstanding common stock.

### **Use of Proceeds**

On January 24, 2012, we completed the initial public offering of shares of our common stock, in which 7,200,000 shares of common stock were sold at a price to the public of \$10.00 per share, which included 342,860 shares of Common Stock from selling shareholders, for an aggregate offering price of \$72 million. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-175627), which was declared effective by the SEC on January 18, 2012. The offering commenced as of January 18, 2012 and did not terminate before all of the securities registered in the registration statement were sold. The syndicate of underwriters was led by UBS Investment Bank and Piper Jaffray as joint book-running managers for the offering, Stifel Nicolaus Weisel and Canaccord Genuity served as co-managers for the offering. The net proceeds from the initial public offering were approximately \$59.9 million after deducting underwriting discounts and offering expenses payable by us. We used approximately \$11 million of the net proceeds from the offering to exercise the option we hold to acquire the Seneca Facility. We intend to use the remainder of the net proceeds for working capital, capital expenditures related to improvements of production processes and logistics, and investments, including potential acquisitions, joint ventures and other collaborative arrangements, in new biofuel businesses, production technologies or other assets and in opportunities to extend our biorefinery platform to the production of renewable chemicals and feedstocks. We have no agreements with respect to any material investments at this time.

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**ITEM 6. Selected Financial Data**

The following selected consolidated financial data should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 36 and our financial statements and related notes included elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 2012 and 2011, and the selected consolidated statements of operations data for each year ended December 31, 2012, 2011 and 2010, have been derived from our audited consolidated financial statements which are included elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 2010, 2009 and 2008, and the selected consolidated statements of operations data for the years ended December 31, 2009 and 2008 have been derived from our audited consolidated financial statements not included in this annual report.

Consolidated Statement of Operations Data:	Year Ended December 31,				
	2012	2011 (3)	2010 (1)	2009	2008 (2)
	(In thousands, except share and per share amounts)				
<b>Revenues:</b>					
Biodiesel sales	\$ 1,006,471	\$ 757,987	\$ 207,902	\$ 109,027	\$ 69,509
Biodiesel government incentives	8,326	65,822	7,240	19,465	6,564
Total biodiesel	1,014,797	823,809	215,142	128,492	76,073
Services	237	222	1,313	3,009	9,379
Total revenues	1,015,034	824,031	216,455	131,501	85,452
<b>Costs of goods sold:</b>					
Biodiesel	956,448	696,622	194,016	127,373	78,736
Services	263	198	807	1,177	4,470
Total costs of goods sold	956,711	696,820	194,823	128,550	83,206
Gross profit	58,323	127,211	21,632	2,951	2,246
Total operating expenses	42,422	34,479	29,681	24,144	24,208
Income (loss) from operations	15,901	92,732	(8,049)	(21,193)	(21,962)
Total other income (expense), net	7,812	(1,323)	(16,102)	(1,364)	(2,318)
Income (loss) before income tax benefit (expense) and income (loss) from equity investments	23,713	91,409	(24,151)	(22,557)	(24,280)
Income tax benefit (expense)	(1,454)	(2,482)	3,252	(45,212)	9,414
Income (loss) from equity investments	—	442	(689)	(1,089)	(1,013)
Net income (loss)	22,259	88,869	(21,588)	(68,858)	(15,879)
Less: Net (income) loss attributable to noncontrolling interests	—	—	—	7,953	2,788
Net income (loss) attributable to the company	22,259	88,869	(21,588)	(60,905)	(13,091)
Effects of recapitalization	39,107	—	8,521	—	—
Less: accretion of preferred stock to redemption value	(1,808)	(25,343)	(27,239)	(44,181)	(26,692)
Less: participating preferred dividends	(8,952)	(4,186)	—	—	—
Less: participating restricted stock units	(3,145)	(3,864)	—	—	—
Less: change in undistributed dividends allocated to preferred stockholders	(823)	(12,723)	(10,027)	(14,036)	(7,112)
Less: distributed dividends to preferred stockholders	(3,156)	—	—	—	—
Net income (loss) attributable to the company’s common stockholders	\$ 43,482	\$ 42,753	\$ (50,333)	\$ (119,122)	\$ (50,928)
Net income (loss) per share attributable to common stockholders:					
Basic	\$ 1.53	\$ 3.14	\$ (4.28)	\$ (15.35)	\$ (7.67)
Diluted	\$ 0.27	\$ 3.14	\$ (4.28)	\$ (15.35)	\$ (7.67)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic	28,381,676	13,607,840	11,770,840	7,762,891	6,637,422
Diluted	34,340,466	13,607,840	11,770,840	7,762,891	6,637,422

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	Year Ended December 31,				
	2012	2011 (1)	2010 (2)	2009	2008 (3)

### Consolidated Balance Sheet Data:

	(In thousands)				
Total assets	\$ 495,784	\$ 484,447	\$ 369,643	\$ 200,558	\$ 251,984
Long-term obligations	31,806	73,079	61,024	25,749	41,251
Redeemable preferred stock	83,043	147,779	122,436	149,122	104,607

- (1) Reflects the acquisition of SoyMor as of July 12, 2011.
- (2) Reflects the deconsolidation of Blackhawk as of January 1, 2010, the acquisition of Blackhawk as of February 26, 2010, acquisition of CIE as of March 8, 2010, acquisition and consolidation of Seneca Landlord as of April 8, 2010, acquisition of Tellurian and ABDF as of July 16, 2010, and the acquisition of Clovis as of September 21, 2010.
- (3) Reflects the consolidation of Blackhawk as of May 9, 2008 and the acquisition of USBG as of June 26, 2008.

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto that appear elsewhere in this report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this report.*

### Overview

We are the largest producer of biodiesel in the United States. We have been a leader in the biodiesel industry since 1996. We have transitioned from being primarily an operator of a third party-owned network of facilities to now owning seven operating biodiesel production facilities with aggregate nameplate production capacity of 227 million gallons per year, or mmgy. We produce biodiesel primarily from lower cost feedstocks, such as inedible corn oil, used cooking oil and inedible animal fat. A small portion of our biodiesel is produced using higher cost virgin vegetable oils, such as soybean oil. We own biodiesel production facilities with nameplate capacities consisting of: a 12 mmgy facility in Ralston, Iowa, a 35 mmgy facility near Houston, Texas, or the Houston facility, a 45 mmgy facility in Danville, Illinois, a 30 mmgy facility in Newton, Iowa and a 30 mmgy biodiesel production facility in Albert Lea, Minnesota. In January 2012, we exercised our option to purchase a 60 mmgy facility in Seneca, Illinois that we previously operated under a lease. In October 2012, we completed our acquisition of North Texas Bio-Energy, LLC, or NTBE, a 15 mmgy facility in New Boston, Texas, which was idled at the time we purchased it and remains idled pending completion of certain upgrades expected to be completed in second quarter 2013. In November 2012, we completed our acquisition of Bulldog Biodiesel, LLC, or Bulldog, a 15 mmgy facility near Atlanta, Georgia, that was idled at the time we purchased it and will remain so until certain repairs or upgrades are made. See "Note 5 – Acquisitions and Equity Transactions" in our consolidated financial statements for description of these transactions.

During 2012, we sold 188 million gallons, including 25 million gallons we purchased from third parties and resold. During 2011, we sold 150 million gallons of biodiesel, including 16 million gallons we purchased from third parties and resold and including six million gallons we manufactured for others.

Beginning in the second half of 2010, we and the biodiesel industry began to benefit from the implementation of the Renewable Fuel Standard, or RFS2, which became effective July 1, 2010 and requires Obligated Parties, including petroleum refiners and petroleum importers in the 48 contiguous states and Hawaii that have annual renewable fuel volume obligations, to use specified amounts of biomass-based diesel, which

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includes biodiesel, as discussed further below. In addition, the \$1.00 per gallon federal blenders tax credit, which had expired as of December 31, 2009, was reinstated in December 2010 retroactively for all of 2010 and prospectively for 2011. As a result of these regulatory changes, as well as improving general economic conditions and relatively high petroleum prices, the price of and demand for biodiesel increased significantly compared to the years prior to 2011. During 2010, prior to the effectiveness of RFS2 and the reinstatement of the blenders tax credit, our average price for B100 was \$3.31 per gallon. During 2011, our average price per gallon of B100 was \$5.23, or 58% higher than the average price in 2010, and we sold 150 million gallons of biodiesel, compared to 68 million gallons sold in all of 2010. During 2012, our average price per gallons of B100 was \$4.60, or 39% higher than the average price in 2010 and 12% lower than the average price in 2011. In 2012, we sold 188 million gallons of biodiesel, an increase of 25% and 176% over 2011 and 2010 gallons sold, respectively.

We own three partially completed biodiesel production facilities. In 2007, we began construction of two 60 mmgy nameplate production capacity facilities, one near New Orleans, Louisiana and the other in Emporia, Kansas. In February 2008, we halted construction of these facilities as a result of conditions in the biodiesel industry and our inability to obtain financing necessary to complete construction of the facilities. Construction of the New Orleans facility is approximately 45% complete and construction of the Emporia facility is approximately 20% complete. Further, during the third quarter of 2010, we acquired a 15 mmgy nameplate biodiesel production capacity facility in Clovis, New Mexico which is approximately 50% complete. Currently, the Clovis facility is being operated as a terminal to fulfill biodiesel contracts for customers in the Southwest. We expect that the aggregate cost to complete construction and commence operations of these three facilities is in the range of approximately \$130 to \$140 million, excluding working capital. In November 2012, we acquired a 15 mmgy nameplate biodiesel production facility near Atlanta, Georgia that was idled prior to our acquisition and will remain so until certain repairs or upgrades are made. We plan to complete construction and upgrade of these facilities as financing becomes available, subject to market conditions.

On January 24, 2012, we completed an initial public offering, or IPO, of shares of Common Stock in which we sold 7.2 million shares at a price to the public of \$10 per share, which included 0.3 million shares sold by selling shareholders. The IPO raised proceeds to us of \$59.9 million after underwriting fees and offering costs. In connection with the IPO, we executed a 1-for-2.5 reverse stock-split of our Common Stock and our outstanding Series A Preferred Stock was converted into shares of Common Stock and Series B preferred stock.

We derive revenues from two reportable business segments: Biodiesel and Services

### *Biodiesel Segment*

Our Biodiesel segment, as reported herein, includes:

- the operations of the following biodiesel production facilities:
  - a 12 mmgy nameplate biodiesel production facility located in Ralston, Iowa;
  - a 35 mmgy nameplate biodiesel production facility located near Houston, Texas, since its acquisition in June 2008;
  - a 45 mmgy nameplate biodiesel production facility located in Danville, Illinois, since its acquisition in February 2010;
  - a 30 mmgy nameplate biodiesel production facility located in Newton, Iowa, since its acquisition in March 2010;
  - a 60 mmgy nameplate biodiesel production facility located in Seneca, Illinois, which began production in August 2010, which we operated under a lease beginning in April 2010 and subsequently acquired in January 2012;
  - a 30 mmgy nameplate biodiesel production facility located in Albert Lea, Minnesota, since its acquisition in July 2011;

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- a 15 mmgy nameplate biodiesel production facility located in New Boston, Texas, since its acquisition in October 2012 that was idle prior to acquisition and remains idled pending completion of certain upgrades we expect to complete in second quarter 2013;
- purchases and resale of biodiesel, Renewable Identification Numbers, or RINs, and raw material feedstocks acquired from third parties;
- our sales of biodiesel produced under toll manufacturing arrangements with third party facilities using our feedstocks;
- our production of biodiesel under toll manufacturing arrangements with third parties using their feedstocks at our facilities; and
- incentives received from federal and state programs for renewable fuels.

We derive a small portion of our revenues from the sale of glycerin, free fatty acids and other co-products of the biodiesel production process. In 2011 and 2012, our revenues from the sale of co-products were less than five percent of our total Biodiesel segment revenues.

When we produce a gallon of biodiesel, we generate 1.5 Renewable Identification Numbers per gallon. RINs are used to track compliance with RFS2 using the EPA moderated transaction system, or EMTS. RFS2 allows us to attach between zero and 2.5 RINs to any gallon of biodiesel. When we sell a gallon of biodiesel we generally attach 1.5 RINs. As a result, a portion of our selling price for a gallon of biodiesel is generally attributable to RFS2 compliance. RINs may also be separated from the gallons of renewable fuel and once separated may be sold. In addition, we may acquire RINs from third parties and hold varying amounts of these RINs for separate sales to Obligated Parties. The value of these RINs acquired from third parties is reflected in "Prepaid expenses and other assets" on our consolidated balance sheet and at the end of each accounting period, this RIN inventory is valued at the lower of cost or market and resulting adjustments are reflected in our cost of goods sold for the period.

### *Services Segment*

Our Services segment includes:

- biodiesel facility management and operational services, whereby we provide day-to-day management and operational services to biodiesel production facilities as well as other clean-tech companies; and
- construction management services, whereby we act as the construction management and general contractor for the construction of biodiesel production facilities.

Historically, we provided facility operations management services to owners of biodiesel production facilities under management and operational services agreements, or MOSAs. During 2010, we ceased providing services to three of these facilities, acquired one and continued to provide limited services to the other facility. The termination of our MOSAs has not had a significant impact on our financial statements. During 2011, we acquired the remaining facility to which we were providing limited services. Our Services segment has been focused internally on managing and upgrading our facilities.

Demand for our construction management and facility management and operational services depend on capital spending by potential customers and existing customers, which is directly affected by trends in the biodiesel industry. We have not received any orders or provided services to outside parties for new facility construction services since 2009. We have, however, utilized our construction management expertise internally to upgrade three of our facilities during the last three years and we are currently in the process of a \$20 million upgrade to our Albert Lea facility. We anticipate revenues derived from construction management services will be minimal in future periods.

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### **Factors Influencing Our Results of Operations**

The principal factors affecting our segments are the market prices for biodiesel and the feedstocks used to produce biodiesel, as well as governmental programs designed to create incentives for the production and use of biodiesel.

#### *Governmental programs favoring biodiesel production and use*

Biodiesel has historically been more expensive than petroleum-based diesel, excluding biodiesel incentives and credits. The biodiesel industry's growth has largely been the result of federal and state programs that require or incentivize biodiesel, which allows biodiesel to compete with petroleum-based diesel on price.

On July 1, 2010, RFS2 was implemented, stipulating volume requirements for the amount of biomass based diesel and other advanced biofuels that must be utilized in the United States each year. Under RFS2, Obligated Parties, including petroleum refiners and fuel importers, must show compliance with these standards. Currently, biodiesel meets two categories of an Obligated Party's annual renewable fuel required volume obligation, or RVO—biomass-based diesel and undifferentiated advanced biofuel. The RFS2 program requires the domestic use of one billion gallons of biodiesel in 2012 and 1.28 billion gallons in 2013. As of this filing, the EPA has not proposed or finalized the 2014 biomass-based diesel requirement. Our sales volumes and revenues have benefited from our increased production capacity, as well as an increase in demand relating to the implementation of RFS2.

RFS2 required the use of 800 million gallons of biomass-based diesel in 2011. According to EMTS data, approximately 1.1 billion gallons of biomass-based diesel were produced in 2011, approximately 4% of which was imported. We believe more gallons were produced in 2011 than were required by RFS2 as a result of the fact that the blenders tax credit was set to expire on December 31, 2011. Since Obligated Parties are allowed to satisfy up to 20% of their 2012 RVO with 2011 RINs, we believe many purchasers of biodiesel were taking advantage of the blenders tax credit while it was still available. This 2011 overproduction had an impact on demand for biodiesel in 2012. The 2012 RFS2 requirement for biomass-based diesel was one billion gallons. The 2011 carry-over could be used to satisfy up to 200 million gallons of the one billion 2012 requirement. According to EMTS data, approximately 1.14 billion gallons of biomass-based diesel was produced during 2012, indicating that between the 2011 carry-over and 2012 year production, there was sufficient biomass-based diesel produced to satisfy the 2012 RVO of one billion gallons and create carryover towards the 2013 RVO.

The federal blenders tax credit provides a \$1.00 refundable tax credit per gallon of 100% pure biodiesel, or B100, to the first blender of biodiesel with petroleum-based diesel fuel. The blenders tax credit expired on December 31, 2009, was reinstated on December 17, 2010, retroactively for 2010 and prospectively for 2011 and expired again on December 31, 2011. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which reinstated the federal biodiesel blenders tax credit for 2013 and retroactively reinstated the credit for 2012. The retroactive credit for 2012 is estimated to result in a net benefit to us of approximately \$58.0 million in the first half of 2013. The net benefit will increase our income before income taxes and equity investments by a similar amount. We will recognize the federal biodiesel blenders tax credit related to eligible 2012 gallons during the first quarter of 2013.

#### *Biodiesel and feedstock price fluctuations*

Our operating results generally reflect the relationship between the price of biodiesel, including credits and incentives, like RINs and the price of feedstocks used to produce biodiesel.

Biodiesel is a low carbon, renewable alternative to petroleum-based diesel fuel and is primarily sold to the end user after it has been blended with petroleum-based diesel fuel. Biodiesel prices have historically been heavily influenced by petroleum-based diesel fuel prices. Accordingly, biodiesel prices have generally been impacted by the same factors that affect petroleum prices, such as worldwide economic conditions, wars and other political events, OPEC production quotas, changes in refining capacity and natural disasters.



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Regulatory and legislative factors influence the price of biodiesel, in addition to petroleum prices. Biomass-based diesel RIN pricing, a value component that was introduced via RFS2 in July 2010, has had a significant impact on our biodiesel pricing. For example, the value of RINs, as reported by Oil Price Information Service, or OPIS, has been significant to the price of biodiesel, contributing approximately \$1.11, or 26%, of the average B100 Upper Midwest spot price of a gallon of biodiesel as reported by The Jacobsen in December 2010 and \$1.83, or 38% of the average B100 Upper Midwest spot price of a gallon of biodiesel as reported by The Jacobsen in December 2011. In December 2012, the value of RINs, as reported by OPIS, contributed approximately \$0.89, or 22%, of the average B100 Upper Midwest spot price of a gallon of biodiesel as reported by The Jacobsen. During 2012, the value of RINs, as reported by OPIS, have contributed to the average B100 spot price of a gallon of biodiesel, as reported by The Jacobsen, and range from a low of \$0.63 per gallon, or 24%, in October to a high of \$2.39, or 50%, per gallon in January. There was a sharp decline in RIN prices during third quarter 2012 that carried through the end of the year. During this period, RIN pricing declined from \$1.17 per RIN at June 30, 2012 to the low price of \$0.42 per RIN in October, finishing the year at \$0.64 per RIN on December 31, 2012, as reported by OPIS, which contributed to the decline in price of biodiesel during 2012.

This decrease in the value of RINs during 2012 resulted in a \$19.6 million write-down to lower of cost or market on RIN inventory acquired from third parties that occurred throughout the year. See “Note 11 – Other Assets” to our consolidated financial statements.

During 2012, feedstock expense accounted for 86% of our costs of goods sold, while methanol and chemical catalysts expense accounted for 4% and 2% of our costs of goods sold, respectively.

Feedstocks for biodiesel production, such as inedible corn oil, used cooking oil, inedible animal fat and soybean oil are commodities and market prices for them will be affected by a wide range of factors unrelated to the price of biodiesel and petroleum-based diesel fuels. The following table outlines some of the factors influencing supply and price for each feedstock:

<u>Feedstock</u>	<u>Factors Influencing Supply and Price</u>
Inedible Corn Oil	Export demand Implementation of inedible corn oil separation systems into existing and new ethanol facilities Extraction system yield Ethanol production Demand for inedible corn oil from other markets
Used Cooking Oil	Export demand Population Number of restaurants in the vicinity of collection facilities and terminals which is dependent on population density Eating habits, which can be impacted by the economy
Inedible Animal Fat	Export demand Number of slaughter kills in the United States Demand for inedible animal fat from other markets
Soybean Oil	Export demand Weather conditions Soybean meal demand Farmer planting decisions Government policies and subsidies Crop disease

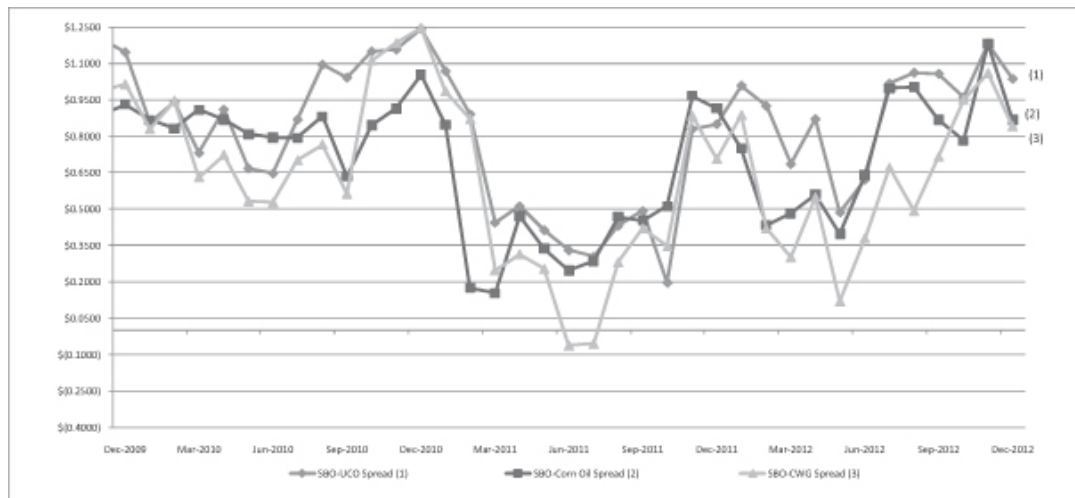
During 2012 and 2011, 84% and 83%, respectively, of our feedstocks were comprised of inedible corn oil, used cooking oil and inedible animal fats with the remainder coming from refined vegetable oil. We have increased the use of these feedstocks because they are lower cost than refined vegetable oils.

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Historically, most biodiesel in the United States has been made from soybean oil. Soybean oil prices have fluctuated greatly, but have generally remained at historically high levels since early 2007 due to higher overall commodity prices. Over the period January 2006 to December 2012, soybean oil prices (based on daily closing nearby futures prices on the CBOT for crude soybean oil) have ranged from \$0.21 per pound, or \$1.58 per gallon of biodiesel, in January 2006 to \$0.70 per pound, or \$5.28 per gallon of biodiesel, in March 2008, assuming 7.5 pounds of soybean oil yields one gallon of biodiesel. The average closing price for soybean oil during 2012 was \$0.52 per pound, or \$3.92 per gallon of biodiesel, compared to \$0.55 per pound, or \$4.13 per gallon of biodiesel, in 2011.

Over the period from January 2008 to December 2012, the price of choice white grease, an inedible animal fat (based on daily closing nearby futures prices for The Jacobsen reported Missouri River delivery of choice white grease), have ranged from \$0.095 per pound, or \$0.76 per gallon of biodiesel, in December 2008 to \$0.5250 per pound, or \$4.20 per gallon of biodiesel, in June 2011, assuming 8.0 pounds of choice white grease yields one gallon of biodiesel. The average closing price for choice white grease during 2012 was \$0.4133 per pound, or \$3.31 per gallon of biodiesel, or \$0.4567 per pound, or \$3.65 per gallon of biodiesel, in 2011.

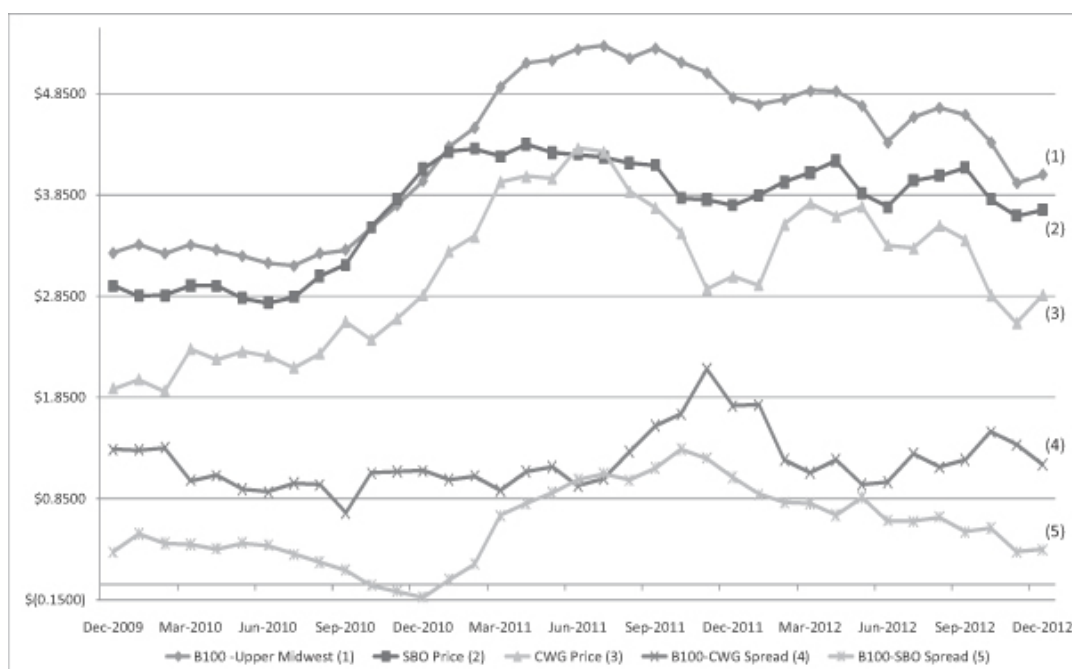
The graph below illustrates the spread between the cost of producing one gallon of biodiesel made from soybean oil to the cost of producing one gallon of biodiesel made from a lower cost feedstock. The results were derived using assumed conversion factors for the yield of each feedstock and subtracting the cost of producing one gallon of biodiesel made from each respective lower cost feedstock from the cost of producing one gallon of biodiesel made from soybean oil.



- Soybean oil (crude) prices are based on the monthly average of the daily closing sale price of the nearby soybean oil contract as reported by CBOT (Based on 7.5 pounds per gallons).
- (1) Used cooking oil prices are based on the monthly average of the daily low sales price of Missouri River yellow grease as reported by The Jacobsen (Based on 8.5 pounds per gallon).
- (2) Inedible corn oil prices are reported as the monthly average of the daily distillers' corn oil market values delivered to Illinois as reported by The Jacobsen (Based on 8.2 pounds per gallon).
- (3) Choice white grease prices are based on the monthly average of the daily low prices of Missouri River choice white grease as reported by The Jacobsen (Based on 8.0 pounds per gallon).

Our results of operations generally will benefit when the spread between biodiesel prices and feedstock prices widens and will be harmed when this spread narrows. The following graph shows feedstock cost data of choice white grease and soybean oil on a per gallon basis compared to the sale price data for biodiesel, and the spread between the two, from December 2009 to December 2012.

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- (1) Biodiesel prices are based on the monthly average of the midpoint of the high and low prices of B100 (Upper Midwest) as reported by The Jacobsen.
- (2) Soybean oil (crude) prices are based on the monthly average of the daily closing sale price of the nearby soybean oil contract as reported by CBOT (Based on 7.5 pounds per gallon).
- (3) Choice white grease prices are based on the monthly average of the daily low price of Missouri River choice white grease as reported by The Jacobsen (Based on 8.0 pounds per gallon).
- (4) Spread between biodiesel price and choice white grease price.
- (5) Spread between biodiesel price and soybean oil (crude) price.

The 2012 drought in the Midwestern United States increased the cost of corn and soybeans and may increase the cost of biodiesel feedstocks in the future. Following the drought, there was a decrease in the price of animal fats, which may have been related to increases in slaughter rates, putting more supply on the market and decreased demand from the biodiesel industry. If the increased slaughter rates or increased cost of corn and soybeans reduces future slaughter rates, the price of animal fats may rise as supply decreases in the future. The impact of the drought on the prices of our feedstocks is uncertain, but the drought may increase the prices of some or all of our feedstocks as the market adjusts to higher commodity prices.

*Risk Management*

The profitability of the biodiesel production business largely depends on the spread between prices for feedstocks and biodiesel, including RINs, each of which is subject to fluctuations due to market factors. Adverse price movements for these commodities directly affect our operating results. We attempt to protect operating margins by entering into risk management contracts that mitigate price volatility of our feedstocks, such as inedible corn oil, used cooking oil and inedible animal fat and energy prices. We create offsetting positions by using a combination of forward fixed-price physical purchases and sales contracts on feedstock and biodiesel, including risk management futures contracts, swaps and options primarily on heating oil and soybean oil; however, the extent to which we engage in risk management activities varies substantially from time to time, and from feedstock to feedstock, depending on market conditions and other factors. In making risk management decisions, we utilize research conducted by outside firms to provide additional market information.

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Inedible corn oil, used cooking oil and inedible animal fat are the primary feedstocks we used to produce biodiesel in 2011 and 2012. We utilize several varieties of inedible animal fat, such as beef tallow and choice white grease derived from pork and poultry fat. There is no established futures market for lower cost feedstocks. The purchase prices for lower cost feedstocks are generally set on a negotiated flat price basis or spread to a prevailing market price reported by the USDA price sheet or The Jacobsen. Our limited efforts to risk manage against changing inedible corn oil, used cooking oil and inedible animal fat prices have involved entering into futures contracts, swaps or options on other commodity products, such as soybean oil or heating oil. However, these products do not always experience the same price movements as lower cost feedstocks, making risk management for these feedstocks challenging. We manage feedstock supply risks related to biodiesel production in a number of ways, including, where available, through long-term supply contracts. For example, most of the feedstock requirements for our Ralston facility were supplied under a three-year agreement with West Central which expired on July 8, 2010 and was renewed October 1, 2012. The purchase price for soybean oil under these contracts may be indexed to prevailing Chicago Board of Trade, or CBOT, soybean oil market prices with a negotiated market basis. We utilize futures contracts, swaps and options to risk manage, or lock in, the cost of portions of our future soybean oil requirements generally for varying periods up to one year.

Our ability to mitigate our risk of falling biodiesel and RIN prices is limited. We have entered into forward contracts to supply biodiesel. However, pricing under these forward sales contracts generally has been indexed to prevailing market prices, as fixed price contracts for long periods on acceptable terms have generally not been available. There is no established market for biodiesel futures in the United States. Our efforts to hedge against falling biodiesel prices generally involve entering into futures contracts, swaps and options on other commodity products, such as diesel fuel and heating oil. However, these products do not always experience the same price movements as biodiesel.

When we produce a gallon of biodiesel, we generate 1.5 biomass-based diesel RINs per gallon. We frequently acquire RINs from third parties which we hold in inventory for resale. There is no established futures market for RINs, which severely limits the ability to risk manage the price of RINs without the use of futures contracts, swaps and options. We enter into forward contracts to sell RINs and we use risk management position limits to monitor RINs.

As a result of our strategy, we frequently have gains or losses on derivative financial instruments that are conversely offset by losses or gains on forward fixed-price physical contracts on feedstocks and biodiesel or inventories. Gains and losses on derivative financial instruments are recognized each period in operating results while corresponding gains and losses on physical contracts are generally not recognized until quantities are delivered or title transfers. Our results of operations are impacted when there is a period mismatch of recognized gains or losses associated with the change in fair value of derivative instruments used for risk management purposes at the end of the reporting period when the purchase or sale of feedstocks or biodiesel has not yet occurred and thus the offsetting gain or loss will be recognized in a later accounting period.

We incurred risk management losses of \$4.6 million from our derivative financial instrument trading activity for the year ended December 31, 2012, respectively, compared to risk management gains of \$3.0 million for the year ended December 31, 2011, respectively. Changes in the value of these futures or options instruments are recognized in current income or loss. Over the year 2012, risk management losses have represented an expense of \$0.03 per gallon sold. Over the last three years, risk management losses have represented an expense of \$0.02 per gallon sold.

### *Seasonality*

Our operating results are influenced by seasonal fluctuations in the price of biodiesel. Our sales tend to decrease during the winter season due to blending concentrations being reduced to compensate for performance during colder weather. Colder seasonal temperatures can cause the higher cloud point biodiesel we make from inedible animal fats to become cloudy and eventually gel at a higher temperature than petroleum-based diesel or lower cloud point biodiesel made from soybean oil, canola oil or inedible corn oil. Such gelling can lead to plugged fuel filters and other fuel handling and performance problems for customers and suppliers. Reduced

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demand in the winter for our higher cloud point biodiesel can result in excess supply of such higher cloud point biodiesel and lower prices for such higher cloud point biodiesel. In addition, most of our production facilities are located in colder Midwestern states and our costs of shipping increases as more biodiesel is transported to warmer climate states.

### *Industry capacity and production*

Our operating results are influenced by our industry's capacity and production, including in relation to RFS2 production requirements. According to EMTS data, approximately 1.1 billion gallons of biomass-based diesel was produced in the United States in 2011, primarily reflecting the recommencement of, or increase in, operations at underutilized facilities in response to RFS2 requirements. Such production was in excess of the 800 million gallon RFS2 requirement for 2011. During 2012, according to EMTS data, approximately 1.1 billion gallons of biomass-based diesel was produced, which also was above RFS2 required volumes of 1 billion gallons of biomass-based diesel for 2012. Production in 2011 and 2012 in excess of RFS2 volume requirements put downward pressure on our margins for biodiesel, negatively affecting our profitability. In addition, because the level of production in 2011 and 2012 exceeded the RFS2 biomass-based diesel requirements, the demand for biodiesel in 2013 could be less than 2013 RFS2 required volumes of 1.28 billion gallons of biomass-based diesel. As of this filing, the EPA has not proposed or finalized the 2014 biomass-based diesel requirement. Under RFS2, Obligated Parties are entitled to satisfy up to 20% of their annual requirement for 2013 with gallons used in 2012, meaning that 2012 gallons could potentially be used to satisfy 256 million gallons of the 1.28 billion gallon requirement for 2013.

### **Components of Revenues and Expenses**

We derive revenues in our Biodiesel segment from the following sources:

- sales of biodiesel produced at our wholly-owned facilities, including RINs, transportation, storage and insurance costs to the extent paid for by our customers;
- fees from toll manufacturing arrangements at our facilities for third parties;
- revenues from our sale of biodiesel and RINs produced by third parties through toll manufacturing arrangements with us;
- resale of finished biodiesel, RINs acquired from third parties, and raw material feedstocks acquired from others;
- sales of glycerin, other co-products of the biodiesel production process; and
- incentive payments from federal and state governments, including the federal biodiesel blenders tax credit, which we receive directly when we sell our biodiesel blended with petroleum-based diesel, primarily as B99.9, a less than one percent petroleum-based diesel mix with biodiesel, rather than in pure form, or B100, as well as, from the USDA Advanced Biofuel Program.

We derive revenues in our Services segment from the following sources:

- fees received from operations management services that we provide for biodiesel production facilities, typically based on production rates and profitability of the managed facility; and
- amounts received for services performed by us in our role as general contractor and construction manager for biodiesel production facilities.

Cost of goods sold for our Biodiesel segment includes:

- with respect to our production facilities, expenses incurred for feedstocks, catalysts and other chemicals used in the production process, leases, utilities, depreciation, salaries and other indirect expenses related to the production process, and, when required by our customers, transportation, storage and insurance;

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- with respect to biodiesel acquired from third parties produced under toll manufacturing arrangements, expenses incurred for feedstocks, transportation, catalysts and other chemicals used in the production process and toll processing fees paid to the facility producing the biodiesel;
- with respect to finished goods and RINs acquired from third parties, the purchase price of biodiesel and RINs on the spot market or under contract, and related expenses for transportation, storage, insurance, labor and other indirect expenses;
- adjustments made to reflect the lower of cost or market values of our finished goods inventory, including RINs acquired from third parties, and
- changes during the applicable accounting period in the market value of derivative and hedging instruments, such as exchange traded contracts, related to feedstocks and commodity fuel products.

Cost of goods sold for our Services segment includes:

- with respect to our facility management and operations activities, primarily salary expenses for the services of management employees for each facility and others who provide procurement, marketing and various administrative functions; and
- with respect to our construction management services activities, primarily our payments to subcontractors constructing the production facility and providing the biodiesel processing equipment, and, to a much lesser extent, salaries and related expenses for our employees involved in the construction process.

Selling, general and administrative expense consists of expenses generally involving corporate overhead functions and operations at our Ames, Iowa headquarters.

Other income (expense), net is primarily comprised of the changes in fair value of the embedded derivative related to the Series A Preferred Stock conversion feature, changes in fair value of interest rate swap, interest expense, interest income, the impairment of investments we made in biodiesel plants owned by third parties and the changes in valuation of the Seneca Holdco, LLC liability associated with the put and call options on the equity interest in Seneca Landlord, LLC, or Landlord.

### **Accounting for Investments**

We use the equity method of accounting to account for the operating results of entities over which we have significant influence. Significant influence may be reflected by factors such as our ownership percentage, our significant operational influence due to our management of biodiesel operations at a third party owned facility and participation by one of our employees on the facility's board of directors. Prior to our acquisition of SoyMor on July 12, 2011, we accounted for our approximately 9% ownership interest in SoyMor under the equity method due to our ownership interest, MOSA and board seat. In the past we used this method to account for our interests in other entities where we had a significant management role under a MOSA and had board participation. We acquired substantially all of the assets of SoyMor in July 2011; therefore, beginning on the date of acquisition we are no longer accounting for our interest under the equity method, and the operations of SoyMor, like all of our other wholly-owned subsidiaries are consolidated in our consolidated financial statements. Until it was consolidated on January 1, 2011, we used the equity method of accounting to account for the operating results of 416 South Bell, LLC, or Bell, LLC, which owns our headquarters building. We own 50% of Bell, LLC and one of our employees is a member of Bell, LLC's board of managers. Under the equity method, we recognized our proportionate share of the net income (loss) of each entity in the line item "Income (loss) from equity investments." See "Note 6—Variable Interest Entities" to our consolidated financial statements for a description of the consolidation.

We use the cost method of accounting to account for our minority investment in three previously managed plants, East Fork Biodiesel, LLC, or EFB, Western Iowa Energy, LLC, or WIE, since May, 2010, and Western Dubuque Biodiesel, LLC, or WDB, since August 2010. Because we do not have the ability to influence the operating and financial decisions of EFB, WIE, or WDB, and do not maintain a position on the board of

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directors, the investment is accounted for using the cost method. Under the cost method, the initial investment is recorded at cost and assessed for impairment. There was a \$0.4 million impairment recorded during 2010, relating to the wind up and liquidation of EFB, which fully impaired the remaining investment. We have not recorded any impairment of our investments in WIE or WDB.

For additional information with regard to prior accounting treatment for now acquired investments including Blackhawk and CIE, please see “Note 5 – Acquisitions and Equity Transactions” and “Note 6 – Variable Interest Entities” to our consolidated financial statements.

In June 2009, the Financial Accounting Standards Board, or FASB, amended its guidance on accounting for variable interest entities, or VIEs. As of January 1, 2010, we evaluated each investment and determined we do not hold a controlling interest in any of our investments in third party owned plants that would empower us to direct the activities that most significantly impact economic performance. As a result, we are not the primary beneficiary and do not consolidate these VIE’s. See “Note 6—Variable Interest Entities” to our consolidated financial statements for more information.

On April 8, 2010, we determined that Landlord was a VIE and it was consolidated into our financial statements as we are the primary beneficiary. See “Note 6—Variable Interest Entities” to our consolidated financial statements for a description of the transaction. We had a put/call option with Seneca Holdco, LLC, or Seneca Holdco, to purchase Landlord and leased the plant during 2011 and 2010 for production of biodiesel, both of which represent a variable interest in Landlord that was significant to the VIE. Although we did not have an ownership interest in Seneca Holdco, it was determined that we were the primary beneficiary due to the related party nature of the entities involved, our ability to direct the activities that most significantly impact Landlord’s economic performance and the design of Landlord that ultimately gave us the majority of the benefit from the use of Landlord’s assets. On January 24, 2012, we executed the call option and acquired the Seneca Facility. For additional information about the acquisition please see “Note 5 – Acquisitions and Equity Transactions” to our consolidated financial statements.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets, liabilities, equities, revenues and expenses and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for judgments we make about the carrying values of assets and liabilities that are not readily apparent from other sources. Because these estimates can vary depending on the situation, actual results may differ from the estimates.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements:

#### *Revenue recognition.*

We recognize revenues from the following sources:

- the sale of biodiesel, including RINs, biodiesel co-products and raw material feedstocks purchased by us or produced by us at owned manufacturing facilities, leased manufacturing facilities and manufacturing facilities with which we have tolling arrangements;
- resale of finished biodiesel, including RINs and raw material feedstocks acquired from others;
- fees received under toll manufacturing agreements with third parties;
- fees received from federal and state incentive programs for renewable fuels;

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- fees from construction, operations and project management; and
- fees received for the marketing and sales of biodiesel produced by third parties.

Biodiesel sales, including RINs and raw material feedstock revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable and collectability can be reasonably assured.

We refer to agreements under which a biodiesel facility produces biodiesel for a third party using such third party's feedstock as tolling arrangements. Generally, the party producing the biodiesel receives a per gallon fee. Fees received under toll manufacturing agreements with third parties are generally established as an agreed upon amount per gallon of biodiesel produced. The fees are recognized where there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable and collectability can be reasonably assured.

Revenues associated with the governmental incentive programs are recognized when the amount to be received is determinable, collectability is reasonably assured and the sale of product giving rise to the incentive has been recognized. Our revenue from governmental incentive programs is comprised of amounts received from the USDA Advanced Biofuel Program, or the USDA Program, and the blender's tax credit. For a discussion of the blender's tax credit, see the section entitled "Risk factors—Loss or reductions of tax incentives for biodiesel production or consumption would have a material adverse effect on our revenues and operating margins" and "—Factors Influencing Our Results of Operations—Governmental programs favoring biodiesel production and use." In connection with the blender's tax credit, we file a claim with the Internal Revenue Service, or IRS, for a refund of excise taxes each week for gallons we have blended to B99.9 and sold during the prior week. During 2011, we have collected these claims in approximately 20 days on average from the time we file and we currently have no filed claims older than one month. Other than routine audits of these claims, we have had no denials or challenges of our claims and no issues with collectability. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which reinstated a set of tax extender items including the reinstatement of the federal biodiesel blenders tax credit for 2013 and retroactively reinstated credit for 2012. The collection process relating to qualifying 2012 blenders credit tax credit will be slightly different than in previous years, where we will file a claim with the IRS for a refund of excise taxes for fourth quarter 2012 activity and then file for the remaining refund related to the first three quarters of 2012 with the federal income tax return. The retroactive credit for 2012 is estimated to result in a net benefit to us of approximately \$58.0 million in the first half of 2013. The net benefit will increase our income before income taxes and equity investments by a similar amount. We will recognize the federal biodiesel blenders tax credit for the gallons we blended in 2012 during the first quarter of 2013 as the law was signed on January 2, 2013. In connection with the USDA Program, funds are allocated to the Company based on our proportionate eligible biofuels production and available funds under the USDA Program. Due to the uncertainty of the amounts to be received, we do not record amounts until we have received notification from the USDA or are in receipt of the funds.

Historically, we have provided consulting and construction services under turnkey contracts. These jobs require design and engineering effort for a specific customer purchasing a unique facility. We record revenues on these fixed-price contracts on the percentage of completion basis using the ratio of costs incurred to estimated total costs at completion as the measurement basis for progress toward completion and revenue recognition. The total contract price includes the original contract plus any executed change orders only when the amounts have been received or awarded.

Contract costs include all direct labor and benefits, materials unique to or installed in the project and subcontract costs. Contract accounting requires significant judgment relative to assessing risks, estimating contract costs and making related assumptions for schedule and technical issues. We routinely review estimates related to contracts and reflect revisions to profitability in earnings on a current basis. If a current estimate of total contract cost indicates an ultimate loss on a contract, we would recognize the projected loss in full when it is first determined. We recognize additional contract revenue related to claims when the claim is probable and legally enforceable.



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Changes relating to executed change orders, job performance, construction efficiency, weather conditions and other factors affecting estimated profitability may result in revisions to costs and revenues and are recognized in the period in which the revisions are determined.

Billings in excess of costs and estimated earnings on uncompleted contracts represents amounts billed to customers prior to providing related construction services.

Fees for managing ongoing operations of third party plants, marketing biodiesel produced by third party plants and from other services are recognized as services are provided. We also have performance-based incentive agreements that are included as management service revenues. These performance incentives are recognized as revenues when the amount to be received is determinable and collectability is reasonably assured.

In the past, we have acted as a sales agent for certain third parties under our MOSAs, thus we recognized revenues on a net basis in accordance with ASC Topic 605-45, "*Revenue Recognition*." We included the fees earned under the MOSAs in revenue. All of our third party MOSAs have expired or were terminated during 2010.

*Impairment of Long-Lived Assets and Certain Identifiable Intangibles.* We review long-lived assets, including property, plant and equipment and definite-lived intangible assets for impairment in accordance with ASC Topic 360-10, "*Property, Plant, and Equipment*," or ASC Topic 360-10. Asset impairment charges are recorded for long-lived assets and intangible assets subject to amortization when events and circumstances indicate that such assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts. If estimated future undiscounted cash flows are not sufficient to recover the carrying value of the assets, an impairment charge is recorded for the amount by which the carrying amount of the assets exceeds its fair value. Fair value is determined by management estimates using discounted cash flow calculations. The estimate of cash flows arising from the future use of the asset that are used in the impairment analysis requires judgment regarding what we would expect to recover from the future use of the asset.

Significant assumptions used by management in the undiscounted cash flow analysis include the projected demand for biodiesel based on annual renewable fuel volume obligations under RFS2, our capacity to meet that demand, the market price of biodiesel and the cost of feedstock used in the manufacturing process. For facilities under construction, management's estimates also include the capital expenditures necessary to complete construction of the plant. Our facilities under construction are expected to have substantially similar operating capabilities and results as our current operating facilities. Such operating capabilities would include similar feedstock capabilities, similar access to low cost feedstocks, proximity to shipping from our vendors and to our customers, and our ability to transfer best practices among our various operating facilities to maximize production volumes and reduce operating costs.

We estimated the future cash flows from the facilities under construction utilizing the following significant assumptions:

*Costs to complete:* The remaining costs to complete the plant construction were developed by management, using historical and plant-specific knowledge and external estimates. Management's estimate of costs included those required to finish the general structure of each facility, as well as furnish it with the appropriate equipment necessary to produce biodiesel. There has not been an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group). There can be no assurance actual costs to complete or upgrade these facilities will be consistent with these estimates.

*Gallons sold:* We estimated the aggregate gallons to be produced and sold based upon nameplate capacity of the plants under construction coupled with historical operating rates for our existing plants.

*Gross margin per gallon:* We have estimated rising sales prices and costs after 2012. This annual increase is a consequence of anticipated increased demand for biodiesel, market trends expected for the energy industry and normal inflationary pressures. Biodiesel sales prices were estimated using the expected prices for

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biodiesel, RINs and co-products. When building the estimate for future prices, we weighed historical evidence, CBOT and NYMEX future prices and industry forecasts. To develop the estimated feedstock prices, we utilized soybean oil as a base coupled with a spread to soybean oil for all other feedstocks based on historical experience and expected future price changes.

*Plant operation costs:* We estimated plant operation costs to increase with production, until a steady cost level is reached once the plants are operating in a stabilized manner. Plant operating costs are estimated based upon costs at currently operating plants and take into account the size of the plants under construction and production volumes.

*Financing of facilities under construction:* In 2008, we halted construction on our New Orleans, Louisiana, and Emporia, Kansas facilities as a result of conditions in the biodiesel industry and the credit markets. We continue to pursue financing and intend to complete the facilities, when industry conditions improve and financing becomes available on terms satisfactory to us. Since construction halted at these facilities in 2008, we have continued to monitor the construction sites and perform routine maintenance on the partially constructed assets. We also have pursued programs under which we could obtain a government guarantee to enhance our ability to obtain financing for these facilities, but at this point have not been able to obtain any such guarantees. We will continue to pursue such government programs in the future to the extent they arise. If available, we would also consider using funds from operations to fund a portion of the construction at these facilities. As currently configured, the assets can be completed as biodiesel production facilities, or with alternative or additional capabilities for the manufacture of specialty chemicals or other renewable products such as advanced biofuels and renewable chemicals. Some of the existing components could be transported for use at our other production facility locations, or they could be sold to third parties for various uses. The Emporia construction project benefits from a city incentive package that continues through July 1, 2013. In addition, from time to time we have had discussions with potential investors and commercial partners regarding these facilities. We have also invested in third party engineering studies to revise and enhance construction completion plans on a more cost effective basis. We cannot assure you if or when such facilities will be completed or any alternate transaction regarding such facilities that we may pursue will be consummated.

*Period of time used in recovery analysis:* To estimate the period of time utilized in the recovery analysis, we followed the guidance included in ASC Topic 360-10-35-31, which states in part that estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall be made for the remaining useful life of the asset (asset group) to the entity. For purposes of this Subtopic, the primary asset is the principal long-lived tangible asset being depreciated or intangible asset being amortized that is the most significant component asset from which the asset group derives its cash-flow-generating capacity. We considered the plant assets and their operational functionality and determined that the inner equipment of the plants, (e.g. tanks, separators, filters, heaters, etc.), is the most significant component of the asset group. We have determined that the useful life of this equipment has a range of 10-30 years depending on its use, with the majority of the equipment having a 20 year life. Therefore, we have selected a 20 year period from the original date the assets are placed into service as the time period over which the cash flows would be projected.

Our analysis determined that the undiscounted cash flows of each plant exceeded its carrying value by a significant margin and therefore no charge for impairment was needed.

During 2010, certain of our soybean oil supply agreements were cancelled. The original agreements were recorded as intangible assets in the amount of \$7.0 million. As a result of the cancellations, the full amount was charged off as an impairment during the year ended December 31, 2010.

We also recorded an impairment on deferred financing cost related to Gulf Opportunity Zone, or GOZone, bonds available as part of Congress' tax incentive program to help the Gulf Coast recover from Hurricane Katrina. We determined that it was not probable that the GOZone bonds allocation would be extended past the December 14, 2010 deadline or that the bonds would be issued prior to the deadline, and accordingly, we returned our allocation prior to the deadline. The amount of the impairment for the year ended December 31, 2010 was \$0.3 million.

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Total asset impairment charges of \$7.5 million were recorded for the year ended December 31, 2010. There were no asset impairment charges for the years ended December 31, 2012 or 2011.

*Goodwill asset valuation.* While goodwill is not amortized, it is subject to periodic reviews for impairment. As required by ASC Topic 350, "Intangibles—Goodwill and Other," we review the carrying value of goodwill for impairment annually on July 31 or when we believe impairment indicators exist. Goodwill is allocated and reviewed for impairment by reporting units. The Company's reporting units consist of its two operating segments, the biodiesel operating segment and services operating segments. The analysis is based on a comparison of the carrying value of the reporting unit to its fair value, determined utilizing a discounted cash flow, or DCF, methodology and consideration of a market approach. Additionally, we review the carrying value of goodwill whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Changes in estimates of future cash flows caused by items such as unforeseen events or sustained unfavorable changes in market conditions could negatively affect the fair value of the reporting unit's goodwill asset and result in an impairment charge.

We engaged an independent external valuation specialist to provide assistance in measuring the fair value of our biodiesel and services reporting units using an income approach. The income approach uses a discounted cash flow, or DCF, analysis based on cash flow estimates prepared by us in addition to comparing other selected public guideline company information. The selected DCF method is an invested capital method. In performing the services reporting unit goodwill impairment analysis, cash flows generated from services provided to third parties and to the biodiesel segment were used to determine the reporting unit's fair value.

The annual impairment tests as of July 31, 2012 determined that the fair value at each of the reporting units exceeded its value by over 45% margins. No impairment of goodwill was recorded in 2012, 2011 or 2010. There can be no assurances that future circumstances and/or conditions will not change, which could result in an impairment of goodwill. Such circumstances and/or conditions could include, but are not limited to, further decline in the price of our common stock, deterioration in our financial condition or results of operations, and/or adverse changes in the fair value of our assets and liabilities. Management continues to monitor circumstances and conditions for events that could result in an impairment of our goodwill.

The Company's declines in income before income taxes and loss from equity investments for the services reporting unit are primarily a result of construction revenues being derived from company-owned facilities during this period and the termination of four third party MOSAs, which occurred in early 2010. Income before income taxes and loss from equity investments, as it appears in the segment footnote disclosure, presents only the income from third parties after the elimination of intersegment revenues and associated costs. Two of these MOSAs ceased because the facilities to which services were being provided were acquired in a business combinations. During the periods presented in the annual financial statements the amount of service revenues earned from third parties declined, but the amount of service revenues earned from the biodiesel segment increased. After incorporating intersegment revenues, presented in the segment footnote, income before income taxes and loss from equity investments increased from 2009 to 2010 and again from 2010 to 2011. Additionally, the operating results for the services segment were significantly impacted by the improvement in the biodiesel industry induced by the volume requirements set forth in RFS2. Since services revenue from facility management and operations is principally earned on a per gallon basis, improvements in industry production volumes generally yield similar improvements in the services reporting unit operating income, cash flows and estimated fair value. Therefore, we do not believe the recent operational results of the services segment represent an indicator of impairment for the reporting unit.

*Income taxes.* We evaluate our deferred tax assets to determine if valuation allowances are required or should be adjusted. A valuation allowance is established against our deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carry-forward periods, our experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be

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objectively verified. Due to the losses incurred prior to fiscal 2011, we were in a cumulative loss position for the preceding three years which is considered significant negative evidence that is difficult to overcome on a “more likely than not” standard through objectively verifiable data. While our long-term financial outlook remained positive, we concluded that our ability to rely on our long-term outlook and forecasts as to future taxable income was limited due to uncertainty created by the weight of the negative evidence. As a result, we previously recorded a valuation allowance offsetting our deferred tax assets. In fiscal 2011, due to the significant increase in profitability, we were able to utilize net operating loss carry-forwards to significantly offset the taxable income, resulting in a significant reduction of the valuation allowances. Due to our positive earnings through fiscal 2012, and the absence of any significant negative evidence to the contrary, we have concluded that we can rely on our positive long-term outlook and forecasts as to future taxable income in evaluating our ability to realize our deferred tax assets. Accordingly, the reserve against the majority of our deferred tax assets was removed in fiscal 2012, resulting in a credit to income of \$7.3 million, which is included in our net income tax benefit for the year.

We believe there is a reasonable basis in the tax law for all of the positions we take on the various federal and state tax returns we file. However, in recognition of the fact that various taxing authorities may not agree with our position on certain issues, we expect to establish and maintain tax reserves.

*Consolidations.* On April 8, 2010, we determined that Landlord was a VIE and consolidated it into our financial statements as we are the primary beneficiary (ASC Topic 810). We had a put/call option with Seneca Holdco to purchase Landlord and we leased the plant for production of biodiesel as of December 31, 2011, both of which represent a variable interest in Landlord that are significant to the VIE. Although we did not have an ownership interest in Seneca Holdco, we determined that we were the primary beneficiary because the equity owners are our stockholders; our ability to direct the activities that most significantly impacted Landlord’s economic performance; and, the design of the leasing arrangement that ultimately gave us the majority of the benefit from the use of Landlord’s assets. We elected the fair value option available under ASC Topic 825 on the \$4.0 million investment made by Seneca Holdco and the associated put and call options. Changes in the fair value after the date of the transaction were recorded in earnings. Those assets were owned by and those liabilities were obligations of Landlord, which we consolidated as the primary beneficiary. On January 24, 2012, the Company acquired the Seneca Facility pursuant to the exercise of its option under the Put/Call Agreement. See “Note 5 – Acquisitions and Equity Transactions” to our consolidated financial statements for a description of the acquisition.

During 2007, we invested, through a wholly-owned subsidiary, in Bell, LLC, a VIE joint venture, whereby we own 50% of the outstanding units. Commencing January 1, 2011, we have the right to execute a call option with the joint venture member, Dayton Park, LLC, to purchase Bell, LLC; therefore, we determined we were the primary beneficiary of Bell, LLC and consolidated Bell, LLC into our financial statements in accordance with ASC Topic 810. See “Note 6—Variable Interest Entities” to our consolidated financial statements for a description of the consolidation.

*Derivatives instruments and hedging activities.* The Financial Accounting Standards Board issued ASC Topic 815-40, “*Derivatives and Hedging*” or ASC 815-40. ASC 815-40 established accounting and reporting standards for derivative instruments and required that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. We utilize futures contracts, swaps and options to hedge feedstock purchases and biodiesel sales contracts. We have designated the derivatives as non-hedge derivatives that are utilized to manage cash flow. Additionally, we have entered into an interest rate swap with the objective of managing risk caused by fluctuations in market interest rate risks associated with the REG Danville loan. Unrealized gains and losses on the futures contracts, swaps and options are therefore recognized as a component of biodiesel cost of goods sold, and are reflected in current results of operations. Unrealized gains and losses on the interest rate swap are recorded in other income or expense, net.

*Valuation of Preferred Stock Embedded Derivatives.* In connection with our IPO on January 24, 2012, we gave effect to the one-time conversion of Series A Preferred Stock and certain common stock warrants into

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7,660,612 shares of newly-issued Class A common stock and 2,999,493 shares of Series B preferred stock with a \$74,987 aggregate liquidation preference and cumulative dividends of 4.5% per annum. No shares of Series A Preferred Stock remain outstanding after the IPO.

We determined that the conversion feature of Series A Preferred Stock was an embedded derivative because the redemption feature allowed the holder to redeem Series A Preferred Stock for cash at a price which could vary based on the fair market value of the Series A Preferred Stock, which effectively provided the holders of the Series A Preferred Stock with a mechanism to “net settle” the conversion option. Consequently, the embedded conversion option were bifurcated and accounted for separately because the economic characteristics of this conversion option were not considered to be clearly and closely related to the economic characteristics of the Series A Preferred Stock, which was considered more akin to a debt instrument than equity.

Upon issuance of Series A Preferred Stock, we recorded a liability representing the estimated fair value of the right of holders of the Series A Preferred Stock to receive the fair market value of the common stock issuable upon conversion of the Series A Preferred Stock on the redemption date. This liability was adjusted each quarter based on changes in the estimated fair value of such right, and a corresponding income or expense was recorded in change in fair value of the preferred stock conversion feature embedded derivatives in our statements of operations.

We used the option pricing method to value the embedded derivative. We used the Black-Scholes options pricing model to estimate the fair value of the conversion option embedded in the Series A Preferred Stock. The Black-Scholes options pricing model requires the development and use of highly subjective assumptions. These assumptions include the expected volatility of the value of our equity, the expected conversion date, an appropriate risk-free interest rate and the estimated fair value of our equity. The expected volatility of our equity was estimated based on the volatility of the value of the equity of publicly traded companies in a similar industry and general stage of development as us. The expected term of the conversion option was based on the period remaining until the contractually stipulated redemption date of February 26, 2014. The risk-free interest rate is based on the yield on United States Treasury STRIPs with a remaining term equal to the expected term of the conversion option. The development of the estimated fair value of our equity is discussed below in the “Valuation of the Company’s Equity.”

The significant assumptions utilized in our valuation of the embedded derivative are as follows:

	January 24, 2012	December 31, 2011	December 31, 2010	February 26, 2010
Expected volatility	40.00%	40.00%	40.00%	40.00%
Risk-free rate	2.80%	2.60%	4.10%	4.40%

The estimated fair values of the conversion feature embedded in the Series A Preferred Stock was recorded as a derivative liability. The derivative liability was adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as change in fair value of Series A Preferred Stock embedded derivative. The impact of the change in the value of the embedded derivative was not included in the determination of taxable income.

*Valuation of Seneca Holdco, LLC Liability.* On January 24, 2012, we acquired the Seneca Facility pursuant to the exercise of its call option and the Seneca Holdco liability no longer exists. See “Note 5 – Acquisitions and Equity Transactions” to our consolidated financial statements for a description of the transaction.

In connection with the agreements under which we leased the Seneca facility (See “Note 6—Variable Interest Entities” to our consolidated financial statements), we had the option to purchase, or Call Option, and Seneca Holdco had the option to require us to purchase, or Put Option, the membership interest of Landlord whose assets consist primarily of a biodiesel plant located in Seneca, Illinois. Both the Put Option and the Call Option had a term of seven years and were exercisable by either party at a price based on a pre-defined formula. We valued the amounts financed by Seneca Holdco, the Put Option and the Call Option using an option pricing model. The fair values of the Put Option and the Call Option were estimated using an option pricing model, and

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represent the probability weighted present value of the gain that is realized upon exercise of each option. The option pricing model requires the development and use of highly subjective assumptions. These assumptions include (i) the value of our equity, (ii) expectations regarding future changes in the value of our equity, (iii) expectations about the probability of either option being exercised, including the our ability to list our securities on an exchange or complete a public offering and (iv) an appropriate risk-free rate. We considered current public equity markets, relevant regulatory issues, biodiesel industry conditions and our position within the industry when estimating the probability that we will raise additional capital. Differences in the estimated probability and timing of this event along with current available working capital may significantly impact the fair value assigned to the Seneca Holdco, LLC liability as we determined it was not likely that the Put Option will become exercisable in the absence of this event.

The significant assumptions utilized in our valuation of the Seneca Holdco, LLC liability were as follows:

	December 31, 2011	December 31, 2010	April 9, 2010
Expected volatility	50.00%	50.00%	50.00%
Risk-free rate	2.60%	2.45%	3.36%
Probability of IPO	100.00%	70.00%	60.00%

*Preferred Stock Accretion.* Beginning October 1, 2007, we determined that there was a more than remote likelihood that our then outstanding preferred stock would become redeemable; therefore, commenced accretion of the carrying value of the Series A Preferred Stock over the period until the earliest redemption date to the Series A Preferred Stock's redemption value, plus accrued but unpaid dividends using the effective interest method. This determination was based upon the current state of the public equity markets which restricted our ability to execute a qualified public offering, our historical operating results and the volatility in the biodiesel and renewable fuels industries which have resulted in lower projected profitability. Prior to October 1, 2007, we had determined that it was not probable that the preferred stock would become redeemable; therefore, the carrying value was not adjusted in accordance with ASC Topic 480-10-S99, "Classification and Measurement of Redeemable Securities," or ASC Topic 480-10-S99.

On February 26, 2010, after issuance of the Series A Preferred Stock, we determined that there was a more than remote likelihood that the Series A Preferred Stock would become redeemable and we commenced accretion of the carrying value of the Series A Preferred Stock over the period until the earliest redemption date (February 26, 2014) to the Series A Preferred Stock's redemption value, plus dividends, using the effective interest method. This determination was based upon the state of the public equity markets at the time which restricted our ability to execute a qualified public offering, our historical operating results and the volatility in the biodiesel and renewable fuels industries.

Accretion of \$1.8, \$25.3 and \$27.2 million for the years ended December 31, 2012, 2011 and 2010, respectively, has been recognized as a reduction to income available to common stockholders in accordance with paragraph 15 of ASC Topic 480-10-S99.

On January 24, 2012, in connection with our IPO, the Series A Preferred Stock was converted into a combination of shares of Series B preferred stock and Class A Common Stock. Accretion of the Series A Preferred Stock was terminated at the time of the conversion. We recorded the Series B preferred stock at fair value, which was a premium over its redemption value; therefore, no accretion is recorded for the Series B preferred stock.

*Valuation of the Company's Equity.* Since quoted market prices for our securities were not available prior to the commencement of trading of our Common Stock on the NASDAQ Global Market on January 19, 2012, we estimated the fair value of our equity based on the best information available at the time of the valuation.

*Stock based compensation.* We maintain a stock-based compensation program for employees and directors under the Amended and Restated 2009 Stock Incentive Plan, or our 2009 Plan. The 2009 Plan replaced our 2006 Stock Option Plan. Eligible award recipients are employees, non-employee directors and advisors. We account

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for stock-based compensation in accordance with ASC Topic 718, "Stock Compensation". Compensation expense was recorded for stock options, restricted stock units and stock appreciation rights awarded to employees and non-employee directors in return for service. The total compensation cost was measured at the grant-date fair value of the award.

### Results of Operations

#### Fiscal year ended December 31, 2012 and December 31, 2011

Set forth below is a summary of certain financial information (in thousands) for the periods indicated:

	Twelve Months Ended	
	December 31,	
	2012	2011
<b>Revenues</b>		
Biodiesel	\$ 1,006,471	\$ 757,987
Biodiesel government incentives	8,326	65,822
Total biodiesel	1,014,797	823,809
Services	237	222
Total	1,015,034	824,031
<b>Costs of goods sold</b>		
Biodiesel	956,448	696,622
Services	263	198
Total	956,711	696,820
<b>Gross profit</b>	58,323	127,211
Selling, general and administrative expenses	42,422	34,479
<b>Income from operations</b>	15,901	92,732
Other income (expense), net	7,812	(1,323)
Income tax expense	(1,454)	(2,982)
Income from equity investments	—	442
<b>Net income attributable to REG</b>	22,259	88,869
Effects of recapitalization	39,107	—
Accretion of preferred stock to redemption value	(1,808)	(25,343)
Change in undistributed dividends allocated to preferred stockholders	(823)	(12,723)
Distributed dividends to preferred stockholders	(3,156)	—
Effects of participating preferred stock	(8,952)	(4,186)
Effects of participating share-based awards	(3,145)	(3,864)
<b>Net income (loss) attributable to the Company's common stockholders</b>	<u>\$ 43,482</u>	<u>\$ 42,753</u>

*Revenues.* Our total revenues increased \$191.0 million, or 23%, to \$1,015.0 million for the year ended December 31, 2012, from \$824.0 million for the year ended December 31, 2011. This increase was primarily due to an increase in gallons sold as follows:

*Biodiesel.* Biodiesel revenues including government incentives increased \$191.0 million, or 23%, to \$1,014.8 million during the year ended December 31, 2012, from \$823.8 million for the year ended December 31, 2011. This increase in biodiesel revenues was due to an increase in gallons sold. Due to lower RIN and energy prices in 2012, our average B100 sales price per gallon decreased \$0.63, or 12%, to \$4.60 during the year ended December 31, 2012, compared to \$5.23 during the year ended December 31, 2011. The decrease in average sales price from 2011 to 2012 contributed to a \$90.8 million revenue decrease when applied to the number of gallons sold during 2011. Gallons sold, excluding tolled gallons, increased 44.2 million, or 31%, to 188.4 million during the year ended December 31, 2012, compared to 144.2 million

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during the year ended December 31, 2011. The increase in gallons for the year ended December 31, 2012 accounted for a revenue increase of \$203.3 million using pricing for the year 2012. We did not toll manufacture any gallons in 2012 for others, compared to 2011 when we tolled 5.6 million gallons at the REG Houston facility. This increase in gallons sold reflects increased production capacity at our Seneca facility and the Albert Lea facility. The \$57.5 million decrease in biodiesel government incentives for the year ended December 31, 2012 was due to the blenders tax credit expiring on December 31, 2011. The credit was reinstated on January 2, 2013 retroactively for 2012 through December 31, 2013.

*Services.* Services revenues remained unchanged from the prior year. Service revenues were \$0.2 million for the year ended December 31, 2012 and 2011. This was due to our decision to cancel our remaining MOSAs during 2010.

*Costs of goods sold.* Our costs of goods sold increased \$259.9 million, or 37%, to \$956.7 million for the year ended December 31, 2012, from \$696.8 million for the year ended December 31, 2011. This increase was primarily due to costs associated with the increase in gallons sold in the 2012 period as follows:

*Biodiesel.* Biodiesel costs of goods sold increased \$259.8 million, or 37%, to \$956.4 for the year ended December 31, 2012, compared to \$696.6 million for the year ended December 31, 2011. The increase in biodiesel costs of goods sold is primarily the result of the additional gallons sold in the 2012 period partially offset by slightly lower feedstock prices in 2012 as compared to 2011. Average lower cost feedstocks prices for the year ended December 31, 2012 was \$0.43 per pound, compared to \$0.47 per pound for the year ended December 31, 2011. Soybean oil costs for the year ended December 31, 2012 was \$0.55 per pound, and was \$0.58 per pound for the year ended December 31, 2011. We had losses of \$4.6 million from risk management trading activity for the year ended December 31, 2012, compared to gains of \$3.0 million from risk management trading for the year ended December 31, 2011, respectively. Our increased losses were largely due to a decrease in soybean oil prices in September 2012 and an increase in heating oil prices during the third quarter of 2012 which resulted in reduced market value of our derivative financial instruments related to fourth quarter biodiesel sales. In addition, the decrease in the value of RINs during 2012 resulted in a \$19.6 million write-down to lower of cost or market on RIN inventory held throughout the year.

*Services.* Costs of services increased \$0.1 million to \$0.3 million for the year ended December 31, 2012, from \$0.2 million for the year ended December 31, 2011. Costs incurred to perform services under the MOSAs decreased due to our decision to cancel the MOSAs during 2010.

*Selling, general and administrative expenses.* Our selling, general and administrative, or SG&A, expenses were \$42.4 million for the year ended December 31, 2012, compared to \$34.5 million for the year ended December 31, 2011. SG&A expenses increased \$7.9 million, or 23%, for the year ended December 31, 2012. The increase was primarily related to the additional non-cash stock compensation expense of \$13.1 million for the year ended December 31, 2012, compared to \$5.9 million for the year ended December 31, 2011. We also incurred a \$0.5 million increase in insurance expense, a \$0.4 million increase in advertising and an increase of \$0.4 million related to computer expenses. This increase was offset by a \$0.8 million decrease in the provision for bad debt expense and a decrease of \$0.9 million in professional fee expense. During 2012 and 2011, we accrued \$1.6 million and \$3.6 million, respectively in expense related to the annual incentive plan based upon achievement of certain operating and financial results for the respective years.

*Other income (expense), net.* Other income was \$7.8 million for the year ended December 31, 2012 compared to other expense of \$1.3 million for the year ended December 31, 2011. Other income is primarily comprised of the changes in fair value of the Series A Preferred Stock conversion feature embedded derivative, changes in fair value of Seneca Holdco liability, interest expense, interest income and the other non-operating items. The change in fair value of the Series A Preferred Stock conversion feature embedded derivative resulted in \$12.0 million of income for the year ended December 31, 2012 and \$7.9 million of income for the year ended December 31, 2011. The change in fair value of the Seneca Holdco liability was \$0.3 million of revenue for the year ended December 31, 2012 and was \$2.1 million of expense for the year ended December 31, 2011. Interest expense decreased \$3.4 million to \$4.7 million for the year ended December 31, 2012, from \$8.1 million for the year



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ended December 31, 2011. This decrease was primarily attributable to a decrease in the amortization expense associated with debt financing fees taken during the 2012 year compared to 2011, as well as the decrease in term debt for the same period.

*Income tax benefit (expense).* There was income tax expense recorded during the year ended December 31, 2012 of \$1.5 million, compared to an income tax expense of \$3.0 million for the year ended December 31, 2011. During 2010, deferred tax liabilities were recorded as a result of the Blackhawk Merger and CIE Asset Acquisition. As the deferred tax liabilities were recorded, the resulting decrease in net deferred tax assets required a lower valuation allowance. The release of the associated valuation allowance recorded after finalization of the Blackhawk and CIE purchase accounting transactions resulted in an income tax benefit for the year ended December 31, 2010. During the third quarter 2011, we revised our forecasted taxable income for year end and projected we would incur an income tax liability for the twelve-months ending December 31, 2011. The forecasted income tax liability results from a significant increase in taxable income, as well as, limitations on our ability to utilize our entire carry-forward net operating losses in 2011. At December 31, 2012, we had net deferred income tax assets of approximately \$3.5 million with a valuation allowance of \$0 million, partially offset by an accrued liability of \$1.9 million for uncertain tax benefits. We have an income tax receivable of \$4.7 million as of December 31, 2012.

*Income (loss) from equity investments.* There was no gain or loss from equity investments during 2012 compared to a gain of \$0.4 million for the year ended December 31, 2011. The change is due to the change of investments from equity method to cost method during the last half of 2010 coupled with a gain of \$0.7 from our investment in SoyMor biodiesel when we purchased the assets of SoyMor during July 2011.

*Effects of Recapitalization.* In January 2012, we completed an initial public offering of our common stock. Due to the IPO, we recorded the effects from recapitalization of \$39.1 million. To account for the exchange of Series A preferred stock for the newly issued Series B preferred stock and common stock, we compared the fair value of the Series B preferred stock and common shares issued to the carrying amount of the Series A preferred shares that were redeemed. The excess of the carrying amount of Series A Preferred stock that were redeemed over the fair value of the Series B preferred stock and common shares that were issued was recorded as an increase to additional paid-in capital and was added to net earnings available to common shareholders.

*Preferred stock accretion.* Preferred stock accretion was \$1.8 million for the year ended December 31, 2012, compared to \$25.3 million for the year ended December 31, 2011 associated with the Series A Preferred Stock that was terminated upon completion of the IPO. During January 2012, as part of our IPO and the conversion of the Series A Preferred Stock to Series B preferred stock, the accretion of the Series A Preferred Stock was terminated and we determined that no accretion was deemed necessary on the newly issued Series B preferred stock. See "Note 4 – Redeemable Preferred Stock" in our consolidated financial statements for a description of the transaction.

*Change in undistributed dividends.* Undistributed preferred stock dividends were \$0.8 million and \$12.7 million for the years ended December 31, 2012 and 2011, respectively. During January 2012, the Series A Preferred Stock converted to Series B preferred stock as part of our IPO. All previous undistributed dividends were cancelled as part of the conversion. The new Series B preferred stock agreement requires us to pay dividends on a semi-annual basis.

*Distributed dividends.* Distributed preferred stock dividends were \$3.2 million and \$0 million for the years ended December 31, 2012 and 2011, respectively. Based upon the terms of the Series B preferred stockholders, we are required to pay dividends to stockholders on a semi-annual basis. The dividends were paid in June 2012 and December 2012.

*Effects of participating preferred stock.* Effects of participating preferred stock was \$9.0 and \$4.2 million for the years ended December 31, 2012 and 2011, respectively. During the fourth quarter 2011 and the year ended December 31, 2012, we had participation of preferred stockholders in net income attributable to REG.

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*Effects of participating share-based awards.* Effects of participating restricted stock units was \$3.1 and \$3.9 million for the years ended December 31, 2012 and 2011, respectively. During the fourth quarter 2011 and the year ended December 31, 2012, we had participation of restricted stock units in net income attributable to REG.

**Fiscal year ended December 31, 2011 and December 31, 2010**

Set forth below is a summary of certain financial information (in thousands) for the periods indicated:

	Twelve Months Ended December 31,	
	2011	2010
<b>Revenues</b>		
Biodiesel	\$ 757,987	\$ 207,902
Biodiesel government incentives	65,822	7,240
Total biodiesel	823,809	215,142
Services	222	1,313
Total	824,031	216,455
<b>Costs of goods sold</b>		
Biodiesel	696,622	194,016
Services	198	807
Total	696,820	194,823
<b>Gross profit</b>	127,211	21,632
Selling, general and administrative expenses	34,479	22,187
Impairment of assets	—	7,494
<b>Income (loss) from operations</b>	92,732	(8,049)
Other income (expense), net	(1,323)	(16,102)
Income tax benefit (expense)	(2,982)	3,252
Income (loss) from equity investments	442	(689)
<b>Net income (loss) attributable to REG</b>	88,869	(21,588)
Effects of recapitalization	—	8,521
Accretion of preferred stock to redemption value	(25,343)	(27,239)
Change in undistributed dividends allocated to preferred stockholders	(12,723)	(10,027)
Distributed dividends to preferred stockholders	—	—
Effects of participating preferred stock	(4,186)	—
Effects of participating share-based awards	(3,864)	—
<b>Net income (loss) attributable to the Company's common stockholders</b>	<u>\$ 42,753</u>	<u>\$ (50,333)</u>

*Revenues.* Our total revenues increased \$607.6 million, or 281%, to \$824.0 million for the year ended December 31, 2011, from \$216.5 million for the year ended December 31, 2010. This increase was due to an increase in biodiesel revenues as follows:

*Biodiesel.* Biodiesel revenues including government incentives increased \$608.7 million, or 283%, to \$823.8 million during the year ended December 31, 2011, from \$215.1 million for the year ended December 31, 2010. This increase in biodiesel revenues was due to an increase in both gallons sold and selling price. Due to higher RIN and energy prices in 2011, our average B100 sales price per gallon increased \$1.92, or 58%, to \$5.23 during the year ended December 31, 2011, compared to \$3.31 during the year ended December 31, 2010. The increase in sales price from 2010 to 2011 contributed to a \$114.2 million revenue increase when applied to the number of gallons sold during 2010. Gallons sold, excluding tolled gallons, increased 84.7 million, or 142%, to 144.2 million during the year ended December 31, 2011 compared to 59.5 million during the year ended December 31, 2010. The increase in gallons for the year ended December 31, 2011 accounted for a revenue increase of \$411.6 million using pricing for the year 2011. We tolled 5.6 million

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gallons and 7.5 million gallons at the REG Houston facility for the year ended December 31, 2011 and 2010, respectively. This increase in gallons sold reflects stronger market demand primarily as a result of RFS2. In response to this demand our Ralston, Newton, Danville and Seneca facilities produced biodiesel through the year of 2011, including REG Albert Lea commencing operations during third quarter 2011. The \$58.6 million increase in biodiesel government incentives for the year ended December 31, 2011 was due to the blenders tax credit expiring on December 31, 2009 and its reinstatement on December 17, 2010 retroactively for 2010 through December 31, 2011.

*Services.* Services revenues decreased \$1.1 million, or 85%, to \$0.2 million for the year ended December 31, 2011, from \$1.3 million for the year ended December 31, 2010. This decrease was due to our decision to cancel our remaining MOSAs during 2010.

*Costs of goods sold.* Our costs of goods sold increased \$502.0 million, or 258%, to \$696.8 million for the year ended December 31, 2011, from \$194.8 million for the year ended December 31, 2010. This increase was primarily due to costs associated with the increase in gallons sold in the 2011 period as follows:

*Biodiesel.* Biodiesel costs of goods sold increased \$502.6 million, or 259%, to \$696.6 for the year ended December 31, 2011, compared to \$194.0 million for the year ended December 31, 2010. The increase in biodiesel cost of goods sold is primarily the result of the additional gallons sold in the 2011 period as discussed above and an increase in average feedstock prices. Average inedible animal fat costs for the year ended December 31, 2011 was \$0.47 per pound, compared to \$0.30 per pound for the year ended December 31, 2010. Soybean oil costs for the year ended December 31, 2011 was \$0.58 per pound, and was \$0.38 per pound for the year ended December 31, 2010. We had gains of \$3.0 million from hedging activity for the year ended December 31, 2011, compared to losses of \$1.2 million from hedging arrangements for the year ended December 31, 2010, respectively.

*Services.* Costs of services decreased \$0.6 million to \$0.2 million for the year ended December 31, 2011, from \$0.8 million for the year ended December 31, 2010. Costs incurred to perform services under the MOSAs decreased due to our decision to cancel the MOSAs during 2010.

*Selling, general and administrative expenses.* Our selling, general and administrative, or SG&A, expenses were \$34.5 million for the year ended December 31, 2011, compared to \$22.2 million for the year ended December 31, 2010. SG&A expenses increased \$12.3 million, or 55%, for the year ended December 31, 2011. The increase was primarily related to the additional non-cash stock compensation expense of \$5.9 million for the year ended December 31, 2011, compared to \$1.4 million for the year ended December 31, 2010. Additionally, the provision for bad debt expense increased \$1.3 million, professional fee expense increased \$1.2 million, travel expense increased \$0.3 million and insurance expense increased approximately \$0.4 million, or an aggregate of \$3.2 million, for the year ended December 31, 2011 when compared to the same period for 2010. During 2011, we accrued \$3.6 million in expense related to the 2011 annual incentive plan based upon achievement of certain operating and financial results for the current year 2011.

*Other income (expense), net.* Other expense was \$1.3 million for the year ended December 31, 2011 compared to \$16.1 million for the year ended December 31, 2010. Other income is primarily comprised of the changes in fair value of the Series A Preferred Stock conversion feature embedded derivative, changes in fair value of Seneca Holdco liability, interest expense, interest income and the other non-operating items. The change in fair value of the Series A Preferred Stock conversion feature embedded derivative resulted in \$7.9 million of income for the year ended December 31, 2011, and \$8.2 million of expense for the year ended December 31, 2010. The change in fair value of the Seneca Holdco liability was \$2.1 million of expense for the year ended December 31, 2011, and was \$4.2 million of expense for the year ended December 31, 2010. Interest expense increased \$3.2 million to \$8.1 million for the year ended December 31, 2011, from \$4.9 million for the year ended December 31, 2010. This increase was primarily attributable to the debt related to the consolidation of Landlord during 2010, new borrowings on the WestLB Revolver, new borrowing on the USRG term loan and the amortization of deferred financing fees.

*Income tax benefit (expense).* There was income tax expense recorded during the year ended December 31, 2011 of \$3.0 million, compared to an income tax benefit of \$3.3 million for the year ended December 31, 2010.

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Deferred tax liabilities were recorded as a result of the Blackhawk Merger and CIE Asset Acquisition. As the deferred tax liabilities were recorded, the resulting decrease in net deferred tax assets required a lower valuation allowance. The release of the associated valuation allowance recorded after finalization of the Blackhawk and CIE purchase accounting transactions resulted in an income tax benefit for the year ended December 31, 2010. During the third quarter 2011, we revised our forecasted taxable income for the current year end and projected we would incur an income tax liability for the twelve-months ending December 31, 2011. The forecasted income tax liability results from a significant increase in taxable income, as well as, limitations on our ability to utilize our entire carry-forward net operating losses in 2011. At December 31, 2011, we had net deferred income tax assets of approximately \$13.8 million with a valuation allowance of \$7.3 million, which resulted in a net deferred tax asset of \$6.5 million and was partially offset by an accrued liability of \$1.5 million for uncertain tax benefits. We have an income tax liability of \$0.6 million as of December 31, 2011.

*Income (loss) from equity investments.* Gain from equity investments was \$0.4 million for the year ended December 31, 2011 and a loss of \$0.7 million for the year ended December 31, 2010. The change is due to lower levels of overall production at equity method investees that were generating gross losses during the first half of 2010 and the change of investments from equity method to cost method during the last half of 2010 coupled with a gain of \$0.7 from our investment in SoyMor biodiesel when we purchased the assets of SoyMor during July 2011.

*Effects of Biofuels Merger Recapitalization.* In February 2010, we acquired REG Biofuels, Inc., our accounting predecessor, which transaction we refer to as the Biofuels Merger. Due to the Biofuels Merger, we recorded the effects from recapitalization of \$8.5 million. To account for the exchange of one series of preferred shares for the newly issued series of preferred shares, we compared the fair value of the preferred shares issued to the carrying amount of the preferred and common shares that were redeemed. The excess of the carrying amount of preferred and common shares that were redeemed over the fair value of the preferred shares that were issued was recorded as an increase to additional paid-in capital and was added to net earnings available to common shareholders.

*Preferred stock accretion.* Preferred stock accretion was \$25.3 million for the year ended December 31, 2011, compared to \$27.2 million for the year ended December 31, 2010. During the first quarter of 2010, we accreted two months of the previously issued Holdco preferred stock (redemption date of August 1, 2011) and ten months of newly issued Series A Preferred Stock (redemption date February 26, 2014). Monthly accretion expense decreased after the Biofuels Merger in 2010 as a result of the new redemption amount and redemption date of our Series A Preferred Stock.

*Change in undistributed dividends.* Undistributed preferred stock dividends were \$12.7 million and \$10.0 million for the years ended December 31, 2011 and 2010, respectively. During the first quarter of 2010, we had undistributed dividends of the previously issued Holdco preferred stock prior to the Biofuels Merger on February 26, 2010. All prior undistributed dividends were cancelled as part of the merger agreement.

*Effects of participating preferred stock.* Effects of participating preferred stock was \$4.2 million for the year ended December 31, 2011 and no related participating amounts during 2010. During the fourth quarter 2011, we had participation of preferred stockholders in net income attributable to REG in accordance with the two-class method for participating securities.

*Effects of participating share-based awards.* Effects of participating restricted stock units was \$3.9 million for the year ended December 31, 2011 and no related participating amounts during 2010. During the fourth quarter 2011, we had participation of restricted stock units in net income attributable to REG in accordance with the two-class method for participating securities.

## **Liquidity and Capital Resources**

*Sources of liquidity.* Since inception, a significant portion of our operations have been financed through the sale of our capital stock. From August 1, 2006 through December 31, 2012, we received cash proceeds of \$201.0

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million from sales of preferred stock and sales of common stock. At December 31, 2012 and 2011, we had cash and cash equivalents of \$66.8 million and \$33.6 million, respectively. At December 31, 2012, we had total assets of \$495.8 million, compared to total assets of \$484.4 million at December 31, 2011. At December 31, 2012, we had debt of \$37.0 million, compared to debt of \$85.6 million at December 31, 2011.

Our borrowings (in millions) are as follows:

	December 31,	
	2012	2011
Revolving lines of credit	\$ —	\$ 4.0
REG Danville term loan	10.1	15.9
REG Newton term loan	21.2	22.7
Other	1.4	2.2
Total notes payable	<u>\$ 32.7</u>	<u>\$ 44.8</u>
Seneca Landlord term loan	\$ —	\$ 36.3
Bell, LLC promissory note	4.3	4.5
Total notes payable - variable interest entities	<u>\$ 4.3</u>	<u>\$ 40.8</u>

On November 3, 2011, REG Danville, LLC entered into an Amended and Restated Loan Agreement with Fifth Third Bank (Fifth Third Loan). The renewed Fifth Third Loan has a three year term with an automatic one year extension upon certain cumulative principal payment thresholds being met. The loan requires monthly principal payments of \$150,000 and interest to be charged using LIBOR plus 5% per annum. The Fifth Third Loan is secured by our Danville facility. The loan agreement contains various loan covenants that restrict REG Danville's ability to take certain actions, including prohibiting it in certain circumstances from making payments to the Company. Beginning on December 31, 2011, we are required to make semi-annual principal payments in an amount equal to 50% of its Excess Cash Flow. The Fifth Third Loan agreement defines Excess Cash Flow as REG Danville's EBITDA plus certain affiliate payments less principal payments, interest expense, taxes and unfunded maintenance capital expenditures. The Excess Cash Flow payment for December 31, 2012 was \$1.4 million. We made a one-time principal payment totaling \$6.2 million in November 2011, which included \$2.0 million paid from the debt service reserve, which was reduced from \$3.5 million to \$1.5 million, which is our continuing guarantee obligation. As of December 31, 2012, there was \$10.1 million outstanding under the Fifth Third Loan.

On March 8, 2010, in connection with the CIE Asset Acquisition, one of our subsidiaries, REG Newton, refinanced a \$23.6 million term loan, or the AgStar Loan, and obtained a \$2.4 million line of credit, or the AgStar Line, with AgStar Financial Service, PCA, or AgStar. As of December 31, 2012, there was \$21.2 million of principal outstanding under the AgStar Loan. This amount is secured by our Newton facility. The AgStar Loan bears interest at 3% plus the greater of (i) LIBOR or (ii) 2%. Beginning on October 1, 2011, monthly principal payments of approximately \$120,000 and accrued interest are due based on a 12-year amortization period. Under the AgStar Loan, REG Newton is required to maintain a debt service reserve account, or the Debt Reserve, equal to 12-monthly payments of principal and interest on the AgStar Loan. Beginning on January 1, 2011 and at each fiscal year end thereafter, until such time as the balance in the Debt Reserve contains the required 12-months of payments, REG Newton must deposit an amount equal to REG Newton's Excess Cash Flow, which is defined in the AgStar Loan agreement as EBITDA, less the sum of required debt payments, interest expense, any increase in working capital from the prior year until working capital exceeds \$6.0 million, up to \$0.5 million in maintenance capital expenditure, allowed distributions and payments to fund the Debt Reserve. In the event any amounts are past due, AgStar may withdraw such amounts from the Debt Reserve. REG Newton was not required to make a Debt Reserve deposit for 2012 or 2011. REG Newton is subject to various standard loan covenants that restrict its ability to take certain actions, including prohibiting REG Newton from making any cash distributions to us in excess of 35% of REG Newton's net income for the prior year. On December 20, 2012, REG Newton and AgStar extended the term of the AgStar Loan. The maturity date of the AgStar Loan was extended until March 8, 2014.

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In December 2011, we entered into a revolving credit agreement with the lenders thereto and Wells Fargo Capital Finance, LLC, as agent, which we refer to as the Wells Fargo Revolver. The Wells Fargo Revolver provides for the extension of revolving loans in an aggregate principal amount not to exceed \$40.0 million, based on eligible inventory, accounts receivable and blenders credits of the subsidiary borrowers and the inventory of certain affiliates. As of December 31, 2012, our additional availability under the Wells Fargo revolver was \$20.0 million. In December 2011, we borrowed \$10.0 million under the Wells Fargo Revolver to repay in full the outstanding balance under the previous revolving credit facility with West LB. The Wells Fargo Revolver has a stated maturity date of December 23, 2016. Our available borrowing capacity under the Wells Fargo Revolver was \$12.9 million and amounts outstanding were \$0 million as of December 31, 2012.

Amounts borrowed under the Wells Fargo Revolver bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus the LIBOR Rate Margin (as defined), which may range from 2.50 to 3.25 percent, based on the Quantity Average Excess Availability Amount (as defined). All other amounts borrowed that are not LIBOR rate loans bear interest at a rate equal to the greatest of (i) (A) 1.75% per annum, (B) the Federal Funds Rate plus 0.5%, (C) the LIBOR Rate (which rate shall be calculated based upon an interest period of three months and will be determined on a daily basis), plus 1.5% points, and (D) the rate of interest announced, from time to time, within Wells Fargo Bank, National Association at its principal office in San Francisco as its "prime rate," plus (ii) the Base Rate Margin (as defined in the Credit Agreement), which may range from 1.00 to 1.75 percent, based on the Quantity Average Excess Availability Amount. The Base Rate Margin is subject to reduction or increase depending on the amount available for borrowing under the new revolving credit agreement.

The Wells Fargo Revolver contains various loan covenants that restrict each subsidiary borrower's ability to take certain actions, including restrictions on incurrence of indebtedness, creation of liens, mergers or consolidations, dispositions of assets, repurchase or redemption of capital stock, making certain investments, entering into certain transactions with affiliates or changing the nature of the subsidiary's business. In addition, the subsidiary borrowers are required to maintain a Fixed Charge Coverage Ratio (as defined in the Wells Fargo Revolver) of at least 1.0 to 1.0 and to have Excess Availability (as defined in the Wells Fargo Revolver) of at least \$4 million. The new revolving credit agreement is secured by the subsidiary borrowers' membership interests and substantially all of their assets, and the inventory of REG Albert Lea, LLC and REG Houston, LLC, subject to a \$25 million limitation.

The Company has 50% ownership in Bell, LLC, a VIE joint venture that owns and leases to us its corporate office building located in Ames, Iowa. Commencing January 1, 2011, we have the right to execute a call option with the joint venture member, Dayton Park, LLC, to purchase Bell, LLC; therefore, we determined it was the primary beneficiary of Bell, LLC and consolidated Bell, LLC into our financial statements. We are the primary beneficiary due to its ownership interest and as a result of having an exercisable call option that allows us to direct the activities that most significantly impact Bell, LLC's economic performance and gives us the majority of the benefit from the use of Bell, LLC's assets. Through consolidation of Bell, LLC on January 1, 2011, we recorded an outstanding promissory note balance of \$4.8 million. Bell, LLC makes monthly principal payments of approximately \$0.02 million plus interest. The note bears interest at a rate of 3.50% per annum and the note matures January 14, 2018. The note is secured by a mortgage interest in the office building and has an outstanding balance of \$4.3 million at December 31, 2012.

In September 2009, we entered into an extended payment terms agreement with West Central to provide up to \$3.0 million in outstanding payables for up to 45 days. Both of these agreements provided additional working capital resources to us. As of December 31, 2012, we had \$2.9 million outstanding under the West Central agreement.

We and our subsidiaries were in compliance with all restrictive financial covenants associated with the borrowings.

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*Cash flow.* The following table presents information regarding our cash flows and cash and cash equivalents for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,		
	2012	2011 (in thousands)	2010
Net cash flows provided from (used in) operating activities	\$ 44,619	\$ 51,194	\$ (14,593)
Net cash flows used in investing activities	(14,546)	(2,120)	(4,562)
Net cash flows provided from (used in) financing activities	3,137	(19,758)	17,559
Net change in cash and cash equivalents	33,210	29,316	(1,596)
Cash and cash equivalents, end of period	\$ 66,785	\$ 33,575	\$ 4,259

*Operating activities.* Net cash provided from operating activities was \$44.6 million for the year ended December 31, 2012. For 2012, net income was \$22.3 million, which includes depreciation and amortization expense of \$7.9 million, stock compensation expense of \$13.1 million, a decrease in the non-cash change in the preferred stock embedded derivative liability of \$12.0 million, a decrease in the non-cash change in the Seneca Holdco, LLC liability of \$0.2 million, a decrease of \$7.1 million for the premium paid to Seneca Landlord on the original investment and an increase in expense for deferred taxes and uncertain tax positions of \$3.0 million. We also provided \$15.2 million to fund net working capital requirements, consisting of a \$3.1 million increase in inventory, \$32.0 million decrease in accounts receivable, a \$0.4 million increase in prepaid expenses and a decrease in deferred revenues of \$6.7 million, which was partially offset by a \$6.6 million decrease in accounts payable and accruals.

Net cash provided from operating activities was \$51.2 million for the year ended December 31, 2011. For 2011, net income was \$88.9 million, which includes depreciation and amortization expense of \$9.5 million, stock compensation expense of \$5.9 million, a decrease in the non-cash change in the preferred stock embedded derivative liability of \$7.9 million and an increase in the non-cash change in the Seneca Holdco, LLC liability of \$1.5 million. We also used \$42.5 million to fund net working capital requirements, consisting of a \$13.0 million increase in inventory due to increase sales volume, \$35.4 million increase in accounts receivable, a \$12.0 million increase in prepaid expenses and a decrease in deferred revenues of \$2.6 million, which was partially offset by a \$20.5 million increase in accounts payable and accruals. The net result was a cash source from operations of \$51.2 million. Net cash used in operating activities was \$14.6 million for the year ended December 31, 2010. The net loss was \$21.6 million which includes non-cash charges for impairment of intangible assets of \$7.3 million, depreciation and amortization expense of \$5.9 million, non-cash change in the preferred stock embedded derivative liability of \$8.2 million and non-cash change in the Seneca Holdco, LLC liability of \$3.7 million. These charges were offset by non-cash benefits including a \$3.3 million increase for changes in the deferred tax benefit. We also used \$17.8 million to fund net working capital requirements, including an accounts receivable increase of \$4.9 million, an increase in inventories of \$15.9 million and a decrease in accounts payable of \$3.4 million which were partially offset by an increase in deferred revenues of \$3.9 million. This resulted in a net cash use from operations of \$14.6 million for 2010.

*Investing activities.* Net cash used in investing activities for the year ended December 31, 2012 was \$14.5 million, consisting of net cash used to pay for facility construction of \$12.7 million for upgrades at REG Albert Lea and REG Seneca and cash used to pay for three acquisitions in the amount of \$1.8 million.

Net cash used for investing activities for the year ended December 31, 2011 was \$2.1 million, consisting of net cash used to pay for facility construction of \$4.8 million and cash provided from the release of restricted cash in the amount of \$2.7 million. Net cash used for investing activities for the year ended December 31, 2010 was \$4.6 million, consisting primarily of cash paid for Seneca construction of \$4.0 million.

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*Financing activities.* Net cash provided from financing activities for the year ended December 31, 2012 was \$3.1 million. We received \$63.7 million from the completion of our IPO before expenses. We paid \$1.7 million for the issuance of common stock and preferred stock related to the IPO, \$3.1 million related to the net exercise of certain restricted stock units, \$3.2 million for the payment of preferred stock dividends and \$0.1 million for debt issuance cost. We paid down \$4.0 million on our line of credit, repaid \$4.0 million for the investment in Seneca Landlord and paid down \$44.5 million of term debt, which mostly related to paying off in full the term debt at REG Seneca.

Net cash used for financing activities for the year ended December 31, 2011 was \$19.8 million. We paid down \$7.7 million on the Danville note and \$3.0 million on other term notes. Our net decrease on revolving line of credits was \$5.5 million. We also paid \$2.2 million for the pending issuance of common stock and \$1.4 million for debt issuance cost. Net cash provided from financing activities for the year ended December 31, 2010 was \$17.6 million, which represents \$8.0 million cash investment from ARES Corporation, \$4.0 million cash proceeds received from the Seneca investors and \$9.4 million in borrowings on our line of credit. This was partially offset by principal payments in connection with the note payable and cash paid for debt issuance.

*Capital expenditures.* We have three partially constructed plants, one near New Orleans, Louisiana, one in Emporia, Kansas and one in Clovis, New Mexico. We expect it will require additional investments of approximately \$130 to \$140 million in the aggregate, excluding working capital requirements, before these plants would be able to commence production. We also acquired a biodiesel facility near Atlanta, Georgia, on November 16, 2012 that had been idled prior to our acquisition and will remain so until certain repairs or upgrades are made. These facilities would add an expected 150 mmgy. Our Clovis plant is currently being operated as a terminal facility to fulfill biodiesel contracts for customers in the Southwest. In order to complete construction of these facilities, we plan to make significant capital expenditures when debt or equity financing becomes available to complete construction of two facilities, our New Orleans facility and our Emporia facility. We are upgrading our Albert Lea facility and our New Boston facility and expect our capital expenditures related to these facility upgrades to be approximately \$20 million and \$3 million, respectively. We also plan to undertake various facility upgrades to further expand processing capabilities at our existing facilities. We may enter into additional tolling arrangements with third parties from time to time where third parties will produce biodiesel on our behalf using our feedstocks. Such arrangements may require investments of additional working capital during the tolling periods.

We continue to be in discussions with lenders in an effort to enter into equity and debt financing arrangements to meet our projected financial needs for facilities under construction and capital improvement projects for our operating facilities. Since these discussions are ongoing, we are uncertain when or if financing will be available. The financing may consist of common or preferred stock, debt, project financing or a combination of these financing techniques. Additional debt would likely increase our leverage and interest costs and would likely be secured by certain of our assets. Additional equity or equity-linked financings would likely have a dilutive effect on our existing and future stockholders. It is likely that the terms of any project financing would include customary financial and other covenants on our project subsidiaries, including restrictions on the ability to make distributions, to guarantee indebtedness and to incur liens on the plants of such subsidiaries.

### *Series B Preferred Stock*

In connection with the recapitalization of our capital stock, we issued an aggregate of three million shares of Series B preferred stock to former holders of our Series A Preferred Stock. Holders of our Series B preferred stock are entitled to receive cumulative dividends semi-annually in arrears on June 30 and December 30 of each year at an annual rate of \$1.125 per share. We may, at our option, defer a regularly scheduled dividend payment and instead pay accumulated and unpaid dividends on the following dividend payment date; however, we may only defer two such dividend payments and may not defer consecutive dividend payments. We may pay any dividend in cash, by delivering shares of Common Stock, or through any combination of cash and shares of Common Stock. If we elect to make any such payment by delivering shares of Common Stock, those shares will



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be valued at the average of the daily volume weighted average price of the Common Stock on each of the ten consecutive trading days ending on the trading day immediately preceding the record date for that dividend. During 2012, we paid our June 30 and December 30 dividend payments which totaled \$3.2 million.

On June 30, 2015, each holder of our Series B preferred stock may require us to redeem their shares of Series B preferred stock at a price per share equal to \$25 per share plus any accumulated and unpaid dividends. As of the date of this filing, the amount of this potential obligation would be approximately \$74.9 million.

### *Contractual Obligations:*

The following table describes our commitments to settle contractual obligations in cash as of December 31, 2012:

	Payments Due by Period				
	Total	Less Than 1 Year	Years 1-3	Years 4-5	More Than 5 Years
			(In thousands)		
Long Term Debt (1)	\$ 39,313	\$ 6,829	\$ 29,262	\$ 3,222	\$ —
Operating Lease Obligations (2)	82,876	10,849	26,673	15,412	29,942
Purchase Obligations (3)	6,404	6,404	—	—	—
Other Long-Term Liabilities (4)	2,161	100	121	40	—
	<u>\$ 130,754</u>	<u>\$ 24,182</u>	<u>\$ 56,056</u>	<u>\$ 18,674</u>	<u>\$ 29,942</u>

- (1) See footnotes to the financial statements for additional detail. Includes fixed interest associated with these obligations.
- (2) Operating lease obligations consist of terminals, rail cars, vehicles, ground leases and the Ames office lease.
- (3) Purchase obligation for our production facilities and partially completed facilities.
- (4) Includes incentive compliance and other facility obligations. Also, represents \$1.9 million of liability for unrecognized tax benefits as the timing and amounts of cash payments are uncertain the amounts have not been classified by period.

### **Adjusted EBITDA**

We use earnings before interest, taxes, depreciation and amortization, adjusted for certain additional items, identified in the table below, or Adjusted EBITDA, as a supplemental performance measure. We present Adjusted EBITDA because we believe it assists investors in analyzing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Adjusted EBITDA to evaluate, assess and benchmark our financial performance on a consistent and a comparable basis and as a factor in determining incentive compensation for our executives.

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The following table provides our Adjusted EBITDA for the periods presented, as well as a reconciliation to net income:

(In thousands)					Year ended December 31,				Year ended December 31,	
	1Q-2012	2Q-2012	3Q- 2012	4Q-2012	2012	1Q- 2011	2Q-2011	3Q-2011	4Q-2011	2011
Net income (loss)	\$ 14,017	\$ 14,433	\$ (6,040)	\$ (151)	\$ 22,259	\$ 3,736	\$ (948)	\$ (2,007)	\$ 88,088	\$ 88,869
Adjustments:										
(Income) loss from equity investments	—	—	—	—	—	65	83	(649)	59	(442)
Income tax (benefit) expense	1,363	4,471	(2,165)	(2,215)	1,454	—	—	4,752	(1,770)	2,982
Interest expense	1,053	1,059	1,150	1,417	4,679	1,708	1,751	2,183	2,453	8,095
Other (income) expense, net	(37)	(28)	(56)	(46)	(167)	(275)	(200)	(239)	(216)	(930)
Change in fair value of Seneca Holdco liability	(349)	—	—	—	(349)	(727)	2,250	977	(403)	2,097
Change in fair value of preferred stock conversion feature embedded derivatives	(11,975)	—	—	—	(11,975)	(2,557)	19,645	38,483	(63,510)	(7,939)
Stock issued for glycerin agreement termination	1,898	—	—	—	1,898	—	—	—	—	—
Straight-line lease expense	(102)	(104)	(31)	(51)	(288)	798	618	393	93	1,902
Depreciation	2,026	2,069	2,097	1,832	8,024	1,689	1,705	1,851	1,939	7,184
Amortization	(139)	(206)	(208)	(200)	(753)	(130)	(124)	(97)	(100)	(451)
Non-recurring business interruption	—	—	—	863	863	—	—	—	—	—
Blenders tax credit	10,448	16,625	18,912	11,760	57,745	—	—	—	—	—
Non-cash stock compensation	4,964	4,758	2,965	432	13,119	990	990	1,067	2,887	5,934
<b>Adjusted EBITDA</b>	<b>\$ 23,167</b>	<b>\$ 43,077</b>	<b>\$ 16,624</b>	<b>\$ 13,641</b>	<b>\$ 96,509</b>	<b>\$ 5,297</b>	<b>\$ 25,770</b>	<b>\$ 46,714</b>	<b>\$ 29,520</b>	<b>\$ 107,301</b>

Adjusted EBITDA is a supplemental performance measure that is not required by, or presented in accordance with, generally accepted accounting principles, or GAAP. Adjusted EBITDA should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as alternatives to cash flows from operating activities or a measure of our liquidity or profitability. Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for any of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures for capital assets or the impact of certain cash clauses that we consider not to be an indication of our ongoing operations;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital requirements;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect cash requirements for such replacements;
- on January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law, which reinstated a set of tax extender items including the reinstatement of the federal biodiesel blenders tax credit for 2013 and retroactively reinstated credit for 2012. The retroactive credit for 2012 results in an estimated

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net benefit to us that will be recognized in first half 2013 which relates to the operating performance and results of 2012 and is included in Adjusted EBITDA when evaluating our operating performance as if the credit were in effect for 2012;

- non-reoccurring business interruption charge at one of our production facilities in November 2012; we have reflected the gain contingency from 2012 into our operating performance having received the corresponding insurance proceeds in February 2013;
- non-cash stock compensation expense is an important element of our long term incentive compensation program, although we have excluded it as an expense when evaluating our operating performance; and
- other companies, including other companies in our industry, may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

### **Recent Accounting Pronouncements**

For a discussion of new accounting pronouncements affecting the Company, refer to “Note 2 – Summary of Significant Accounting Policies” to our consolidated financial statements.

### **ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk**

The primary objectives of our investment activity are to preserve principal, provide liquidity and maximize income without significantly increasing risk. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain a portfolio of cash equivalents in short-term investments in money market funds.

#### *Commodity Price Risk*

Over the period from January 2007 through December 2012, average diesel prices based on Platts reported pricing for Group 3 (Midwest) have ranged from a high of approximately \$4.10 per gallon reported in July 2008 to a low of approximately \$1.03 per gallon in March 2009, with prices averaging \$2.52 per gallon during this period. Over the period from January 2006 through December 2012, soybean oil prices (based on closing sales prices on the CBOT nearby futures, for crude soybean oil) have ranged from a high of \$0.7040 per pound in March 2008 to a low of \$0.2108 per pound in January 2006, with closing sales prices averaging \$0.4262 per pound during this period. Over the period from January 2008 through December 2012, animal fat prices (based on prices from The Jacobsen Missouri River, for choice white grease) have ranged from a high of \$0.5250 per pound in June 2011 to a low of \$0.0950 per pound in December 2008, with sales prices averaging \$0.3447 per pound during this period. Over the period from July 2010 through December 2012, RIN prices (based on prices from OPIS) have ranged from a high of \$1.99 in September 2011 to a low of \$0.42 in October 2012, with sales prices averaging \$1.07 during this period.

Higher feedstock prices or lower biodiesel prices result in lower profit margins and, therefore, represent unfavorable market conditions. Traditionally, we have not been able to pass along increased feedstock prices to our biodiesel customers. The availability and price of feedstocks are subject to wide fluctuations due to unpredictable factors such as weather conditions during the growing season, rendering volumes, carry-over from the previous crop year and current crop year yield, governmental policies with respect to agriculture and supply and demand.

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We have prepared a sensitivity analysis to estimate our exposure to market risk with respect to our sales contracts, lower cost feedstock requirements, soybean oil requirements and the related exchange-traded contracts for 2012. Market risk is estimated as the potential loss in fair value, resulting from a hypothetical 10% adverse change in the fair value of our lower cost feedstock and soybean oil requirements and biodiesel sales. The results of this analysis, which may differ from actual results, are as follows:

	2012 Volume (in millions)	Units	Hypothetical Adverse Change in Price	Annual Gross Profit (in millions)	Percentage Change in Gross Profit
Biodiesel	188.4	gallons	10%	\$ 100.6	171.4%
Lower Cost Feedstocks	1,184.6	pounds	10%	\$ 50.9	86.7%
Soybean Oil	225.5	pounds	10%	\$ 12.3	21.0%

We attempt to protect operating margins by entering into risk management contracts that mitigate price volatility of our feedstocks, such as inedible animal fat and inedible corn oil and energy prices. We create offsetting positions by using a combination of forward physical purchases and sales contracts on feedstock and biodiesel, including risk management futures contracts, swaps and options primarily on heating oil and soybean oil; however, the extent to which we engage in risk management activities varies substantially from time to time, and from feedstock to feedstock, depending on market conditions and other factors. A 10 percent adverse change in the prices of heating oil would have a negative effect on the fair value of these instruments of \$8.5 million. A 10 percent adverse change in the price of soybean oil would have a negative effect on the fair value of these instruments of \$2.1 million.

### *Interest Rate Risk*

We are subject to interest rate risk in connection with our \$2.0 million loan from the proceeds of Variable Rate Demand Industrial Development Revenue Bonds, or IFA Bonds, issued by the Iowa Finance Authority to finance our Ralston facility. The IFA Bonds bear interest at a variable rate determined by the remarketing agent from time to time as the rate necessary to produce a bid for the purchase of all of the Bonds at a price equal to the principal amount thereof plus any accrued interest at the time of determination, but not in excess of 10% per annum. The interest rate on the bonds was 0.18% for the last week of December 2012. A hypothetical increase in interest rate of 10% would not have a material effect on our annual interest expense.

We are subject to interest rate risk relating to REG Danville's assumed \$24.6 million term debt financing which was renewed on November 3, 2011 according to the Amended and Restated Loan Agreement with Fifth Third Bank. The renewed term loan has a three year term with an automatic one year extension upon certain cumulative principal payment thresholds being met. The term loan bears interest at a fluctuating rate based on LIBOR. Interest will accrue on the outstanding balance of the term loan at LIBOR plus 500 basis points. Interest accrued on the outstanding balance of the loan at December 31, 2012 at 5.21%.

REG Danville entered into an interest rate swap agreement in connection with the aforementioned term loan in December 23, 2011 to be effective January 1, 2012. The swap agreement effectively fixes the variable component of the interest rate at 0.92% on a notional amount of approximately \$5.2 million of REG Danville's term loan through July 2015. The fair value of the interest rate swap agreement was \$0.1 million and \$0.1 million at December 31, 2012 and 2011, respectively, and is recorded in the other noncurrent liabilities. The interest rate swap agreement is not designated as a cash flow or fair value hedge. Gains and losses based on the fair value change in the interest rate swap agreement are recognized in the statement of operations as a change in the fair value of interest rate swap agreement. A hypothetical increase in interest rate of 10% would not have a material effect on our annual interest.

REG Newton is subject to interest rate risk relating to its assumed \$23.6 million term debt financing from AgStar. Interest will accrue on the outstanding balance of the term loan at 30-day LIBOR or 2.00%, whichever is higher, plus 300 basis points (effective rate at December 31, 2012 of 5.00%). A hypothetical increase in interest rate of 10% would not have a material effect on our annual interest expense.

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We are subject to interest rate risk under our Wells Fargo Revolver entered into on December 23, 2011 under which we had \$0 million borrowed and outstanding at December 31, 2012. Amounts borrowed under the Wells Fargo Revolver bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus the LIBOR Rate Margin (as defined in the Wells Fargo Revolver), which may range from 2.50 to 3.25 percent, based on the Quantity Average Excess Availability Amount (as defined in the Wells Fargo Revolver). All other amounts borrowed that are not LIBOR rate loans bear interest at a rate equal to the greatest of (i) (A) 1.75% per annum, (B) the Federal Funds Rate plus 0.5%, (C) the LIBOR Rate (which rate shall be calculated based upon an interest period of three months and will be determined on a daily basis), plus 1.5% points, and (D) the rate of interest announced, from time to time, within Wells Fargo Bank, National Association at its principal office in San Francisco as its "prime rate," plus (ii) the Base Rate Margin (as defined in the Wells Fargo Revolver), which may range from 1.00 to 1.75 percent, based on the Quantity Average Excess Availability Amount. The Base Rate Margin is subject to reduction or increase depending on the amount available for borrowing under the Wells Fargo Revolver. The loan was a base rate loan as of December 31, 2012 (effective rate at December 31, 2012 of 4.75%). A hypothetical increase in interest rate of 10% would not have a material effect on our annual interest expense.

### *Inflation*

To date, inflation has not significantly affected our operating results, though costs for petroleum-based diesel fuel, feedstocks, construction, labor, taxes, repairs, maintenance and insurance are all subject to inflationary pressures. Inflationary pressure in the future could affect our ability to sell the biodiesel we produce, maintain our production facilities adequately, build new biodiesel production facilities and expand our existing facilities as well as the demand for our facility construction management and operations management services.

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**ITEM 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Renewable Energy Group, Inc.  
416 S. Bell Ave  
Ames, Iowa

We have audited the accompanying consolidated balance sheets of Renewable Energy Group, Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, redeemable preferred stock and equity (deficit), and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Renewable Energy Group, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP  
Des Moines, Iowa  
March 8, 2013

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**RENEWABLE ENERGY GROUP, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER 31, 2012 AND 2011**

**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 66,785	\$ 33,575
Accounts receivable, net (includes amounts owed by related parties of \$771 and \$47 as of December 31, 2012 and 2011, respectively )	18,768	52,833
Inventories	45,206	42,110
Deferred income taxes	2,512	2,416
Prepaid expenses and other assets	15,812	19,088
Total current assets	<u>149,083</u>	<u>150,022</u>
Property, plant and equipment, net	242,885	185,391
Property, plant and equipment, net—variable interest entities	5,405	46,832
Goodwill	84,864	84,864
Intangible assets, net	4,609	4,438
Deferred income taxes	969	4,051
Investments	2,618	2,581
Other assets (includes amounts owed by related party of \$692 and \$0 as of December 31, 2012 and 2011, respectively )	5,351	6,268
<b>TOTAL ASSETS</b>	<b><u>\$ 495,784</u></b>	<b><u>\$ 484,447</u></b>
<b>LIABILITIES AND EQUITY</b>		
CURRENT LIABILITIES:		
Revolving line of credit	\$ —	\$ 4,035
Current maturities of notes payable	4,955	6,427
Current maturities of notes payable—variable interest entities	283	2,046
Accounts payable (includes amounts owed to related parties of \$2,950 and \$3,634 as of December 31, 2012 and 2011, respectively)	28,131	30,166
Accrued expenses and other liabilities	6,475	10,440
Deferred revenue	—	6,748
Total current liabilities	<u>39,844</u>	<u>59,862</u>
Unfavorable lease obligation	9,035	10,164
Preferred stock embedded conversion feature derivatives	—	53,822
Seneca Holdco liability, at fair value	—	11,903
Notes payable (includes amounts owed to related parties of \$214 as of December 31, 2011)	27,776	34,327
Notes payable—variable interest entities	4,030	38,752
Other liabilities	7,292	7,262
Total liabilities	<u>87,977</u>	<u>216,092</u>
COMMITMENTS AND CONTINGENCIES (NOTE 22)		
Series A preferred stock (\$.0001 par value; 14,000,000 shares authorized; 13,455,522 shares outstanding at December 31, 2011; redemption amount \$222,016 at December 31, 2011)	—	147,779
Series B preferred stock (\$.0001 par value; 3,000,000 shares authorized; 2,995,106 shares issued and outstanding at December 31, 2012; redemption amount \$74,878 at December 31, 2012)	83,043	—
EQUITY:		
Company stockholders' equity :		
Common stock (\$.0001 par value; 140,000,000 shares authorized; 30,559,935 shares outstanding at December 31, 2012)	3	—
Class A Common stock (\$.0001 par value; 140,000,000 shares authorized; 13,962,155 shares outstanding at December 31, 2011)	—	1
Common stock—additional paid-in-capital	273,989	80,747
Warrants—additional paid-in-capital	147	3,698
Retained earnings	53,823	36,528
Total paid-in capital and retained earnings	<u>327,962</u>	<u>120,974</u>
Treasury stock (462,985 and 21,036 shares outstanding as of December 31, 2012 and 2011, respectively)	<u>(3,198)</u>	<u>(398)</u>
Total equity	<u>324,764</u>	<u>120,576</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>\$ 495,784</u></b>	<b><u>\$ 484,447</u></b>

See notes to consolidated financial statements.

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**RENEWABLE ENERGY GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	2012	2011	2010
<b>REVENUES:</b>			
Biodiesel sales	\$ 1,006,465	\$ 752,826	\$ 203,641
Biodiesel sales—related parties	6	5,161	4,261
Biodiesel government incentives	8,326	65,822	7,240
	<u>1,014,797</u>	<u>823,809</u>	<u>215,142</u>
Services	237	222	1,313
	<u>1,015,034</u>	<u>824,031</u>	<u>216,455</u>
<b>COSTS OF GOODS SOLD:</b>			
Biodiesel	902,084	433,060	81,125
Biodiesel—related parties	54,364	263,562	112,891
Services	263	198	807
	<u>956,711</u>	<u>696,820</u>	<u>194,823</u>
<b>GROSS PROFIT</b>	<b>58,323</b>	<b>127,211</b>	<b>21,632</b>
<b>SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES</b> (includes related party amounts of \$158, \$1,505 and \$1,601 for the years ended December 31, 2012, 2011 and 2010, respectively)	42,422	34,479	22,187
<b>IMPAIRMENT OF ASSETS</b>	—	—	7,494
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>15,901</b>	<b>92,732</b>	<b>(8,049)</b>
<b>OTHER INCOME (EXPENSE), NET:</b>			
Change in fair value of preferred stock conversion feature embedded derivatives	11,975	7,939	(8,208)
Change in fair value of Seneca Holdco liability	349	(2,097)	(4,179)
Other income (includes related party amounts of \$180 for the year ended December 31, 2010)	167	930	1,625
Interest expense (includes related party amounts of \$32, \$761 and \$334 for the years ended December 31, 2012, 2011 and 2010, respectively)	(4,679)	(8,095)	(4,940)
Impairment of investments	—	—	(400)
	<u>7,812</u>	<u>(1,323)</u>	<u>(16,102)</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES AND INCOME (LOSS) FROM EQUITY INVESTMENTS</b>	<b>23,713</b>	<b>91,409</b>	<b>(24,151)</b>
<b>INCOME TAX BENEFIT (EXPENSE)</b>	<b>(1,454)</b>	<b>(2,982)</b>	<b>3,252</b>
<b>INCOME (LOSS) FROM EQUITY INVESTMENTS</b>	<b>—</b>	<b>442</b>	<b>(689)</b>
<b>NET INCOME (LOSS)</b>	<b>22,259</b>	<b>88,869</b>	<b>(21,588)</b>
<b>EFFECTS OF RECAPITALIZATION</b>	<b>39,107</b>	<b>—</b>	<b>8,521</b>
LESS—ACCRETION OF SERIES A PREFERRED STOCK TO REDEMPTION VALUE	(1,808)	(25,343)	(27,239)
LESS—CHANGES IN UNDISTRIBUTED DIVIDENDS ALLOCATED TO PREFERRED STOCKHOLDERS	(823)	(12,723)	(10,027)
LESS—DISTRIBUTED DIVIDENDS TO PREFERRED STOCKHOLDERS	(3,156)	—	—
LESS—EFFECT OF PARTICIPATING PREFERRED STOCK	(8,952)	(4,186)	—
LESS—EFFECT OF PARTICIPATING SHARE-BASED AWARDS	(3,145)	(3,864)	—
<b>NET INCOME (LOSS) ATTRIBUTABLE TO THE COMPANY'S COMMON STOCKHOLDERS</b>	<b>\$ 43,482</b>	<b>\$ 42,753</b>	<b>\$ (50,333)</b>
<b>Net income (loss) per share attributable to common stockholders:</b>			
Basic	<u>\$ 1.53</u>	<u>\$ 3.14</u>	<u>\$ (4.28)</u>
Diluted	<u>\$ 0.27</u>	<u>\$ 3.14</u>	<u>\$ (4.28)</u>
<b>Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:</b>			
Basic	<u>28,381,676</u>	<u>13,607,840</u>	<u>11,770,848</u>
Diluted	<u>34,340,466</u>	<u>13,607,840</u>	<u>11,770,848</u>
	(concluded)		

See notes to consolidated financial statements





preferred stock to common stock	(4,387)	(122)	8,957	—	—	—	123	—	(1)	—	—	122
Conversion of restricted stock units to common stock (net of 441,949 shares of treasury stock purchased)	—	—	852,570	—	—	—	—	—	—	(2,800)	—	(2,800)
Stock compensation expense	—	—	—	—	—	—	13,119	—	—	—	—	13,119
Accretion of Series A Preferred Stock to redemption value	—	1,808	—	—	—	—	—	—	(1,808)	—	—	(1,808)
Series B preferred stock dividends paid	—	—	—	—	—	—	—	—	(3,155)	—	—	(3,155)
Net income	—	—	—	—	—	—	—	—	22,259	—	—	22,259
<b>BALANCE, December 31, 2012</b>	<b>2,995,106</b>	<b>\$ 83,043</b>	<b>30,559,935</b>	<b>\$ 3</b>	<b>—</b>	<b>\$ —</b>	<b>\$ 273,989</b>	<b>\$ 147</b>	<b>\$ 53,823</b>	<b>\$ (3,198)</b>	<b>\$ —</b>	<b>\$ 324,764</b>

See notes to consolidated financial statements.

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**RENEWABLE ENERGY GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
**(IN THOUSANDS)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 22,259	\$ 88,869	\$ (21,588)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation expense	8,024	7,184	5,291
Amortization expense of assets and liabilities, net	(103)	2,291	637
Provision for doubtful accounts	563	1,389	105
Stock compensation expense	13,119	5,934	1,376
(Income) loss from equity method investees	—	(442)	689
Deferred tax expense (benefit)	2,986	(4,967)	(3,252)
Impairment of intangible assets	—	—	7,336
Impairment of investments	—	—	400
Impairment of long lived assets	—	—	158
Change in fair value of preferred stock conversion feature embedded derivatives	(11,975)	(7,939)	8,208
Change in fair value of Seneca Holdco liability	(249)	1,497	3,742
Premium paid for Seneca Landlord investment	(7,063)	—	—
Distributions received from equity method investees	—	—	100
Expense settled with stock issuance	1,898	—	—
Forgiveness of note payable	—	(86)	—
Changes in asset and liabilities, net of effects from mergers and acquisitions:			
Accounts receivable	32,014	(35,421)	(4,876)
Inventories	(3,096)	(13,047)	(15,937)
Prepaid expenses and other assets	(394)	(11,951)	1,866
Accounts payable	(4,002)	14,153	(3,378)
Accrued expenses and other liabilities	(2,614)	6,321	671
Deferred revenue	(6,748)	(2,591)	3,859
Net cash flows provided from (used in) operating activities	<u>44,619</u>	<u>51,194</u>	<u>(14,593)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash paid for purchase of property, plant and equipment	(12,654)	(4,806)	(4,550)
Proceeds from the sale of fixed assets	—	—	303
Change in restricted cash	(64)	2,664	(513)
Cash paid for investments	(37)	—	—
Consolidation of Bell, LLC	—	22	—
Deconsolidation of Blackhawk	—	—	(206)
Cash paid for acquisitions	(1,791)	—	—
Cash provided through acquisitions	—	—	404
Net cash flows used in investing activities	<u>(14,546)</u>	<u>(2,120)</u>	<u>(4,562)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings on line of credit	1,331,557	40,564	9,400
Repayments on line of credit	(1,335,592)	(46,079)	(750)
Cash received for issuance of note payable	—	10,000	—
Cash paid on notes payable	(44,509)	(20,695)	(2,109)
Cash paid for debt issuance costs	(138)	(1,443)	(702)
Cash proceeds from investment in Seneca Landlord	—	—	4,000
Repayment of investment in Seneca Landlord	(4,000)	—	—
Cash received from issuance of common stock to ARES Corporation	—	—	8,000
Cash received from initial public offering	63,747	—	—
Cash paid for issuance of common stock and preferred stock	(1,699)	(2,153)	(280)
Cash received upon exercise of warrant	—	48	—
Cash paid for treasury stock	(3,074)	—	—
Cash paid for preferred stock dividends	(3,155)	—	—
Net cash flows provided from (used in) financing activities	<u>3,137</u>	<u>(19,758)</u>	<u>17,559</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	33,210	29,316	(1,596)
CASH AND CASH EQUIVALENTS, Beginning of period	33,575	4,259	5,855
CASH AND CASH EQUIVALENTS, End of period	<u>\$ 66,785</u>	<u>\$ 33,575</u>	<u>\$ 4,259</u>

(continued)

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**RENEWABLE ENERGY GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
**(IN THOUSANDS)**

	2012	2011	2010
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>			
Cash paid (received) for income taxes	\$ 3,537	\$ (7,172)	\$ (584)
Cash paid for interest	\$ 3,984	\$ 5,418	\$ 4,226
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Effects of recapitalization	\$ 39,107		\$ 8,521
Accretion of preferred stock to redemption value	\$ 1,808	\$ 25,343	\$ 27,239
Common stock repurchased included in accrued expenses and other liabilities	\$ 124	\$ 398	
Amounts included in period-end accounts payable for:			
Purchases of property, plant and equipment	\$ 3,884	\$ 898	\$ 192
Debt issuance costs	\$ 48	\$ 85	
Equity issuance costs		\$ 999	
Incentive common stock liability for supply agreement	\$ 423	\$ 1,469	
Removal of cost method investee as a result of consolidation			\$ 1,000
Issuance of common stock for debt financing cost			\$ 3,015
Removal of equity method investee as a result of consolidation		\$ 1,613	\$ 3,969
Property, plant and equipment acquired through the assumption of liabilities			\$ 39,314
Issuance of restricted stock units for equity issuance cost			\$ 582
Issuance of common stock per exercise of Seneca Landlord put/call option	\$ 591		
Issuance of common stock for dividends	\$ 1		
In-kind contribution through acquisition	\$ 1,336		
Assets (liabilities) acquired through consolidation of Bell, LLC:			
Cash		\$ 22	
Property, plant, and equipment		5,881	
Noncurrent assets		4	
Other current liabilities		(17)	
Notes payable		(4,757)	
Other noncurrent liabilities		(567)	
		\$ 566	
Assets (liabilities) acquired through the issuance of stock:			
Cash	\$ —	\$ —	\$ 8,404
Restricted cash	—	—	2,302
Other current assets	17	78	1,342
Property, plant, and equipment	4,312	18,886	89,597
Goodwill	—	—	68,784
Intangible assets	—	—	3,027
Other noncurrent assets	—	—	231
Line of credit	—	—	(900)
Other current liabilities	—	—	(5,548)
Notes payable	—	(1,001)	(72,668)
Other noncurrent liabilities	—	—	(11,454)
Fair value of investment prior to allocation	—	(1,613)	—
	\$ 4,329	\$ 16,350	\$ 83,117

See notes to consolidated financial statements.

(concluded)

**RENEWABLE ENERGY GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For The Three Years Ended December 31, 2012, 2011 and 2010**  
**(In Thousands, Except Share and Per Share Amounts)**

**NOTE 1—ORGANIZATION, PRESENTATION, AND NATURE OF THE BUSINESS**

Prior to February 26, 2010, the Company refers to the business, financial position, results of operations and cash flows of REG Biofuels, Inc. (Biofuels), which is considered the accounting predecessor to the Company. For the period after February 26, 2010, the Company refers to the business, results of operations and cash flows of Renewable Energy Group, Inc. (formerly, REG Newco, Inc.) and its consolidated subsidiaries, including Biofuels, REG Danville, LLC (REG Danville) and REG Newton, LLC (REG Newton).

On January 3, 2012, the Company filed its Second Amended and Restated Certificate of Incorporation which executed a one-for-2.5 reverse stock split of the issued and outstanding shares of its common stock. All numbers of common shares and per share data in the accompanying consolidated financial statements and related notes have been retroactively adjusted. On January 24, 2012, the Company completed an initial public offering (IPO) of shares of Common Stock in which it sold 7,200,000 shares at a price to the public of \$10 per share, which included 342,860 shares of Common Stock from selling shareholders. The IPO raised approximately \$59,919 net of underwriting fees and offering costs. On January 24, 2012, the Company acquired the Seneca Facility pursuant to the exercise of its option under the Funding, Investor Fee and Put/Call Agreement, by and among the Company, Seneca Landlord, LLC (Seneca Landlord) and certain subsidiaries of the Company. See “Note 3—Stockholders’ Equity of the Company” for a further description of the IPO. See “Note 5—Acquisitions and Equity Transactions” for a description of the Seneca Landlord acquisition.

The Company has been in the biodiesel industry since 1996. The Company has transitioned from being primarily an operator of a third party-owned network of facilities to now owning seven operating biodiesel production facilities with aggregate nameplate production capacity of 227 million gallons per year, or mmgy. The Company has transitioned from producing biodiesel from higher cost virgin vegetable oils, such as soybean oil, to primarily producing biodiesel from lower cost feedstocks, such as inedible animal fat, used cooking oil and inedible corn oil. The Company owns biodiesel production facilities with nameplate capacities consisting of: a 12 mmgy facility in Ralston, Iowa, a 35 mmgy facility near Houston, Texas, or the Houston facility, a 45 mmgy facility in Danville, Illinois, a 30 mmgy facility in Newton, Iowa and a 30 mmgy biodiesel production facility in Albert Lea, Minnesota. In January 2012, we exercised our option to purchase a 60 mmgy facility in Seneca, Illinois that we previously operated under a lease. In October 2012, we completed our acquisition of North Texas Bio-Energy, LLC (NTBE), a 15 mmgy facility in New Boston, Texas, which was idled at the time we purchased it and remains idled pending completion of certain upgrades we expect to complete in second quarter 2013. In November 2012, we completed our acquisition of Bulldog Biodiesel, LLC (BullDog), a 15 mmgy facility near Atlanta, Georgia, that was idle when we purchased it will remain idled until certain repairs or upgrades are made. See “Note 5—Acquisitions and Equity Transactions” for description of these transactions.

In 2007, the Company commenced construction of a 60 mmgy production capacity facility near New Orleans, Louisiana and a 60 mmgy production capacity facility in Emporia, Kansas. In 2008, the Company halted construction of these facilities as a result of conditions in the biodiesel industry and the credit markets. The Company continues to pursue financing and intends to finish the New Orleans, Louisiana facility, which is approximately 45% complete, and the facility in Emporia, Kansas, which is approximately 20% complete, when financing becomes available. A city incentive package for the Emporia construction project was renewed until July 1, 2013. In September 2010, the Company purchased substantially all the assets of Clovis Biodiesel, LLC which includes a partially completed 15 mmgy biodiesel plant located in Clovis, New Mexico. The plant is approximately 50% complete. In advance of completing construction of the Clovis facility, the Company completed the wholesale terminal infrastructure to allow the Clovis facility to operate as a terminal location and

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begin serving regional customers. As a result of halting construction, the Company performed an analysis to evaluate whether the assets under construction were impaired. Based on the projected undiscounted cash flows of the projects, the Company determined that no impairment has occurred.

The biodiesel industry and the Company's business have benefited from the continuation of certain federal and state incentives. The federal blenders tax credit expired on December 31, 2011. On January 2, 2013, the federal blenders tax credit was reinstated retroactive to January 1, 2012 and will remain in effect until December 31, 2013. See "Note 24—Subsequent Events" for a further description of the tax credit reinstatement.

### **NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company, consolidated with the accounts of all of its subsidiaries and affiliates in which the Company holds a controlling financial interest as of the financial statement date. Normally, a controlling financial interest reflects ownership of a majority of the voting interests. Other factors considered in determining whether a controlling financial interest is held include whether the Company has the power to direct the activities that are most significant to the entity's performance and whether the Company has an obligation to absorb losses or the right to receive benefits that could potentially be significant to the entity. Intercompany accounts and transactions have been eliminated.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consists of money market funds and demand deposits with financial institutions. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

#### **Restricted Cash**

Restricted cash consists of project funds and debt reserve funds that are invested in money market mutual funds and certificate of deposits (CD's) related to various Company entities totaling \$64 and \$305 as of December 31, 2012 and 2011, respectively, which have been restricted in accordance with the terms of loan agreements. The Company classifies restricted cash between current and non-current assets based on the length of time of the restricted use.

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### Accounts Receivable

Accounts receivable are carried on a gross basis, less allowance for doubtful accounts. Management estimates the allowance for doubtful accounts based on existing economic conditions, the financial conditions of customers, and the amount and age of past due accounts. Receivables are considered past due if full payment is not received by the contractual due date. Past due accounts are generally written off against the allowance for doubtful accounts only after reasonable collection attempts have been exhausted. Activity regarding the allowance for doubtful accounts was as follows:

Balance, January 1, 2010	\$ 213
Amount charged to selling, general and administrative expenses	103
Charge-offs, net of recovery	—
Balance, December 31, 2010	316
Amount charged to selling, general and administrative expenses	1,389
Charge-offs, net of recovery	(270)
Balance, December 31, 2011	1,435
Amount charged to selling, general and administrative expenses	563
Charge-offs, net of recovery	(26)
Balance, December 31, 2012	<u>\$ 1,972</u>

### Inventories

Inventories consist of raw materials, work in process and finished goods and are valued at the lower of cost or market. There were no lower of cost or market adjustments made to the inventory values reported as of December 31, 2012 and 2011. Cost is determined based on the first-in, first-out method.

### Derivative Instruments and Hedging Activities

The Company has entered into derivatives to hedge its exposure to price risk related to feedstock inventory and biodiesel finished goods inventory. Additionally, the Company has entered into an interest rate swap with the objective of managing risk caused by fluctuations in interest rates associated with the REG Danville note payable.

These derivative contracts are accounted for in accordance with ASC Topic 815, *Derivatives and Hedging* (ASC Topic 815). ASC Topic 815 requires that an entity recognize and record all derivatives on the balance sheet at fair value. All of the Company's derivatives are designated as non-hedge derivatives and are utilized to manage cash flow. Although the contracts may be effective economic hedges of specified risks, they are not designated as, nor accounted for, as hedging instruments. Unrealized gains and losses on commodity futures, swaps and options contracts used to hedge feedstock purchases or biodiesel inventory are recognized as a component of biodiesel costs of goods sold reflected in current results of operations. Unrealized gains and losses on the interest rate swap are recorded in other income in the Company's statements of operations.

### Valuation of Series A Preferred Stock Conversion Feature Embedded Derivatives

In connection with the Company's IPO on January 24, 2012, the Company gave effect to the one-time conversion of Series A Preferred Stock and certain common stock warrants into 7,660,612 shares of newly-issued Class A Common Stock and 2,999,493 shares of Series B preferred stock with a \$74,987 aggregate liquidation preference and cumulative dividends of 4.5% per annum. No shares of Series A Preferred Stock remain outstanding after the IPO.

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The Series A Preferred Stock terms provided for voluntary and, under certain circumstances, automatic conversion of the Series A Preferred Stock to Class A Common Stock based on a prescribed formula. In addition, shares of Series A Preferred Stock were subject to redemption at the election of the holder beginning February 26, 2014. The redemption price was equal to the greater of (i) an amount equal to \$13.75 per share of Series A Preferred Stock plus any and all accrued dividends, not to exceed \$16.50 per share, or (ii) the fair market value of the Series A Preferred Stock. Under ASC Topic 815, the Company was required to bifurcate and account for as a separate liability certain derivatives embedded in its contractual obligations. An “embedded derivative” is a provision within a contract, or other instrument, that affects some or all of the cash flows or the value of that contract, similar to a derivative instrument. Essentially, the embedded provision within the contract contains all of the attributes of a free-standing derivative, such as an underlying market variable, a notional amount or payment provision, and can be settled “net,” but the contract, in its entirety, does not meet the ASC Topic 815 definition of a derivative.

The Company determined that the conversion feature of the Series A Preferred Stock was an embedded derivative because the redemption feature allowed the holder to redeem Series A Preferred Stock for cash at a price which can vary based on the fair market value of the Series A Preferred Stock, which effectively provided the holders with a mechanism to “net settle” the conversion option. Consequently, the embedded conversion option was bifurcated and accounted for separately because the economic characteristics of this conversion option were not considered to be clearly and closely related to the economic characteristics of the Series A Preferred Stock, which was considered more akin to a debt instrument than equity.

Upon issuance of the Series A Preferred Stock, the Company recorded a liability representing the estimated fair value of the right of holders of the Series A Preferred Stock to receive the fair market value of the Common Stock issuable upon conversion of the Series A Preferred Stock on the redemption date. This liability was adjusted each quarter based on changes in the estimated fair value of such right, and a corresponding income or expense was recorded in change in fair value of the preferred stock conversion feature embedded derivatives in the Company’s statements of operations.

The Company used the option pricing method to value the embedded derivative. The Company used the Black-Scholes options pricing model to estimate the fair value of the conversion option embedded in each series of Biofuels preferred stock prior to February 26, 2010 and the Series A Preferred Stock as of and subsequent to February 26, 2010. The Black-Scholes options pricing model required the development and use of highly subjective assumptions. These assumptions included the expected volatility of the value of the Company’s equity, the expected conversion date, an appropriate risk-free interest rate and the estimated fair value of the Company’s equity. The expected volatility of the Company’s equity was estimated based on the volatility of the value of the equity of publicly traded companies in a similar industry and general stage of development as the Company. The expected term of the conversion option was based on the period remaining until the contractually stipulated redemption date of February 26, 2014. The risk-free interest rate was based on the yield on U.S. Treasury STRIPs with a remaining term equal to the expected term of the conversion option. The development of the estimated fair value of the Company’s equity is discussed below in “Valuation of the Company’s Equity.”

The significant assumptions utilized in the Company’s valuation of the embedded derivative are as follows:

	January 24, 2012	December 31, 2011	December 31, 2010	February 26, 2010
Expected volatility	40.00%	40.00%	40.00%	40.00%
Risk-free rate	2.80%	2.60%	4.10%	4.40%

### **Valuation of Seneca Holdco Liability**

On January 24, 2012, the Company acquired the Seneca Facility pursuant to the exercise of its option under the Funding, Investor Fee and Put/Call Agreement, by and among the Company, Seneca Landlord, LLC (Seneca Landlord) and certain subsidiaries of the Company. See “Note 3—Stockholders’ Equity of the Company” for a further description of the IPO. See “Note 5—Acquisitions and Equity Transactions” for a description of the Seneca Landlord acquisition.



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Associated with the Company's transaction for the Seneca Facility, the Company had the option to purchase (Call Option) and Seneca Holdco, LLC (Seneca Holdco) had the option to require the Company to purchase (Put Option) the membership interest of Landlord whose assets consist primarily of a biodiesel plant located in Seneca, Illinois. Both the Put Option and the Call Option had a term of seven years and were exercisable by either party at a price based on a pre-defined formula. The Company determined the fair value of the amounts financed by Seneca Holdco, the Put Option and the Call Option using an option pricing model. The fair value represented the probability weighted present value of the gain, or loss, that is realized upon exercise of each option. The option pricing model required the development and use of highly subjective assumptions. These assumptions included (i) the value of the Landlord's equity, (ii) expectations regarding future changes in the value of the Landlord's equity, (iii) expectations about the probability of either option being exercised, including the Company's ability to list its securities on an exchange or complete a public offering and (iv) an appropriate risk-free rate. Company management considered current public equity markets, relevant regulatory issues, industry conditions and the Company's position within the industry when estimating the probability that the Company would raise additional capital.

The significant assumptions utilized in the Company's valuation of the Seneca Holdco liability were as follows:

	December 31, 2011	December 31, 2010
Expected volatility	50.00%	50.00%
Risk-free rate	2.60%	2.45%
Probability of IPO	100.00%	70.00%

### **Preferred Stock Accretion**

Beginning October 1, 2007, the Company determined that there was a more than remote likelihood that the Series A Preferred Stock would become redeemable, therefore commenced accretion of the carrying value of the Series A Preferred Stock over the period until the earliest redemption date to the Series A Preferred Stock's redemption value, plus accrued but unpaid dividends using the effective interest method. This determination was based upon the current state of the public equity markets which restricted the Company's ability to execute a qualified public offering, the Company's historical operating results and the volatility in the biodiesel industry which resulted in lower projected profitability. Prior to October 1, 2007, the Company had determined that it was not probable that the preferred stock would become redeemable; therefore, the carrying value was not adjusted in accordance with ASC Topic 480-10-S99, *Classification and Measurement of Redeemable Securities* (ASC Topic 480-10-S99).

Accretion of \$1,808, \$25,343 and \$27,239 for the years ended December 31, 2012, 2011 and 2010, respectively, has been recognized as a reduction to income available to common stockholders in accordance with paragraph 15 of ASC Topic 480-10-S99.

On January 24, 2012, in connection with the IPO, the Series A Preferred Stock was converted into a combination of shares of Series B preferred stock and Class A Common Stock. Accretion of the Series A Preferred Stock was terminated at the time of the conversion. The Company recorded the Series B preferred stock at fair value, which was a premium over its redemption value; therefore no accretion is recorded for the Series B preferred stock.

### **Valuation of the Company's Equity**

Prior to the Company's IPO, the Company considered three generally accepted valuation approaches to estimate the fair value of the aggregate equity of the Company: the income approach, the market approach and the cost approach. Ultimately, the estimated fair value of the aggregate equity of the Company was developed using the Income Approach—Discounted Cash Flow (DCF) method.

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Material underlying assumptions in the DCF analysis include the gallons produced and managed, gross margin per gallon, expected long-term growth rates and an appropriate discount rate. Gallons produced and managed as well as the gross margin per gallon were determined based on historical and forward-looking market data.

The discount rate used in the DCF analysis is based on macroeconomic, industry and Company-specific factors and reflects the perceived degree of risk associated with realizing the projected cash flows. The selected discount rate represents the weighted average rate of return that a market participant investor would require on an investment in the Company's debt and equity. The percent of total capital assumed to be comprised of debt and equity when developing the weighted average cost of capital was based on a review of the capital structures of the Company's publicly traded industry peers. The cost of debt was estimated utilizing the adjusted average U.S. Industrials B Interest Rate Curve during the previous 12 months representing a reasonable market participant rate based on the Company's publicly traded industry peers. The Company's cost of equity was estimated utilizing the capital asset pricing model, which develops an estimated market rate of return based on the appropriate risk-free rate adjusted for the risk of the alternative energy industry relative to the market as a whole, an equity risk premium and a company specific risk premium. The risk premiums included in the discount rate were based on historical and forward-looking market data.

Discount rates utilized in the Company's DCF model are as follows:

	December 31, 2011	December 31, 2010	February 26, 2010
Discount rate	22.20%	16.00%	15.00%

On January 24, 2012, the Company completed an IPO of shares of Common Stock. See "Note 3— Stockholders' Equity of the Company" for further description of the IPO. Since the Company is publicly traded, the valuation of the Company's equity is no longer necessary as the Company relies on the market value created on the open market for its Common Stock.

### **Non-monetary Exchanges**

The Company records assets acquired and liabilities assumed through the exchange of non-monetary assets based on the fair value of the assets and liabilities acquired or the fair value of the consideration exchanged, whichever is more readily determinable.

### **Property, Plant and Equipment**

Property, plant and equipment is recorded at cost, including applicable construction-period interest, less accumulated depreciation. Maintenance and repairs are expensed as incurred. Depreciation expense is computed on a straight-line method based upon estimated useful lives of the assets. Estimated useful lives are as follows:

Automobiles and trucks	5 years
Computers and office equipment	5 years
Office furniture and fixtures	7 years
Machinery and equipment	5-30 years
Leasehold improvements	the lesser of the lease term or 30 years
Buildings and improvements	30-40 years

The Company capitalizes interest incurred on debt during the construction of assets in accordance with ASC Topic 838, *Interest*. For the years ended December 31, 2012, 2011 and 2010, the Company capitalized \$33, \$0 and \$713, respectively.

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### Goodwill

The Company accounts for goodwill in accordance with ASC Topic 350, *Intangibles—Goodwill and Other*. The Company reviews the carrying value of goodwill for impairment annually on July 31 or when impairment indicators exist. Goodwill is allocated and reviewed for impairment by reporting units. The Company's reporting units consist of its two operating segments, the biodiesel operating segment and services operating segments. The analysis is based on a comparison of the carrying value of the reporting unit to its fair value, determined utilizing a discounted cash flow methodology that also took into consideration other selected public guideline company information. Additionally, the Company reviews the carrying value of goodwill whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Changes in estimates of future cash flows caused by items such as unforeseen events or sustained unfavorable changes in market conditions could negatively affect the fair value of the reporting unit's goodwill asset and result in an impairment charge. The annual impairment test determined that the fair value at each of the reporting units exceeded its carrying value by approximately 45%. There was no impairment of goodwill recorded in the periods presented.

The following table summarizes goodwill for the Company's business segments:

	Biodiesel	Services	Total
Beginning balance—January 1, 2011	\$ 68,784	\$ 16,080	\$ 84,864
Acquisitions	—	—	—
Ending balance—December 31, 2011	68,784	16,080	84,864
Acquisitions	—	—	—
Ending balance—December 31, 2012	\$ 68,784	\$ 16,080	\$ 84,864

### Impairment of Assets

The Company reviews long-lived assets, including property, plant and equipment and definite-lived assets, for impairment in accordance with ASC Topic 360, *Property, Plant and Equipment*. Asset impairment charges are recorded for long-lived assets and intangible assets subject to amortization when events and circumstances indicate that such assets may be impaired and the undiscounted net cash flows estimated to be generated by those assets are less than their carrying amounts. If estimated future undiscounted cash flows are not sufficient to recover the carrying value of the assets, an impairment charge is recorded for the amount by which the carrying amount of the assets exceeds its fair value. Fair value is determined by management estimates using discounted cash flow calculations.

Significant assumptions used in the undiscounted cash flow analysis include the projected demand for biodiesel based on annual renewable fuel volume obligations under the Renewable Fuel Standards (RFS2), our capacity to meet that demand, the market price of biodiesel and the cost of feedstock used in the manufacturing process. For facilities under construction, estimates also include the capital expenditures necessary to complete construction of the plant. The Company's facilities under construction are expected to have substantially similar operating capabilities and results as the current operating facilities. Such operating capabilities would include similar feedstock capabilities, similar access to low cost feedstocks, proximity to shipping from our vendors and to our customers and our ability to transfer best practices among our various operating facilities to maximize production volumes and reduce operating costs.

During 2010, the raw material supply agreements for the New Orleans and Emporia facilities were cancelled. The original agreements were recorded as an intangible asset in the amount of \$7,025. As a result of the cancellations, the full amount was charged off.

The Company also impaired deferred financing costs related to the New Orleans project GoZone bonds. The Company determined that it was not probable that the GoZone bonds allocation would be extended past the

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December 14, 2010 deadline or that the bonds would be issued prior to the deadline, and accordingly, the Company returned its allocation prior to the deadline. The amount of the impairment for the year ended December 31, 2010 was \$311.

There were no asset impairment charges for the years ended December 31, 2012 and 2011. Total asset impairment charges of \$7,494 were recorded for the year ended December 31, 2010.

### **Investments**

In connection with the construction of several biodiesel production facilities, the Company made an equity investment in the associated entity. If the Company had the ability to influence the operating and financial decisions and maintains a position on the board of directors, the investments are accounted for using the equity method in accordance with ASC Topic 323, *Investments—Equity Method and Joint Ventures* (ASC Topic 323) (Equity Method Investees). Under the equity method, the initial investment is recorded at cost and adjusted to recognize the Company's ratable share of earnings of the Equity Method Investees. If the Company does not have the ability to influence the operating and financial decisions and does not maintain a position on the board of directors, these investments are accounted for using the cost method in accordance with ASC Topic 323. During 2010, the Company changed its method of accounting for investments in Western Iowa Energy, LLC (WIE) and Western Dubuque Biodiesel, LLC (WDB) from the equity method to the cost method due to the Company no longer having the ability to influence the operating and financial decisions of these entities. Under the cost method, the initial investment is recorded at cost and assessed for impairment. During the year ended December 31, 2010, the Company recorded an impairment in the amount of \$400 on an investment that was determined to have been other-than-temporarily impaired.

### **Other Noncurrent Assets**

Other noncurrent assets include costs related to the issuance of debt, spare parts inventory, long term receivables and a raw material supply agreement. The debt issuance costs are amortized to interest expense over the life of the related debt agreement. The supply agreement is amortized over the term of the agreement according to the volume of feedstock used in operation.

### **Revenue Recognition**

The Company recognizes revenues from the following sources:

- the sale of biodiesel and its co-products, as well as Renewable Identification Numbers (RINs) and raw material feedstocks, purchased or produced by the Company at owned and leased manufacturing facilities and manufacturing facilities with which the Company has tolling arrangements;
- the resale of biodiesel, RINs and raw material feedstocks acquired from third parties;
- fees received under toll manufacturing agreements with third parties;
- incentives received from federal and state programs for renewable fuels; and
- fees received for the marketing and sales of biodiesel produced by third parties and from managing operations of third party facilities.

Biodiesel, including RINs, and raw material feedstock revenues are recognized where there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable and collectability can be reasonably assured.

Fees received under toll manufacturing agreements with third parties are generally established as an agreed upon amount per gallon of biodiesel produced. The fees are recognized where there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable and collectability can be reasonably assured.

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Revenues associated with the governmental incentive programs are recognized when the amount to be received is determinable, collectability is reasonably assured, and the sale of product giving rise to the incentive has been recognized. During 2012, 2011 and 2010, the Company received funds from the United States Department of Agriculture (USDA) in the amount of \$1,161, \$9,913 and \$776, respectively. These funds were received in connection with the Company's application under the USDA's Advanced Biofuel Program (the Program) which supports production of advanced biofuels by providing payments to eligible producers. Funds to be received under the Program are allocated to the Company based on its proportionate eligible biofuels production and available funds. Due to the uncertainty of the amounts to be received, the Company does not record amounts until it has received notification of a payment from the USDA or is in receipt of the funds. The Company has recorded awards under the Program in "Biodiesel government incentives" as they are closely associated with the Company's biodiesel production activities. Total biodiesel government incentive revenues, including the USDA amounts noted above, totaled \$8,326, \$65,822 and \$7,240 for the years ended December 31, 2012, 2011 and 2010, respectively.

Fees for managing ongoing operations of third party plants, marketing biodiesel produced by third party plants and from other services are recognized as services are provided. The Company also has performance-based incentive agreements that are included as management service revenues. These performance incentives are recognized as revenues when the amount to be received is determinable and collectability is reasonably assured.

During 2010, the Company acted as a sales agent for certain third parties, thus the Company recognized these revenues on a net basis in accordance with ASC Topic 605-45, *Revenue Recognition* (ASC Topic 605-45).

### **Freight**

The Company accounts for shipping and handling revenues and costs in accordance with ASC Topic 605-45. The Company presents all amounts billed to the customer for freight as a component of biodiesel sales. Costs incurred for freight are reported as a component of biodiesel costs of goods sold.

### **Advertising Costs**

Advertising and promotional expenses are charged to earnings during the period in which they are incurred. Advertising and promotional expenses were \$485, \$251 and \$80 for the years ended December 31, 2012, 2011 and 2010, respectively.

### **Research and Development**

The Company expenses research and development costs as incurred. Research and development costs totaled \$14, \$22 and \$89 for the years ended December 31, 2012, 2011 and 2010, respectively.

### **Employee Benefits Plan**

The Company sponsors an employee savings plan under Section 401(k) of the Internal Revenue Code. The Company makes matching contributions equal to 50% of the participant's pre-tax contribution up to a maximum of 6% of the participant's eligible earnings. Total expense related to the Company's defined contribution plan was approximately \$456, \$323 and \$245 for the years ended December 31, 2012, 2011 and 2010, respectively.

### **Stock-Based Compensation**

On May 6, 2009, the Company Board of Directors (Company Board) approved the 2009 Stock Incentive Plan. On August 31, 2011, the Company's Board approved the Amended and Restated 2009 Stock Incentive Plan, which was then approved by the Company's shareholders on October 26, 2011. Eligible award recipients are employees, non-employee directors and advisors who provide service to the Company. The Company accounts for stock-based compensation in accordance with ASC Topic 718, *Stock Compensation* (ASC Topic 718). Compensation expense is measured at the grant-date fair value of the award and recognized as compensation expense over the vesting period.

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### Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, *Income Taxes* (ASC Topic 740), which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for differences between the financial statement and tax bases of assets and liabilities at enacted statutory tax rates in effect for the years in which differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, ASC Topic 740 requires that deferred tax assets be reduced by a valuation allowance if it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. If it is more-likely-than-not that all or a portion of the Company's deferred tax assets will not be realized, based on all available evidence, a deferred tax valuation allowance would be established. Consideration is given to positive and negative evidence related to the realization of the deferred tax assets. Significant judgment is required in making this assessment.

### Net Income (Loss) Per Share

Basic and diluted net income (loss) per common share are presented in conformity with the two-class method required for participating securities. The two-class method includes an earnings allocation formula that determines earnings for each class of common stock according to dividends declared and undistributed earnings for the period.

The holders of the Series A Preferred Stock accrued dividends at the rate of \$0.88 per share per annum. Dividends were cumulative, accrued on a daily basis from the date of issuance and compounded annually from the date of issuance. If dividends on the Series A Preferred Stock had not been paid or declared, the deficiency would have paid or declared before any dividend is declared for Common Stock. Dividends in arrears did not bear interest. Holders of the Series A Preferred Stock were allowed to participate in the dividends to common stockholders in the event that dividends on Common Stock exceed that of the Series A Preferred Stock as if the Series A Preferred Stock had been converted to Common Stock at the beginning of the year.

The holders of the Series B preferred stock accrue dividends at a rate of \$1.125 per share per annum. Dividends are cumulative, accrue on a daily basis from the date of issuance and compound annually from the date of issuance. If dividends on the Series B preferred stock have not been paid or declared, the deficiency shall be paid or declared before any dividend is declared for Common Stock. Dividends in arrears do not bear interest. Holders of the Series B preferred stock are allowed to participate in the dividends to common stockholders in the event that dividends on Common Stock exceed that of the Series B preferred stock as if the Series B preferred stock had been converted to Common Stock at the beginning of the year.

The Company calculates the effects of the previous convertible Series A Preferred Stock and the current Series B preferred stock on diluted earnings per share (EPS) under the "if-converted" method unless the conversion of the convertible preferred stock is anti-dilutive to basic EPS. The effects of Common Stock options, warrants, restricted stock units and stock appreciation rights on diluted EPS are calculated using the treasury stock method unless the effects are anti-dilutive to EPS.

The following potentially dilutive weighted average securities were excluded from the calculation of diluted net income (loss) per share attributable to common stockholders during the periods presented as the effect was anti-dilutive:

	Year Ended December 31,		
	2012	2011	2010
Options to purchase common stock	87,026	87,207	587,713
Restricted stock units	754,359	1,230,092	393,460
Stock appreciation rights	1,196,975	—	—
Warrants to purchase common stock	35,987	355,886	471,012
Redeemable preferred shares	—	5,382,209	5,319,644
Total	<u>2,074,347</u>	<u>7,055,394</u>	<u>6,771,829</u>

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The following table presents the calculation of diluted net income per share for the year ended December 31, 2012. For the years ended December 31, 2011 and 2010, the effect from all convertible securities were anti-dilutive (in thousands, except share and per share data):

	<u>2012</u>
Net income attributable to the Company's common stockholders	\$ 43,482
Less: effects of recapitalization	(39,107)
Plus: undistributed dividends allocated to Series A Preferred Stockholders	823
Plus: distributed dividends to Series B Preferred Stockholders	3,156
Plus: accretion of Series A Preferred Stock to redemption value	1,808
Plus: (gain) loss due to change in fair value of Series A preferred stock conversion feature embedded derivatives	(11,975)
Plus: effect of participating dividends	<u>12,097</u>
Adjusted net income available to common stockholders	10,284
Less: effect of participating share-based awards	<u>(1,108)</u>
Net income attributable to the Company's common stockholders after dilutive effects	<u>\$ 9,176</u>
Shares:	
Weighted-average shares used to compute basic net income per share	28,381,676
Adjustment to reflect conversion of preferred stock	<u>5,958,790</u>
Weighted-average shares used to compute diluted net income per share	<u>34,340,466</u>
Net income per share attributable to common stockholders	
Diluted	<u>\$ 0.27</u>

### **Variable Interest Entities**

The Company uses both quantitative and qualitative analysis when evaluating its variable interest entities (VIE's) and determining the primary beneficiary (PB) of a VIE. The Company consolidates a VIE if it has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and reported amounts of revenues and expenses during the reporting periods. These estimates are based on information that is currently available to management and on various assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

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### **New Accounting Pronouncements**

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and the International Financial Reporting Standards (IFRS)*. The amendments in the update are intended to result in convergence between U.S. GAAP and IFRS requirements for measurement of, and disclosures about, fair value. ASU 2011-04 clarifies or changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The amendments in this update are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. The Company adopted this statement effective January 1, 2012. The adoption of this guidance did not have a material effect on the Company's financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles—Goodwill and Other*, which amends ASC Topic 350 and the current guidance on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit exceeds its carrying amount. If an entity determines it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this statement effective January 1, 2012, however, the Company did not utilize the qualitative option for assessing impairment in its annual 2012 goodwill impairment test.

In December 2011, the FASB issued ASU No. 2011-10, *Derecognition of in Substance Real Estate—a Scope Clarification a consensus of the FASB Emerging Issues Task Force (Topic 360)*. The amendments in this update are intended to resolve the diversity in practice about whether the guidance in Subtopic 360-20, *Property, Plant, and Equipment—Real Estate Sales*, applies to a parent that ceases to have a controlling financial interest (as described in Subtopic 810-10, *Consolidation—Overall*) in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. This update does not address whether the guidance in Subtopic 360-20 would apply to other circumstances when a parent ceases to have a controlling financial interest in a subsidiary that is in substance real estate. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities* (Topic 210). The new disclosure requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. The amendments are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The disclosures required by the amendments are required to be applied retrospectively for all comparative periods presented. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

### **NOTE 3—STOCKHOLDERS' EQUITY OF THE COMPANY**

#### **Common Stock**

On January 3, 2012, the Company filed its Second Amended and Restated Certificate of Incorporation which effected a one-for-2.5 reverse stock split on the shares issued and outstanding. The Company's Amended and Restated Certificate of Incorporation authorized capital stock consisting of 450,000,000 shares, all with a par value of \$.0001 per share which includes 300,000,000 shares of Common Stock (the class of common stock offered in the IPO), 140,000,000 shares of Common Stock A and 10,000,000 shares of preferred stock including 3,000,000 shares of Series B preferred stock.



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Each holder of Common Stock is entitled to one vote for each share of Common Stock held on all matters submitted to a vote of stockholders. Subject to preferences that may apply to shares of previously outstanding Series A Preferred Stock and currently outstanding Series B preferred stock as outlined below, the holders of outstanding shares of Common Stock are entitled to receive dividends. After the payment of all preferential amounts required to the holders of Series B preferred stock, all of the remaining assets of the Company available for distribution shall be distributed ratably among the holders of Common Stock.

### *Common Stock Issued During 2010:*

On February 26, 2010, the Company issued 2,701,261 shares of Common Stock to the shareholders of Blackhawk in exchange for outstanding shares of Blackhawk.

On March 8, 2010, the Company issued 1,701,132 shares of Common Stock to CIE and to Houlihan Smith & Company in connection with the purchase of substantially all CIE company assets.

On April 9, 2010, the Company issued 200,000 shares of Common Stock to West LB in connection with the issuance of a Revolving Credit Agreement to the Company.

On July 16, 2010, the Company issued 239,314 shares of Common Stock in connection with the purchase of substantially all Tellurian and ABDF assets.

On September 21, 2010, the Company issued 860,000 shares of Common Stock to ARES Corporation in connection with the purchase of substantially all the assets held by Clovis and cash.

### *Common Stock Issued During 2011:*

On July 12, 2011, the Company issued 673,544 shares of Common Stock to SoyMor in connection with the Company's acquisition of certain assets and liabilities of SoyMor.

### *Common Stock Issued During 2012:*

On January 24, 2012, the Company completed an IPO of shares of Common Stock in which it sold 7,200,000 shares at a price to the public of \$10 per share, which included 342,860 shares of Common Stock from selling shareholders. The IPO raised approximately \$59,919 net of underwriting fees and offering costs. In connection with the Company's IPO on January 24, 2012, the Company gave effect to the one-time conversion of Series A Preferred Stock and certain common stock warrants into 7,660,612 shares of newly issued Class A Common Stock and 2,999,493 shares of \$74,987 aggregate liquidation preference Series B preferred stock with cumulative dividends of 4.50% per annum.

On January 24, 2012, the Company exercised an option to purchase our Seneca facility, which was previously operated under lease. The exercise price of the option was \$12,000, of which approximately \$937 was previously paid, and 60,000 shares of our Class A Common Stock were issued to each of USRG Holdco IX, LLC, Bunge North America, Inc. and West Central Cooperative.

On January 24, 2012, the Company issued 200,000 shares of Class A Common Stock to USRG Holdco IX, LLC pursuant to a Termination Agreement and Mutual Release, dated as of July 15, 2011, by and among USRG Holdco IX, LLC, the Company and REG Services Group, LLC, which related to the termination of a previous glycerin purchase agreement between the parties.

On February 28, 2012, the Company issued 58,501 shares of Class A Common Stock with respect to the intangible supply agreement in connection with the purchase of substantially all Tellurian Biodiesel, Inc. and American BDF, LLC assets.

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On July 16, 2012, the Company converted all of its 21,598,408 shares of Class A Common Stock into Common Stock due to the expiration of the lock-up agreement and also had 127,062 restricted stock units vest into Common Stock.

During 2012, the Company had 1,294,519 restricted stock units vest into 852,570 shares of Common Stock net of 441,949 shares of treasury stock.

On October 26, 2012, the Company issued 900,000 shares of common stock to NTBE in connection with the purchase of substantially all the assets of NTBE.

During 2012, certain Series B preferred stock shareholders converted 4,387 shares of preferred stock into 8,957 shares of Common Stock as per the preferred stock shareholder agreement.

### Common Stock Warrants

Under the Company's outstanding warrants, the holder may purchase the number of shares of Common Stock underlying each warrant held for a purchase price of \$11.16 per share. The warrant holder may "net exercise" the warrants and use the common shares received upon exercise of the warrants outstanding as the consideration for payment of the exercise price.

The warrant holders are generally protected from anti-dilution by adjustments for any stock dividends, stock split, combination, or other recapitalization.

On January 24, 2012, certain common stock warrant holders were converted to Class A Common Stock as part of the stock recapitalization. Warrant holders converted 287,561 common stock warrants to 134,181 shares of Common Stock.

The following table summarizes the number of shares reserved for the exercise of common stock purchase warrants as of December 31:

<u>Issued to</u>	<u>Issuance Date</u>	<u>Expiration Date</u>	<u>Exercise Price Per Share</u>	<u>Warrants Outstanding 2012</u>	<u>Warrants Outstanding 2011</u>
Natural Gas Partners VIII	August 1, 2006	August 1, 2014	\$ 23.75	—	28,125
Entities affiliated with NGP Energy Technology Partners	August 1, 2006	August 1, 2014	\$ 23.75	—	28,125
Natural Gas Partners VIII	December 22, 2006	December 22, 2014	\$ 23.75	—	46,875
Entities affiliated with NGP Energy Technology Partners	December 22, 2006	December 22, 2014	\$ 23.75	—	46,875
Natural Gas Partners VIII	July 18, 2007	July 18, 2015	\$ 27.50	—	9,091
NGP Energy Technologies	July 18, 2007	July 18, 2015	\$ 27.50	—	9,091
West Central	July 18, 2007	July 18, 2015	\$ 27.50	—	9,091
E D & F Man	July 18, 2007	July 18, 2015	\$ 27.50	—	9,091
Bunge	July 18, 2007	July 18, 2015	\$ 27.50	—	3,636
U.S. Biodiesel Group	June 26, 2008	June 26, 2018	\$ 25.63	—	97,561
Blackhawk warrant holders	February 26, 2010	February 25, 2015	\$ 11.16	17,916	17,916
				<u>17,916</u>	<u>305,477</u>

No common stock warrants were issued during 2012 or 2011.

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### **Stock Issuance Costs**

In addition to the warrants, other direct costs of obtaining capital by issuing the common and preferred stock were deducted from related proceeds with the net amount recorded as preferred stock or stockholders' equity. Direct costs incurred for the years ended December 31, 2012, 2011 and 2010 were \$700, \$3,152 and \$862, respectively.

### **NOTE 4—REDEEMABLE PREFERRED STOCK**

The Company's restated certificate of incorporation filed on February 26, 2010 authorized 60,000,000 shares of preferred stock, including 14,000,000 shares of Series A Preferred Stock, with a par value of \$0.0001. The Company's Board of Directors had discretion, subject to the approval of certain shareholders, as to the designation of voting rights, dividend rights, redemption price, liquidation preference and other provisions of each issuance. See "Note 5—Acquisitions and Equity Transactions" for information related to the cancellation of all outstanding Biofuels preferred stock on February 26, 2010 and the issuance of Series A Preferred Stock in connection with the Acquisitions with an initial issuance price of \$11.00 per share.

On July 15, 2011, holders of the Company's Series A Preferred Stock approved a Second Amended and Restated Certificate of Incorporation, to be effective prior to the completion of the Company's IPO, to, among other things, convert and redeem the Company's outstanding Series A Preferred Stock for a combination of Common Stock and Series B preferred stock. This was approved by the Company's preferred stockholders in an action by written consent in July 2011 and by the common stockholders during the Company's annual stockholder meeting on October 26, 2011.

On January 3, 2012, the Company filed its Second Amended and Restated Certificate of Incorporation which effected a one-for-2.5 reverse stock split of the issued and outstanding shares of common stock. The Company's Amended and Restated Certificate of Incorporation authorized capital stock consisting of 450,000,000 shares, all with a par value of \$.0001 per share which includes 300,000,000 shares of Common Stock (the class of common stock offered in the IPO), 140,000,000 shares of Class A Common Stock and 10,000,000 shares of preferred stock including 3,000,000 shares of Series B preferred stock.

In connection with the Company's IPO on January 24, 2012, the Company gave effect to the one-time conversion of Series A Preferred Stock and certain common stock warrants into 7,660,612 shares of newly-issued Common Stock and 2,999,493 shares of \$74,987 aggregate liquidation preference Series B preferred stock with cumulative dividends of 4.5% per annum. All Series A Preferred Stock was converted and no Series A Preferred Stock remains outstanding.

The rights, preferences, privileges and restrictions granted to and imposed on the preferred stock are set forth below. The holders of preferred stock are generally protected from anti-dilution by adjustments for any stock dividends, stock split, combination or other recapitalization.

### **Series B Preferred Stock**

#### *Dividend Provisions*

The holders of the Series B preferred stock are entitled to receive, when, as and if declared by the Company Board, cumulative dividends on each outstanding share of Series B preferred stock at the annual rate of 4.50% of the stated value. Dividends are payable semi-annually in arrears on June 30 and December 30 of each year. The Company may, at its option, defer a regularly scheduled dividend payment and instead pay accumulated and unpaid dividends on the following dividend payment date. The Company can only defer two such dividend payments and may not defer consecutive dividend payments. The Company will pay any dividend in cash, by delivering shares of Common Stock or through any combination of cash and shares of Common Stock. During May 2012, the Company Board declared its first dividend with respect to the Series B preferred stock in the

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amount of \$0.49 per share in cash. Total dividends paid on June 30, 2012 were \$1,470. The payment was pro-rated to give effect to the fact that the Series B preferred stock was not issued until January 24, 2012. During December 2012, the Company Board declared its second dividend with respect to the Series B preferred stock in the amount of \$0.5625 per share in cash. The second dividend was paid in December 2012 in the amount of \$1,685.

### *Liquidation Rights*

In the event of any voluntary or involuntary liquidation, dissolution or winding up of affairs, a holder of Series B preferred stock will be entitled to be paid, before any distribution or payment may be made to any holders of junior stock, an amount per share of Series B preferred stock, which we refer to as the Liquidation Preference, equal to the sum of the stated value of a share of Series B preferred stock of \$25.00, which we refer to as the Stated Value, plus the amount of any accumulated and unpaid dividends, whether or not declared, to, but excluding, the date of payment.

If upon any liquidation or dissolution, the remaining net assets of the Company are insufficient to pay the amount that the Series B preferred stockholders are due as indicated above, the holders of Series B preferred stock will share ratably in any distribution of the remaining assets of the Company.

### *Conversion Rights*

The holder of any shares of Series B preferred stock will have the right to convert such shares, together with accumulated and unpaid dividends (whether or not declared) into shares of Common Stock at a conversion rate in effect at the time of conversion. The initial conversion rate for each \$25.00 of Liquidation Preference will be equal to \$25.00 divided by \$12.50 which is 125% of the public offering price in the IPO.

If the closing sale price of the Common Stock exceeds \$15.00 for at least 20 trading days in any 30 consecutive trading day period and the average daily trading volume of the Common Stock for at least 20 trading days in such period exceeds 200,000 shares or \$2,500, then the Company may, at its option, cause up to 50% of the then-outstanding shares of Series B preferred stock, and corresponding accumulated and unpaid dividends, to be converted into shares of Common Stock at the then-applicable conversion rate. If, at any time, the closing sale price of the Common Stock exceeds \$16.00 for at least 20 trading days in any 30 consecutive trading day period and the average daily trading volume of the Common Stock for at least 20 trading days in such period exceeds 200,000 shares or \$2,500, the Company may, at its option, cause up to all of the then-outstanding shares of Series B preferred stock, and corresponding accumulated and unpaid dividends, to be converted into shares of Common Stock at the then-applicable conversion rate.

### *Voting Rights*

Each holder of the Series B preferred stock is entitled to vote their shares of Series B preferred stock on an as-converted basis on any matters presented to holders of Common Stock. Except as required by law, holders of Series B preferred stock will vote on an as-converted basis together with the holders of Common Stock and with the holders of any other class or series of the Company's capital stock entitled to vote with the Common Stock, as a single class.

The vote or consent of at least 75% of the outstanding shares of the Series B preferred stock, voting as a separate class, shall be necessary to amend, alter or repeal the terms of the Series B preferred stock so as to adversely affect the powers, preferences or rights of the Series B preferred stock.

### *Redemption Rights*

Except as set forth below, the Company may not redeem the Series B preferred stock prior to January 16, 2014, which is referred to as the Initial Optional Redemption Date. On or after the Initial Optional Redemption

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Date, the Series B preferred stock may be redeemed at the Company's option, in whole or in part, for cash at a price per share equal to the Stated Value, plus any accumulated and unpaid dividends, which the Company refers to as the Redemption Price. If a change of control transaction occurs any time before the Initial Optional Redemption Date, then the Company may elect to redeem all, but not part, of the outstanding shares of Series B preferred stock for cash at the Redemption Price plus a "make-whole" payment for each share of Series B preferred stock equal to \$2.25 less the amount of any dividends paid on such share since the original issuance date of the Series B preferred stock.

If before March 31, 2015, the Company conducts an equity offering or offerings for cash that results in aggregate net proceeds in excess of \$20,000, then, subject to the Company having legally available funds, the Company will offer to purchase or redeem the maximum number of shares of Series B preferred stock at a price equal to the Stated Value plus the amount of any accumulated and unpaid dividends to, but excluding, the purchase date that may be purchased or redeemed using 25% of those net proceeds. Before the Initial Optional Redemption Date, the Company will use those net proceeds to offer to purchase, in a tender offer, Series B preferred stock, and after the Initial Optional Redemption Date, the Company will use those net proceeds to redeem Series B preferred stock.

On June 30, 2015, each holder of Series B preferred stock will have the right to require the Company to redeem its shares at the Redemption Price, subject to the Company having legally available funds. If at any time dividends on any shares of Series B preferred stock are unpaid as of the specific dividend payment date and the non-payment continues for a period of 30 days, then the holders of not less than 25% of the then-outstanding Series B preferred stock may require the Company, subject to our having legally available funds, to redeem all outstanding shares of Series B preferred stock at the Redemption Price.

### **Series A Preferred Stock**

#### *Dividend Provisions*

The holders of the Series A Preferred Stock accrued dividends at the rate of \$0.88 per share per annum. Dividends are cumulative, accrued on a daily basis from the date of issuance and compound annually from the date of issuance. If dividends on the Series A Preferred Stock were not paid or declared, the deficiency was to be paid or declared before any dividend was declared for Common Stock. Dividends in arrears do not bear interest. Holders of the Series A Preferred Stock were allowed to participate in the dividends to common stockholders in the event that dividends on Common Stock exceed that of the Series A Preferred Stock as if the Series A Preferred Stock had been converted to Common Stock at the beginning of the year. Holders of at least seventy-five percent of the outstanding shares of the Series A Preferred Stock that were issued (Preferred Supermajority) could have voted to waive the timing or amount of any dividend payment. The Company has not declared any dividends on the Series A Preferred Stock and as a result of the recapitalization where all Series A Preferred Stock was converted and all associated accumulated and unpaid dividends were cancelled.

#### *Liquidation Rights*

Upon the occurrence of a voluntary or involuntary liquidation (including consolidations, mergers or sale of assets as defined by the preferred stock agreement), if the remaining net assets of the Company were sufficient, the holders of the Series A Preferred Stock would have been paid no less than liquidation value plus all dividends in arrears (whether or not declared), out of the assets of the Company legally available for distribution to its stockholders, before any payment or distribution was made to any holders of Common Stock.

If upon any liquidation or dissolution, the remaining net assets of the Company are insufficient to pay the amount that the Series A Preferred Stockholders are due as indicated above, the holders of Series A Preferred Stock will share ratably in any distribution of the remaining assets of the Company.

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### *Conversion Rights*

All shares of the Series A Preferred Stock were converted into shares of Common Stock at a 1 to 2.5 conversion ratio.

### *Voting Rights*

Each holder of the Series A Preferred Stock was entitled to the number of votes equal to the number of shares of Common Stock into which the Series A Preferred Stock held by such holder were convertible.

Additionally, the Company was prohibited, without obtaining the approval of the Preferred Supermajority, from performing certain activities including, but not limited to, amending shareholder agreements, redeeming or purchasing any outstanding shares of the Company, declaring dividends, making certain capital expenditures and merging or consolidating with other entities.

### *Redemption Rights*

On or after February 26, 2014, the Preferred Supermajority could have required that the Company redeem all or part of the issued and outstanding shares of the Series A Preferred Stock out of funds lawfully available; provided, however, that any such redemptions equal in the aggregate \$5,000. The redemption price was the greater of the fair market value per share at the date of the redemption election or \$13.75 per share of the Series A Preferred Stock, plus accrued and unpaid preferred stock dividends, not to exceed \$16.50 per share.

### *Preferred Stock Issued During 2010:*

On February 26, 2010, the Company exchanged 280,000 shares of Common Stock issued to USRG HoldCo V LLC, Ohana Holdings LLC, ED & F Man Holdings B.V. and others for 700,000 shares of Series A Preferred Stock.

The Company applied the guidance in EITF Topic No. D-42: *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock* (codified to ASC 260-10 S99-2) in regards to the exchange of common shares for preferred shares and the exchange of one series of preferred shares for a different series of preferred shares.

The Company compared the fair value of the preferred shares issued to the carrying amount of the preferred and common shares that were redeemed. The excess of the carrying amount of preferred and common shares that were redeemed over the fair value of the preferred shares issued was recorded as an increase in additional paid-in capital and was added to net earnings available to common shareholders.

On February 26, 2010, the Company issued 132,680 shares of Series A Preferred Stock to the shareholders of Blackhawk in exchange for the outstanding Series A Units of Blackhawk.

On March 8, 2010, the Company issued 158,485 shares of Series A Preferred Stock to CIE and to Houlihan Smith & Company in connection with the purchase of substantially all of CIE company assets.

### *Preferred Stock Issued During 2012:*

In connection with the Company's IPO on January 24, 2012, the Company gave effect to the one-time conversion of Series A Preferred Stock and certain common stock warrants into 7,660,612 shares of newly-issued Common Stock and 2,999,493 shares of \$74,987 aggregate liquidation preference Series B preferred stock with cumulative dividends of 4.5% per annum.

## **NOTE 5—ACQUISITIONS AND EQUITY TRANSACTIONS**

### **REG Biofuels, Inc.**

On February 26, 2010, the Company completed its merger with Biofuels.

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Pursuant to the Second Amended and Restated Agreement and Plan of Merger, executed November 20, 2009, dated and effective as of the original execution date, May 11, 2009, REG Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of the Company was merged with and into Biofuels. Upon consummation of the merger, Biofuels became a wholly owned subsidiary of the Company. At the closing, each share of Biofuels' Common Stock issued and outstanding immediately prior to the effective time was converted into the right to receive one share of the Common Stock, \$0.0001 par value per share, and each share of Biofuels' preferred stock issued and outstanding immediately prior to the effective time was converted into the right to receive one share of the Series A Preferred Stock, \$0.0001 par value per share.

The Company accounted for the Biofuels Merger as a business combination in accordance with ASC Topic 805. When accounting for the exchange of shares between entities under common control, the entity that receives the net assets shall initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer.

As the transaction was accounted for with carryover basis, no goodwill was recognized in conjunction with the Biofuels Merger, and no significant contingent assets or liabilities were acquired or assumed in the Biofuels Merger.

### **Blackhawk Biofuels LLC**

On February 26, 2010, the Company completed the Blackhawk Merger.

Pursuant to the Second Amended and Restated Agreement and Plan of Merger, executed November 21, 2009, dated and effective as of the original execution date, May 11, 2009, REG Danville, LLC, a wholly owned subsidiary of the Company, was merged with and into Blackhawk. Upon consummation of the merger, Blackhawk became a wholly owned subsidiary of the Company and changed its name to REG Danville, LLC. Pursuant to the Blackhawk Merger, each outstanding Blackhawk Series A Units (other than such units held by Biofuels or any affiliate of Biofuels) was converted into 0.1792 shares of Common Stock and 0.0088 shares of Series A Preferred Stock. Each outstanding warrant for the purchase of series A units of Blackhawk became exercisable for the purchase of shares of Common Stock, with the number of shares and exercise price per share adjusted appropriately based on the 0.1792 shares exchange ratio. The former members of Blackhawk have received 132,680 shares of Series A Preferred Stock and 2,701,261 shares of Common Stock.

The following table summarizes the allocations of the purchase price to the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	<b>Allocation at February 26, 2010</b>
<b>Assets (liabilities) acquired:</b>	
Cash	\$ 1
Restricted cash	2,002
Other current assets	859
Property, plant and equipment	55,253
Goodwill	44,191
Other noncurrent assets	231
Line of credit	(350)
Other current liabilities	(3,621)
Notes payable	(48,743)
Other noncurrent liabilities	(6,802)
Fair value of common and preferred stock issued	<u>\$ 43,021</u>

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The acquisition price is summarized as follows:

	Value at February 26, 2010	
	Fair Value	Fair Value per Share
Fair value of stock issued:		
Warrants	\$ 1,269	\$ 9.45
Common Stock	40,721	\$ 15.08
Series A Preferred Stock	1,031	\$ 7.77
Total	<u>\$ 43,021</u>	

Since all of REG Danville's revenues for the period from February 26, 2010 through December 31, 2010 consisted entirely of tolling fees from REG Marketing & Logistics Group, LLC (REG Marketing), they were eliminated on a consolidated basis.

### Central Iowa Energy LLC

On March 8, 2010, the Company completed its acquisition of substantially all of the assets of CIE.

Pursuant to the Second Amended and Restated Asset Purchase Agreement, executed November 20, 2009, dated and effective as of the original execution date, May 8, 2009, REG Newton, a wholly owned subsidiary of the Company, acquired substantially all assets and liabilities of CIE. At closing, the Company delivered to CIE an aggregate of 158,485 shares of Series A Preferred Stock and 1,701,132 shares of Common Stock.

The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Allocation at
	March 8, 2010
Assets (liabilities) acquired:	
Cash	\$ 403
Restricted cash	300
Other current assets	483
Property, plant and equipment	32,153
Goodwill	24,593
Line of credit	(550)
Other current liabilities	(1,927)
Notes payable	(23,925)
Other noncurrent liabilities	(4,652)
Fair value of common and preferred stock issued	<u>\$ 26,878</u>

The acquisition price is summarized as follows:

	Value at March 8, 2010	
	Fair Value	Fair Value per Share
Fair value of stock issued:		
Common Stock	\$ 25,645	\$ 15.08
Series A Preferred Stock	1,233	\$ 7.77
Total	<u>\$ 26,878</u>	



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Since all of REG Newton's revenues for the period from March 8, 2010 through December 31, 2010 consisted entirely of contract manufacturing fees from REG Marketing, they were eliminated on a consolidated basis.

The following pro forma condensed combined results of operations assume that the Blackhawk Merger and CIE Asset Acquisition were completed as of January 1, 2010:

	<u>2010</u>
Revenues	\$ 216,609
Net loss	\$ (24,633)

### **Nova Biosource Fuels, Inc.**

On April 8, 2010, the Company entered into a series of agreements related to the asset purchase agreement with Nova Biosource Fuels, Inc. In September 2009, the United States Bankruptcy Court for the District of Delaware entered an order authorizing the sale of assets by Nova Biofuels Seneca, LLC (Nova Seneca) and Nova Biosource Technologies, LLC, (Nova Technologies), to a wholly owned subsidiary of Biofuels, pursuant to terms of an Asset Purchase Agreement, dated as of September 23, 2009 (the Nova Asset Purchase Agreement). The assets of Nova Seneca and Nova Technologies (the Seneca Assets), including the 60 mmgy biodiesel facility located in Seneca, Illinois (Seneca Facility) were acquired from Chapter 11 debtors in possession initially by the Company and immediately thereafter were sold to Landlord which was indirectly owned by three significant stockholders of the Company or their affiliates: Bunge North America, Inc., USRG Holdco V, LLC and West Central Cooperative. These stockholder parties facilitated the transactions described above by, among other things, creating Landlord, investing \$4,000 for repairs to the Seneca Facility and in consideration therefore received guarantees of certain payments and other obligations from the Company described below.

REG Seneca and Landlord entered into a Lease Agreement that governs REG Seneca's lease of the Seneca Facility from Landlord. The Lease had a term of 7 years on a net lease basis covering the debt service on \$36,250 of mortgage indebtedness against the Seneca Facility, as well as taxes, utilities, maintenance and other operating expenses.

REG Seneca paid Landlord a \$600 per year fee (Fee), payable \$150 per quarter, which was guaranteed by the Company. During the term of the lease, Seneca Holdco had a put option to the Company of the Landlord equity interests after one year, April 8, 2011, provided the Company had a minimum excess net working capital (as defined) of 1.5 times the put/call price. During this time, the Company also had a call option of the Landlord equity interests. The put/call price was the greater of three times the initial investment or an amount yielding a 35% internal rate of return. If the put/call was exercised within three years, the Fee and distributions in the first three years were credited to the put/call price. At the time the put or call was exercised, the Company would issue 60,000 shares of Common Stock to Seneca Holdco.

The Company determined that the Seneca Assets did not constitute a business as defined under ASC Topic 805 on the basis that the Seneca Assets were not an integrated set of activities or assets that were capable of being conducted or managed in a manner that would provide any economic benefit or return to the Company. As a result, the Company accounted for the purchase of the Seneca Assets as an asset acquisition. Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the acquisition, and no significant contingent assets or liabilities were acquired or assumed in the acquisition. See "Note 6—Variable Interest Entities" for information on the accounting of the aforementioned transaction.

### **Tellurian Biodiesel, Inc. and American BDF, LLC**

On July 16, 2010, the Company issued 239,314 shares of Common Stock and up to an additional 292,500 shares of Common Stock for certain assets of Tellurian and ABDF. Tellurian was a California-based biodiesel company and marketer. ABDF was a joint venture owned by Golden State Service Industries, RTI and Tellurian

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had previously focused on building a national array of small biodiesel plants that would convert used cooking oil into high quality, sustainable biodiesel. The purchase connects RTI's national used cooking oil collection system, with more than 16,000 installations, with the Company's national network of biodiesel manufacturing facilities. The fair value of the Common Stock issued as consideration, of \$3,027, was allocated to a supply agreement intangible.

### **Clovis Biodiesel, LLC**

On September 21, 2010, REG Clovis, LLC, a wholly owned subsidiary of the Company, acquired substantially all the assets of Clovis Biodiesel, LLC, a wholly owned subsidiary of the ARES Corporation. At closing, the Company delivered to ARES Corporation 860,000 shares of Common Stock in exchange for the assets of Clovis and \$8,000 cash.

The Company determined that the Clovis assets do not constitute a business as defined under ASC Topic 805 on the basis that the Clovis assets are not an integrated set of activities or assets that are capable of being conducted or managed in a manner that would provide any economic benefit or return to the Company. As a result, the Company accounted for the purchase of the Clovis assets as an asset acquisition. Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the acquisition, and no significant contingent assets or liabilities were acquired or assumed in the acquisition.

The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	<u>Allocation at September 21, 2010</u>
<b>Assets acquired:</b>	
Cash	\$ 8,000
Property, plant and equipment	2,191
Fair value of common stock issued	<u>\$ 10,191</u>

The acquisition price is summarized as follows:

	<u>Value at September 21, 2010</u>	
	<u>Fair Value</u>	<u>Fair Value per Share</u>
<b>Fair value of stock issued:</b>		
Common Stock	\$ 10,191	\$ 11.85

### **SoyMor Biodiesel, LLC**

On July 12, 2011, the Company and REG Albert Lea, LLC (REG Albert Lea), a subsidiary of the Company, completed its asset acquisition of SoyMor. Pursuant to the Asset Purchase Agreement, dated June 8, 2011, the Company issued 673,544 shares of Common Stock in exchange for the transfer of substantially all the assets of SoyMor and assumed certain liabilities. The assets of SoyMor consisted primarily of a 30 mmgy nameplate capacity biodiesel facility located in Albert Lea, Minnesota, as well as, a co-located soy lecithin production facility. The Company recorded a gain from the equity investment of \$661 due to step-up acquisition accounting for SoyMor. The equity investment gain was recorded in income (loss) from equity investments on the condensed consolidated statement of operations.

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The Company determined that the SoyMor assets did not constitute a business as defined under ASC Topic 805, *Business Combinations* (ASC Topic 805), on the basis that the SoyMor assets were not an integrated set of activities or assets that were capable of being conducted or managed in a manner that would provide any economic benefit or return to the Company. As a result, the Company accounted for the SoyMor assets as an asset acquisition. Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the acquisition, and no significant contingent assets or liabilities were acquired or assumed in the acquisition.

The following table summarized the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Allocation at July 12, 2011
Assets (liabilities) acquired:	
Inventory	\$ 78
Property, plant and equipment	18,886
Debt	(1,001)
Fair value of investment prior to allocation	(1,613)
Fair value of common stock issued	<u>\$ 16,350</u>

The acquisition price is summarized as follows:

	Value at July 12, 2011	
	Fair Value	Fair Value per Share
Fair value of stock issued:		
Common Stock	\$ 16,350	\$ 24.28

### **Seneca Landlord, LLC**

On January 24, 2012, the Company acquired the Seneca Facility pursuant to the exercise of its option under the Funding, Investor Fee and Put/Call Agreement (Put/Call Agreement). Pursuant to the Put/Call Agreement, the Company acquired all of the equity interest of Seneca Landlord, which owned the Seneca Facility, in exchange for \$12,000, of which approximately \$937 was previously paid, and 60,000 shares of the Company's Class A Common Stock.

Seneca Landlord was determined to be a consolidated variable interest entity (VIE) prior to the exercise of the option available under the Put/Call Agreement, thus the basis of the assets recorded were not impacted by its exercise. See "Note 6—Variable Interest Entities". The payment of cash and Class A Common Stock shown below was used to relieve the Company's obligation reflected on the condensed consolidated balance sheet as the Seneca Holdco Liability.

A summary of the acquisition price is as follows:

	Final Value at January 24, 2012	
	Fair Value	Fair Value per Share
Fair value of consideration issued:		
Cash	\$ 11,063	
Class A Common Stock	591	\$ 9.85
Total	<u>\$ 11,654</u>	

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**North Texas Bio Energy, LLC**

On October 26, 2012, the Company and REG New Boston, LLC (New Boston), a subsidiary of the Company, completed its acquisition of North Texas Bio Energy, LLC. Pursuant to the Asset Purchase Agreement, the Company acquired substantially all of the assets of NTBE in exchange for 900,000 shares of the Company's common stock and \$324 in cash. The assets of NTBE consisted of an idled 15 mmgy nameplate capacity biodiesel facility and related assets, located in New Boston, Texas. The facility has remained idled pending completion of certain upgrades we expect to complete in second quarter 2013.

The Company determined that the NTBE assets did not constitute a business as defined under ASC Topic 805 on the basis that the NTBE assets were not an integrated set of activities or assets that were capable of being conducted or managed in a manner that would provide any economic benefit or return to the Company. As a result, the Company accounted for the NTBE assets as an asset acquisition. Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the acquisition, and no significant contingent assets or liabilities were acquired or assumed in the acquisition.

The following table summarized the allocation of the purchase price to the fair values of the assets acquired at the date of acquisition:

	<u>Allocation at October 26, 2012</u>
<b>Assets acquired:</b>	
Other current assets	\$ 17
Property, plant and equipment	<u>4,636</u>
Fair value of common stock issued	<u>\$ 4,653</u>

The acquisition price is summarized as follows:

	<u>Value at October 26, 2012</u>	
	<u>Fair Value</u>	<u>Fair Value per Share</u>
<b>Fair value of consideration issued:</b>		
Cash	\$ 324	
Common Stock	<u>4,329</u>	\$ 4.81
Total	<u>\$ 4,653</u>	

**BullDog Biodiesel, LLC**

On November 16, 2012, the Company and REG Atlanta, LLC (Atlanta), a subsidiary of the Company, completed its acquisition of BullDog Biodiesel, LLC. Pursuant to the Asset Purchase Agreement, the Company acquired substantially all of the assets of BullDog in exchange for \$1,323 in cash and \$1,336 of in-kind contribution. The assets of BullDog consisted of an idled 15 mmgy nameplate capacity biodiesel facility and related assets, located near Atlanta, Georgia. The facility had been idled prior to our acquisition and will remain so until certain repairs or upgrades are made.

The Company determined that the BullDog assets were not a business as defined under ASC Topic 805 on the basis that the BullDog assets were not an integrated set of activities or assets that were capable of being conducted or managed in a manner that would provide any economic benefit or return to the Company. As a result, the Company accounted for the BullDog assets as an asset acquisition. Neither goodwill nor a gain from a bargain purchase was recognized in conjunction with the acquisition, and no significant contingent assets or liabilities were acquired or assumed in the acquisition.

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The following table summarized the allocation of the purchase price to the fair values of the assets acquired at the date of acquisition:

	Allocation at November 16, 2012
Assets acquired:	
Other current assets	\$ 13
Property, plant and equipment	2,646
Fair value of common stock issued	<u>\$ 2,659</u>

The acquisition price is summarized as follows:

	Value at November 16, 2012
Fair value of consideration issued:	
Cash	\$ 1,323
In-kind contribution	1,336
Total	<u>\$ 2,659</u>

### **NOTE 6—VARIABLE INTEREST ENTITIES**

The Company has a 50% ownership in 416 S. Bell, LLC (Bell, LLC), a VIE joint venture that owns and leases to the Company its corporate office building in Ames, Iowa. Commencing January 1, 2011, the Company has the right to execute a call option with the joint venture member, Dayton Park, LLC (Dayton Park), to purchase Bell, LLC and commencing on January 1, 2013, Dayton Park has the right to execute a put option with the Company to sell Bell, LLC. The Company determined it was the primary beneficiary of Bell, LLC and has consolidated Bell, LLC into the Company's financial statements since January 1, 2011. The Company is the primary beneficiary due to its ownership interest and having an exercisable call option that allows the Company to direct the activities that most significantly impact Bell, LLC's economic performance and gives the Company the majority of the benefit from the use of Bell, LLC's assets. Through consolidation of Bell, LLC on January 1, 2011, the Company had an outstanding promissory note balance of \$4,757 with interest accrued monthly at a rate of 5.7% per annum, with a maturity date of February 15, 2013. The note is secured by a mortgage interest in the office building. During July 2011, the note was amended to reflect the current interest rate of 4.5% per annum and maturity date of July 14, 2014.

The following table summarizes the fair values of the assets and liabilities recorded by the Company as a result of the consolidation of Bell, LLC:

	Allocation at January 1, 2011
Assets (liabilities) acquired:	
Cash	\$ 22
Property, plant and equipment	5,881
Noncurrent assets	4
Other current liabilities	(17)
Debt	(4,757)
Other noncurrent liabilities	(567)
Carrying value of previously held equity method investment	<u>\$ 566</u>

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On April 8, 2010, the Company determined that Landlord was a VIE and was consolidated into the Company's financial statements as it is the PB. See "Note 5 – Acquisitions and Equity Transactions" for a description of the acquisition. The Company had a put/call option with Seneca Holdco to purchase Landlord and leased the plant for production of biodiesel, both of which represented a variable interest in Landlord that are significant to the VIE. Although the Company did not have an ownership interest in Seneca Holdco, it was determined that the Company was the PB due to the related party nature of the entities involved, the Company's ability to direct the activities that most significantly impact Landlord's economic performance and the design of Landlord that ultimately gave the Company the majority of the benefit from the use of Seneca's assets. The Company had elected the fair value option available under ASC Topic 825 on the \$4,000 investment made by Seneca Holdco and the associated put and call options (the Seneca Holdco liability). Changes in the fair value after the date of the transaction were recorded in earnings. Those assets were owned by, and those liabilities are obligations of, Landlord, not the Company.

The following table summarized the allocation of the purchase price to the fair values of the assets and liabilities recorded by the Company as a result of the transaction and subsequent consolidation of Landlord:

	Allocation at April 8, 2010
Assets (liabilities) acquired:	
Restricted cash	\$ 4,000
Property, plant and equipment	39,314
Current liabilities	(400)
Seneca Holdco liability	(6,664)
Notes payable	(36,250)
Fair value of consideration	<u>\$ —</u>

On January 24, 2012, the Company acquired the Seneca Facility pursuant to the exercise of its option under the Put/Call Agreement. See "Note 5 – Acquisitions and Equity Transactions" for a description of the acquisition.

The carrying values and maximum exposure for all unconsolidated VIE's as of December 31, are as follows:

Investment:	2012		2011	
	Investments	Maximum Exposure	Investments	Maximum Exposure
WIE	\$ 613	\$ 613	\$ 576	\$ 576
WDB	2,005	2,005	2,005	2,005
	<u>\$ 2,618</u>	<u>\$ 2,618</u>	<u>\$ 2,581</u>	<u>\$ 2,581</u>

## NOTE 7—INVENTORIES

Inventories consist of the following at December 31:

	2012	2011
Raw materials	\$ 9,835	\$ 13,820
Work in process	448	677
Finished goods	34,923	27,613
Total	<u>\$ 45,206</u>	<u>\$ 42,110</u>

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**NOTE 8—PROPERTY, PLANT AND EQUIPMENT**

Company owned property, plant and equipment consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 987	\$ 753
Building and improvements	50,688	28,510
Leasehold improvements	6,879	6,584
Machinery and equipment	127,167	96,871
	<u>185,721</u>	<u>132,718</u>
Accumulated depreciation	<u>(28,097)</u>	<u>(17,828)</u>
	157,624	114,890
Construction in process	85,261	70,501
Total	<u>\$ 242,885</u>	<u>\$ 185,391</u>

Property, plant and equipment of consolidated VIE's consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
Land	\$ 404	\$ 404
Building and improvements	6,290	24,854
Leasehold improvements	—	6
Machinery and equipment	—	25,104
	<u>6,694</u>	<u>50,368</u>
Accumulated depreciation	<u>(1,289)</u>	<u>(3,536)</u>
Total	<u>\$ 5,405</u>	<u>\$ 46,832</u>

**NOTE 9—INTANGIBLE ASSETS**

Intangible assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Raw material supply agreement intangibles	\$ 4,919	\$ 4,496
Ground lease	200	200
Accumulated amortization	<u>(510)</u>	<u>(258)</u>
Total intangible assets	<u>\$ 4,609</u>	<u>\$ 4,438</u>

The raw material supply agreement acquired during 2010 (see "Note 5—Acquisitions and Equity Transactions") is amortized over its 15 year term based on actual usage under the agreement. The Company determined the estimated amount of raw materials to be purchased over the life of the agreement to calculate a per pound rate of consumption. The rate is then multiplied by the actual usage each period for expense reporting purposes.

Amortization expense of \$252, \$200 and \$36 for intangible assets is included in cost of goods – biodiesel in the statement of operations for the years ended December 31, 2012, 2011 and 2010, respectively.

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Estimated amortization expense for fiscal years ended December 31 is as follows:

2013	\$ 279
2014	293
2015	306
2016	321
2017	336
Thereafter	3,074
Total	<u>\$ 4,609</u>

**NOTE 10—INVESTMENTS**

Investments consist of the following at December 31:

	2012		2011	
	Ownership	Balance	Ownership	Balance
Investment and accumulated earnings in:				
WIE (a)	2%	\$ 613	2%	\$ 576
WDB (a)	8%	2,005	8%	2,005
Total		<u>\$ 2,618</u>		<u>\$ 2,581</u>

- (a) As of May 2010 and August 2010, the accounting method for the investments in WIE and WDB, respectively, changed from the equity method to the cost method due to the Company no longer having the ability to significantly influence their operations.

The condensed financial information of equity method investments for the years ended December 31, which includes the Company's investment in SoyMor through July 2011 prior to the Company's acquisition of SoyMor and its related assets, is as follows, with no balance sheet amounts noted for 2012 and 2011:

	2012	2011	2010
CONDENSED STATEMENT OF OPERATIONS:			
Sales	\$ —	\$ —	\$ 6,895
Costs of goods sold	—	(7)	(5,970)
Operating and other expenses	—	(1,667)	(6,838)
Net loss	<u>\$ —</u>	<u>\$ (1,674)</u>	<u>\$ (5,913)</u>



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[Table of Contents](#)**NOTE 11—OTHER ASSETS**

Prepaid expense and other current assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Commodity derivatives and related collateral, net	\$ 7,637	\$ 8,527
Prepaid insurance	1,109	999
Prepaid service contracts	552	246
Prepaid raw materials	—	686
Prepaid storage	515	515
Deposits	857	1,295
RIN inventory	99	3,477
Common stock issuance costs	—	3,152
Income taxes receivable	4,735	—
Other	308	191
Total	<u>\$ 15,812</u>	<u>\$ 19,088</u>

RIN inventory is valued at the lower of cost or market. RIN values, as reported by the Oil Price Information Service (OPIS), declined sharply during the third quarter of 2012 and remained low throughout the end of the year. RIN inventory values were adjusted in the amount of \$21 at December 31, 2012 to reflect the lower of cost or market. There was no RIN inventory adjustment made for lower of cost or market at December 31, 2011.

Other noncurrent assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Debt issuance costs (net of accumulated amortization of \$ 923 and 4,148 in 2012 and 2011, respectively)	\$ 946	\$ 1,504
Spare parts inventory	3,546	4,345
Other	859	419
Total	<u>\$ 5,351</u>	<u>\$ 6,268</u>

**NOTE 12—ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses and other liabilities consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Accrued property taxes	\$ 1,201	\$ 1,115
Accrued employee compensation	3,375	5,166
Accrued interest	47	197
Unfavorable lease obligation, current portion	1,129	1,129
Incentive stock liability	423	1,469
Income tax payable	—	649
Other	300	715
Total	<u>\$ 6,475</u>	<u>\$ 10,440</u>

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Other noncurrent liabilities consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Fair value of interest rate swap	\$ 46	\$ 41
Liability for unrecognized tax benefits	1,900	1,500
Deferred grant revenue	745	745
Straight-line lease liability	4,011	4,427
Bell, LLC member investment on consolidation	590	549
Total	<u>\$ 7,292</u>	<u>\$ 7,262</u>

In connection with an acquisition in June 26, 2008, the Company assumed a ground lease associated with its terminal facility in Houston, Texas. The terms of the lease require the Company to pay above market rentals through the remainder of the lease term expiring in 2021. The unfavorable lease obligation is amortized over the contractual period the Company is required to make rental payments under the lease. The amount expected to be amortized in 2013 of \$1,129 is presented in accrued expenses and other liabilities.

The unfavorable lease obligation consists of the following:

	<u>2012</u>	<u>2011</u>
Unfavorable lease obligation	\$ 13,612	\$ 13,612
Accumulated amortization	(3,448)	(2,319)
Total unfavorable lease obligation	10,164	11,293
Current portion	(1,129)	(1,129)
	<u>\$ 9,035</u>	<u>\$ 10,164</u>

The unfavorable lease obligation is amortized over the contractual period the Company is required to make rental payments under the lease.

An amortization benefit of \$1,129 for the years ended December 31, 2012 and 2011 is included in the cost of biodiesel sales.

Estimated amortization benefit for the fiscal years ending December 31 is as follows:

2013	\$ 1,129
2014	1,129
2015	1,129
2016	1,129
2017	1,129
Thereafter	4,519
	<u>\$ 10,164</u>

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[Table of Contents](#)**NOTE 13—BORROWINGS**

The Company's term borrowings at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
REG Danville term loan	\$ 10,060	\$ 15,889
REG Newton term loan	21,175	22,695
Other	1,496	2,170
Total notes payable	<u>\$ 32,731</u>	<u>\$ 40,754</u>
Seneca Landlord term loan	\$ —	\$ 36,250
Bell, LLC promissory note	4,313	4,548
Total notes payable—variable interest entities	<u>\$ 4,313</u>	<u>\$ 40,798</u>

On November 3, 2011, REG Danville, LLC entered into an Amended and Restated Loan Agreement with Fifth Third Bank (Fifth Third Loan). The renewed Fifth Third Loan has a three year term with an automatic one year extension upon certain cumulative principal payment thresholds being met. The loan requires monthly principal payments of \$150 and interest based on a rate of LIBOR plus 5% per annum. The effective rate is 5.21% at December 31, 2012. The loan is secured by our Danville facility. The loan agreement contains various loan covenants that restrict REG Danville's ability to take certain actions, including prohibiting it in certain circumstances from making payments to the Company. The Fifth Third Loan requires semi-annual excess cash flow payments beginning on December 31, 2011. REG Danville must pay Fifth Third a principal payment in the amount equal to 50% of its Excess Cash Flow. The Fifth Third Loan agreement defines excess cash flow as REG Danville's EBITDA plus certain affiliate payments less principal payments, interest expense, taxes and unfunded maintenance capital expenditures. The excess cash flow payment required for December 31, 2012 is \$1,429. A one-time principal payment was made in November 2011 totaling \$6,243. The one-time principal payment included \$2,000 paid from the debt service reserve, which was reduced from \$3,500 to \$1,500, which is the continuing guarantee obligation of the Company.

The REG Newton term debt is secured by all plant assets owned by REG Newton. Interest is to be accrued based on 30-day LIBOR or 2.00%, whichever is higher, plus 300 basis points (effective rate at December 31, 2012 and 2011 was 5.00%). REG Newton was required to make interest only payments on a monthly basis through February 2011. Beginning in March 2011, REG Newton was required to make reduced principal payments of \$60 plus interest through September 2011. Beginning in October 2011, REG Newton is required to make principal payments of \$120 plus interest until the maturity date of March 8, 2013. Beginning on January 1, 2011, under the AgStar Loan, REG Newton is required to maintain a debt service reserve account (Debt Reserve) equal to 12-monthly payments of principal and interest on the AgStar Loan. At each fiscal year end thereafter until such time as the balance in the Debt Reserve contains the required 12-months of payments, REG Newton must deposit an amount equal to its Excess Cash Flow. The AgStar Loan agreement defines Excess Cash Flow as EBITDA, less the sum of required debt payments, interest expense, any increase in working capital from the prior year until working capital exceeds \$6,000, up to \$500 in maintenance capital expenditure, allowed distributions and payments to fund the Debt Reserve. Also beginning on January 1, 2011, provided that REG Newton is in compliance with the working capital ratios and the Debt Reserve is funded, REG Newton must make an annual payment equal to 50% of its Excess Cash Flow calculated based upon the prior year's audited financial statements within 120 days of the fiscal year end. There were no required excess cash flow payments for 2012 or 2011. On December 20, 2012, REG Newton and AgStar Financial Services, PCA (AgStar) extended the term of the AgStar Loan. The maturity date of the AgStar Loan was extended until March 8, 2014.

On May 1, 2012, REG Seneca, LLC (REG Seneca), formally Seneca Landlord, entered into a second amendment to the amended and restated credit agreement, dated April 9, 2010, with WestLB due to the acquisition of Seneca Landlord on January 24, 2012. See "Note 5 – Acquisitions and Equity Transactions" for a description of the acquisition. The note required that interest be accrued at different rates based on whether it is a

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Base Rate Loan or Eurodollar Loan at either 2.0% over the higher of 50 basis points above the Federal Funds Effective Rate or the WestLB prime rate for Base Rate Loans or 3.0% over adjusted LIBOR for Eurodollar Loans. On December 20, 2012, REG Seneca repaid in full all outstanding obligations under its amended and restated credit agreement which amounted to \$34,437. This amount was repaid from the cash generated at the Company facility in Seneca, Illinois since its acquisition in 2010. No penalties were due in connection with such repayment. Upon repayment, the credit agreement was terminated.

The Company's revolving borrowings at December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Total revolving loans (current)	<u>\$ —</u>	<u>\$ 4,035</u>

The Company has a revolving credit facility that two of the Company's subsidiaries entered into on December 23, 2011 with a bank group and Wells Fargo Capital Finance, LLC, as agent, which we refer to as the Wells Fargo Revolver. The Company guaranteed the obligations of its subsidiaries under the Wells Fargo Revolver, which provides for the extension of revolving loans in an aggregate principal amount not to exceed \$40,000, based on eligible inventory, accounts receivable and blenders credits of the subsidiary borrowers and the inventory of certain affiliates. There is the opportunity for additional lender increases up to a maximum commitment of \$60,000. The Wells Fargo Revolver has a stated maturity date of December 23, 2016. Amounts borrowed under the Wells Fargo Revolver bear interest, in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus the LIBOR Rate Margin (as defined), which may range from 2.50 to 3.25 percent. All other amounts borrowed that are not LIBOR rate loans bear interest at a rate equal to the greatest of (i) (A) 1.75% per annum, (B) the Federal Funds Rate plus 0.5%, (C) the LIBOR Rate, plus 1.5% and (D) the "prime rate," plus 1.00 to 1.75 percent. The effective interest rate is 4.75% at December 31, 2012 and 2011.

The Wells Fargo Revolver contains various loan covenants that restrict each subsidiary borrower's ability to take certain actions, including restrictions on incurrence of indebtedness, creation of liens, mergers or consolidations, dispositions of assets, repurchase or redemption of capital stock, making certain investments, entering into certain transactions with affiliates or changing the nature of the subsidiary's business. In addition, the subsidiary borrowers are required to maintain a Fixed Charge Coverage Ratio (as defined in the Wells Fargo Revolver) of at least 1.0 to 1.0 and to have Excess Availability (as defined in the Wells Fargo Revolver) of at least \$4,000. The new revolving credit agreement is secured by the subsidiary borrowers' membership interests and substantially all of their assets, and the inventory of certain subsidiaries, subject to a \$25,000 limitation.

The credit agreements of the subsidiaries mentioned above contain various customary affirmative and negative covenants. Many of the agreements, but not all, also contain certain financial covenants, including a current ratio, net worth ratio, fixed charge coverage ratio, maximum funded debt to earnings before interest depreciation and amortization ratio and a maximum capital expenditure limitation. Negative covenants include restrictions on incurring certain liens; making certain payments, such as distributions and dividend payments; making certain investments; transferring or selling assets; making certain acquisitions; and incurring additional indebtedness. The agreements generally provide that the payment of obligations may be accelerated upon the occurrence of customary events of default, including, but not limited to, non-payment, change of control or insolvency.

The Company was in compliance with all restrictive financial covenants associated with its borrowings.

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Maturities of the term borrowings are as follows for the years ending December 31:

2013	\$ 5,238
2014	27,394
2015	649
2016	660
2017	332
Thereafter	2,771
Total	37,044
Less: current portion	(5,238)
	<u>\$ 31,806</u>

**NOTE 14—INCOME TAXES**

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at December 31 are as follows:

	2012		2011	
	Current	Noncurrent	Current	Noncurrent
<b>Deferred Tax Assets:</b>				
Goodwill	\$ —	\$ 11,999	\$ —	\$ 12,836
Net operating loss carryforwards	—	4,806	—	4,083
Tax credit carryforwards	—	3,068	—	3,068
Start-up costs	—	1,362	—	1,451
Stock-based compensation	—	1,214	—	3,354
Seneca Holdco liability	—	—	—	1,536
Notes payable—variable interest entities	—	—	—	13,916
Deferred revenue	—	—	2,590	—
Houston terminal lease	—	2,139	—	2,320
Accrued compensation	1,113	—	1,769	—
Inventory capitalization	985	—	606	—
Allowance for doubtful accounts	802	—	584	—
Other	236	678	70	577
Deferred tax assets	<u>3,136</u>	<u>25,266</u>	<u>5,619</u>	<u>43,141</u>
<b>Deferred Tax Liabilities:</b>				
Prepaid expenses	(596)	—	(498)	—
Property, plant and equipment	—	(23,425)	—	(16,671)
Property, plant and equipment—variable interest entities	—	—	—	(15,004)
RIN inventory	—	—	(1,335)	—
Deferred revenue cost of goods sold	—	—	(217)	—
Other	(28)	(872)	(307)	(924)
Deferred tax liabilities	<u>(624)</u>	<u>(24,297)</u>	<u>(2,357)</u>	<u>(32,599)</u>
Net deferred tax assets	2,512	969	3,262	10,542
Valuation allowance	—	—	(846)	(6,491)
Net deferred taxes	<u>\$ 2,512</u>	<u>\$ 969</u>	<u>\$ 2,416</u>	<u>\$ 4,051</u>

The Company reviews the carrying amount of its deferred tax assets to determine whether the establishment of a valuation allowance is necessary. If it is more-likely-than-not that all or a portion of the Company's deferred

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tax assets will not be realized, based on all available evidence, a deferred tax valuation allowance would be established. Consideration is given to positive and negative evidence related to the realization of the deferred tax assets. Significant judgment is required in making this assessment.

In evaluating available evidence, the Company considers, among other factors, historical financial performance, expectation of future earnings, length of statutory carry forward periods and ability to carry back losses to prior periods, experience with operating loss and tax credit carry forwards not expiring unused, tax planning strategies and timing for the of reversals of temporary differences. In evaluating losses, management considers the nature, frequency and severity of losses in light of the conditions giving rise to those losses.

The Company continues to evaluate the need for a valuation allowance, and as of December 31, 2012, management analyzed all available positive and negative evidence, including historical cumulative book earnings, timing of temporary difference reversals, the carry forward periods and ability to carry back net operating losses and outlook for the industry. Based on such analysis, giving weight to objectively verifiable evidence, and the availability of carry back claims to realize and offset previously paid taxes, management believes that the Company will more-likely-than-not realize all of the deferred tax assets and accordingly has reversed all of the valuation allowance offsetting deferred tax assets as of December 31, 2012.

At December 31, 2012, the Company had federal and state net operating loss carry-forwards of approximately \$4,806. If not utilized, the federal net operating losses will begin to expire in 2030, while the expiration date for state net operating losses vary by jurisdiction. Changes in ownership of the Company, as defined by Section 382 of the Internal Revenue Code of 1986, as amended, may limit the utilization of federal and state net operating losses and credit carry forwards in any one year. The Company has performed a study to determine the impact of changes in ownership on utilization of carry forward attributes, the results of which have been incorporated into our financial statements.

At December 31, 2012, the Company had federal small agri-biodiesel producer tax credit carry-forwards of approximately \$3,068. If not utilized, these small agri-biodiesel producer tax credits will expire at various times between 2026 and 2028.

Income tax benefit (expense) for the years ended December 31 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Current income tax (expense) benefit</b>			
Federal	\$ (912)	\$ (4,883)	\$ —
State	(588)	(3,066)	—
	(1,500)	(7,949)	—
<b>Deferred income tax (expense) benefit</b>			
Federal	(9,857)	(4,709)	(9,419)
State	(1,187)	(1,703)	(962)
Net operating loss carryforwards created (utilized)	3,753	(19,946)	11,972
Other	—	—	(481)
	(7,291)	(26,358)	1,110
Income tax (expense) benefit before valuation allowances	(8,791)	(34,307)	1,110
Deferred tax valuation allowances	7,337	31,325	2,142
Income tax (expense) benefit	<u>\$ (1,454)</u>	<u>\$ (2,982)</u>	<u>\$ 3,252</u>

Income tax expense attributable to operations differed from the expense computed using the federal statutory rate (35%) primarily as a result of state income taxes net of federal income tax effects, income or loss

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from the change in fair value of embedded conversion feature of preferred stock, the domestic production activities deduction, tax consequences of Seneca Landlord, reductions in the stock-based compensation deferred tax asset due to a lower tax versus book basis upon vesting of awards and various disallowed deductions. A reconciliation of the reported amount of income tax expense to the amount computed by applying the statutory federal income tax rate to earnings from continuing operations before income taxes is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
U.S. Federal income tax (expense) benefit at a statutory rate of 35 percent	\$ (8,256)	\$ (32,090)	\$ 8,452
State taxes, net of federal income tax benefit	(684)	(3,020)	863
Gain/(loss) on embedded derivative	4,191	2,779	(3,166)
Reduction in stock-based compensation deferred tax asset	(3,686)	—	—
Domestic production activities deduction	—	307	—
Seneca Landlord	200	(1,701)	—
Transaction costs	—	—	(386)
Conversion of stock options to restricted stock units	—	—	(3,917)
Unrecognized tax benefits	(400)	—	—
Other, net	(156)	(582)	(736)
Total (expense) benefit for income taxes before valuation allowances	(8,791)	(34,307)	1,110
Valuation allowances	7,337	31,325	2,142
Total (expense) benefit for income taxes	<u>\$ (1,454)</u>	<u>\$ (2,982)</u>	<u>\$ 3,252</u>

In accordance with ASC Topic 740, *Income Taxes*, the Company periodically reviews its portfolio of uncertain tax positions. An uncertain tax position represents the Company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a tax return not yet filed, that has not been reflected in measuring income tax expense for financial reporting purposes. The Company does not recognize income tax benefits associated with uncertain tax positions where it is determined that it is not more-likely-than-not, based on the technical merits, that the position will be sustained upon examination.

A reconciliation of the total amounts of unrecognized tax benefits at December 31 is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Beginning of year balance	\$ 1,500	\$ 1,500	\$ 1,500
Increases to tax positions expected to be taken	—	—	—
Increases to tax positions taken during prior years	400	—	—
Decreases to tax positions taken during prior years	—	—	—
Decreases due to lapse of statute of limitations	—	—	—
End of year balance	<u>\$ 1,900</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>

The amount of unrecognized tax benefits that would affect the effective tax rate if the tax benefits were recognized was \$1,428, \$1,041 and \$1,028 at December 31, 2012, 2011 and 2010, respectively. The remaining liability for unrecognized tax benefits was related to tax positions for which there is a related deferred tax asset. The Company does not believe it is reasonably possible that the amounts of unrecognized tax benefits existing as of December 31, 2012 will significantly increase or decrease over the next twelve months. Interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense. The Company has not recorded any such amounts in the periods presented.

The U.S. Internal Revenue Service has examined the Company's federal income tax returns through 2008, and is currently examining 2010 and 2011. The Company's state and local income tax returns have not been

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examined by any state or local tax authority. Generally, the Company's U.S. federal income tax returns after 2008 remain open and subject to examination, while various state income tax returns also remain subject to examination by state taxing authorities.

### NOTE 15—STOCK-BASED COMPENSATION

On October 26, 2011, the stockholders approved the approved the 2009 Stock Incentive Plan (the 2009 Plan) which authorizes up to 4,160,000 shares of Company Common Stock to be issued for the award of restricted stock, restricted stock units (RSU's) and stock appreciation rights (SAR's) at the discretion of the Board as compensation to employees, consultants of the Company and to non-employee directors. The expense is measured at the grant-date fair value of the award and recognized as compensation expense on a straight-line basis over the service period, which is the vesting period. There was no cash flow impact resulting from the grants of these awards. The 2009 Plan is generally protected from anti-dilution via adjustments for any stock dividends, stock split, combination or other recapitalization.

The Company recorded stock-based compensation expense of \$13,119, \$5,934 and \$1,376 for the years ended December 31, 2012, 2011 and 2010, respectively. The stock-based compensation costs were included as a component of selling, general and administrative expenses. At December 31, 2012, there was \$9,220 of unrecognized compensation expense related to unvested awards, which is expected to be recognized over a period of approximately 3.8 years.

#### Stock Options

On August 18, 2010, the Biofuels Board cancelled the stock options held by company employees. This cancellation was concurrent with the issuance of the RSU's under the 2009 Plan. Options held by non-employees were assumed by the Company and will remain outstanding under the same conditions.

The following table summarizes information about Common Stock options granted, exercised, forfeited, vested and exercisable:

	Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Term
Options outstanding—January 1, 2010	883,420	\$ 23.88	6.8 years
Granted	—		
Exercised	—		
Forfeited	(12,200)	\$ 23.75	
Cancelled	(783,694)	\$ 23.88	
Options outstanding—December 31, 2010	87,526	\$ 23.75	5.6 years
Granted	—		
Exercised	—		
Forfeited	(500)	\$ 23.75	
Options outstanding—December 31, 2011	87,026	\$ 23.75	4.6 years
Granted	—		
Exercised	—		
Forfeited	—		
Options outstanding—December 31, 2012	87,026	\$ 23.75	3.6 years
Options exercisable—December 31, 2012	87,026	\$ 23.75	3.6 years

All stock options that remain outstanding are fully vested and exercisable. There was no intrinsic value of options granted, exercised or outstanding during the periods presented.



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### Restricted Stock Units

On August 18, 2010, the Company Board approved the distribution of RSU's to employees of the Company. The cancellation of the employee stock options and issuance of the RSU's was accounted for in accordance with ASC Topic 718. The Company followed modification accounting which requires the expense to be recognized based upon the excess fair value of the new awards over the original awards as determined on the modification date. The excess fair value was calculated based upon the difference between the fair value of the restricted stock unit price at issuance and the fair value of the stock options cancelled utilizing the Black-Scholes options pricing model as of the same date. The Company used the assumptions set forth in the table below for the Black-Scholes options pricing model:

	2010
The weighted average fair value of restricted stock units issued (per unit)	\$ 0.33-\$ 1.88
Dividend yield	0%
Weighted average risk-free interest rate	0.5%-1.4%
Weighted average expected volatility	40%-50%
Expected life in years	1.25-4.00

The following table summarizes information about the Company's Common Stock RSU's granted, vested, exercised and forfeited:

	Number of Awards	Weighted Average Issue Price
Awards outstanding—January 1, 2010	—	
Issued	1,156,286	\$ 12.50
Forfeited	(2,200)	\$ 11.85
Awards outstanding—December 31, 2010	1,154,086	\$ 12.50
Issued	299,033	\$ 33.75
Vested and exercised	(50,000)	\$ 33.75
Forfeited	(6,400)	\$ 12.53
Awards outstanding—December 31, 2011	1,396,719	\$ 16.29
Issued	411,456	\$ 8.93
Vested and exercised	(1,294,519)	\$ 13.65
Forfeited	(8,040)	\$ 10.51
Awards outstanding—December 31, 2012	505,616	\$ 17.14

The RSU's convert into one share of common stock upon vesting. RSU's cliff vest at the earlier of expressly provided service or performance conditions. The service period for these RSU awards, excluding those described above and those issued to the Company's Board, is a three year period from the grant date. The performance conditions provide for accelerated vesting upon various conditions including a change in control or other common stock liquidity events. As a result of the Company's IPO on January 24, 2012 (see "Note 3— Stockholders' Equity of the Company") a common stock liquidity-related performance condition was satisfied and 1,244,519 shares vested in relation to this event during 2012.

In September 2011, the Company awarded Daniel J. Oh 400,000 restricted stock units in connection with his appointment as the Company's Chief Executive Officer. Related to these restricted stock units, 200,000 were granted on September 28, 2011 and will vest over a four year service period ending December 31, 2014. The other 200,000 restricted stock units will vest according to both a service condition annually over four years and the satisfaction of a performance condition in each of the four years ending December 31, 2015. The performance

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condition necessary for vesting requires that the Company achieve certain performance targets in each annual service period. Accordingly, the second 200,000 restricted stock units do not yet have a grant date for accounting purposes, and no compensation expense has been recorded as of December 31, 2012.

### Stock Appreciation Rights

The following table summarizes information about SAR's granted, forfeited, vested and exercisable:

	Number of SAR's	Weighted Average Exercise Price	Weighted Average Contractual Term
SAR's outstanding—January 1, 2012	—		
Granted	1,055,805	\$ 9.47	
Exercised	—		
Forfeited	(1,960)	\$ 9.19	
SAR's outstanding—December 31, 2012	<u>1,053,845</u>	\$ 9.47	9.3 years
SAR's exercisable—December 31, 2012	—		
SAR's expected to vest—December 31, 2012	<u>1,053,845</u>	\$ 9.47	9.3 years

The SAR's vest 25% annually on each of the four anniversary dates following the grant date and expire after ten years. The fair value of each SAR grant is estimated using the Black-Scholes option-pricing model as set forth in the table below:

	2012
The weighted average fair value of stock appreciation rights issued (per unit)	\$ 2.73 - \$ 3.99
Dividend yield	0%
Weighted average risk-free interest rate	0.7% - 0.9%
Weighted average expected volatility	40%
Expected life in years	6.25

There was no intrinsic value of options granted, exercised or outstanding during the periods presented.

### NOTE 16—RELATED PARTY TRANSACTIONS

Related parties include certain investors as well as entities in which the Company has an equity method investment or an investment combined with a MOSA or board seat. Investors defined as related parties include (i) the investor having ten percent or more ownership, including convertible preferred stock, in the Company or (ii) the investor holding a board seat on the Company Board. After the IPO, the number of related parties decreased due to the dilution of ownership of prior investors as well as the reduction of the number of board seats on the Company Board held by related party investors. The Company will report related party transactions before and after the IPO based on the related party characteristics mentioned above.

[Table of Contents](#)**Summary of Related Party Transactions**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues—Biodiesel sales	\$ 6(a)	\$ 5,161(a)	\$ 4,261(a)
Cost of goods sold—Biodiesel	\$ 54,364(b)	\$ 263,562(b)	\$ 112,891(b)
Selling, general, and administrative expenses	\$ 158(c)	\$ 1,505(c)	\$ 1,601(c)
Other income	\$ — (d)	\$ — (d)	\$ 180(d)
Interest expense	\$ 32(e)	\$ 761(e)	\$ 334(e)
(a) Represents transactions with related parties as follows:			
West Central	\$ 6	\$ 11	\$ 20
Bunge	—	2,124	—
ED & F Man	—	3,026	4,241
	<u>\$ 6</u>	<u>\$ 5,161</u>	<u>\$ 4,261</u>
(b) Represents transactions with related parties as follows:			
West Central	\$ 50,415	\$ 48,510	\$ 14,739
Bunge	3,949	203,092	96,659
ED & F Man	—	11,960	—
Network plants	—	—	1,493
	<u>\$ 54,364</u>	<u>\$ 263,562</u>	<u>\$ 112,891</u>
(c) Represents transactions with related parties as follows:			
West Central	\$ 45	\$ 102	\$ 174
Bunge	113	1,403	993
ED & F Man	—	—	90
Bell, LLC	—	—	344
	<u>\$ 158</u>	<u>\$ 1,505</u>	<u>\$ 1,601</u>
(d) Represents transactions with Blackhawk Biofuels			
(e) Represents transactions with related parties as follows:			
West Central	\$ 23	\$ 96	\$ 123
Bunge	9	308	211
USRG	—	357	—
	<u>\$ 32</u>	<u>\$ 761</u>	<u>\$ 334</u>

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**Summary of Related Party Balances**

	<u>2012</u>	<u>2011</u>
Accounts receivable	\$ 771(a)	\$ 47(a)
Other assets	\$ 692(b)	\$ — (b)
Accounts payable	\$ 2,950(c)	\$ 3,634(c)
Long-term maturities of notes payable	\$ — (d)	\$ 214(d)
(a) Represents balances with related parties as follows:		
West Central	\$ 771	\$ 22
Bunge	—	25
	<u>\$ 771</u>	<u>\$ 47</u>
(b) Represents balances with West Central		
(c) Represents balances with related parties as follows:		
West Central	\$ 2,950	\$ 784
Bunge	—	2,850
	<u>\$ 2,950</u>	<u>\$ 3,634</u>
(d) Represents balances with West Central		

**West Central Cooperative**

The Company purchases once-refined soybean oil from West Central Cooperative (West Central) and is required to pay interest for amounts owed on extended trade terms. The Company also had biodiesel and co-product sales.

West Central leases the land under the Company's production facility at Ralston, Iowa to the Company at an annual cost of one dollar. The Company is responsible for the property taxes, insurance, utilities and repairs for the facility relating to this lease. The lease has an initial term of twenty years and the Company has options to renew the lease for an additional thirty years.

In 2006, the Company executed an asset use agreement with West Central to provide for the use of certain assets, such as office space, maintenance equipment and utilities. The agreement requires the Company to pay West Central its proportionate share of certain costs incurred by West Central. This agreement has the same term as the land lease. During February 2012, the Company renegotiated the asset use agreement. The new agreement provides for the use of certain assets, such as buildings, equipment and utilities, which will be charged to the Company based on fixed and variable components.

At the time of the signing of the contribution agreement, the Company entered into a contract for services with West Central, to provide certain corporate and administrative services such as human resources, information technology and accounting. The agreement requires the Company to pay West Central the proportionate share of the costs associated with the provision of services, plus a 15% margin. The agreement had an initial one-year term and is cancellable thereafter upon six months' notice by either party. As part of the renegotiated asset usage agreement, the services agreement was cancelled in February 2012.

In connection with the SoyMor acquisition, REG Albert Lea, LLC (REG Albert Lea) assumed a loan with West Central. REG Albert Lea was required to make monthly interest payments. The loan was paid off in May 2012.

**Bunge North America**

Prior to 2012, the Company purchased feedstocks from Bunge North America, Inc. (Bunge) for the production of biodiesel. The costs associated with the purchased feedstocks were reflected in costs of goods sold – biodiesel when sold to the end customer. The Company also made sales of biodiesel and raw materials to Bunge.

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The Company entered into an agreement for Bunge to provide services related to the procurement of raw materials and the purchase and resale of biodiesel produced by the Company. The Company was required to pay interest for the aggregate outstanding amounts owed to Bunge. Also, as part of the agreement, the Company was required to pay an incentive fee to Bunge for meeting certain hedging goals utilizing Bunge's advice. On November 8, 2011, the Company gave notice of termination to Bunge in accordance with the agreement. The agreement expired May 2012.

### **ED & F Man Holdings Ltd.**

In August 2006, the Company entered into a glycerin marketing agreement and various terminal lease agreements with one of ED & F Man Holdings Ltd's (ED & F Man) then wholly-owned subsidiaries, Westway Feed Products, Inc. (Westway). This contract was terminated and expired in August 2011.

The Company also entered into a tolling agreement with ED & F Man for biodiesel to be produced out of the Company's Houston, Texas biodiesel production facility during 2010. Additionally, the Company purchased biodiesel from ED & F Man for resale and had raw material sales to ED & F Man. There has been no activity or agreements in place during 2012.

### **Third Party Network Plants**

In prior periods the Company received certain fees for the marketing and sale of product, produced by and the management of, a third party network of facilities, in which the Company has also invested. As an additional incentive to the Company and compensation for the marketing, sales and management services being rendered, these facilities paid a bonus to the Company on an annual basis equal to a percentage of the net income of the facility, as defined by the management agreement. During July 2011, the Company completed its purchase of substantially all the assets of SoyMor. See "Note 5—Acquisitions and Equity Transactions" for a description of the transaction. As of December 31, 2012, the Company did not manage any biodiesel production facilities owned by independent investment groups.

### **416 S. Bell, LLC**

The Company rents a building for administrative uses under an operating lease from Bell, LLC.

### **USRG Holdco IX, LLC**

In August 2011, REG Albert Lea entered into a loan with USRG in the amount of \$10,000 for the purpose of purchasing feedstocks and chemicals for REG Albert Lea's biodiesel production facility. REG Albert Lea was required to pay interest monthly for the aggregate amount owned to USRG. The loan was repaid in due course prior to maturity in December 2011.

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[Table of Contents](#)**NOTE 17—OPERATING LEASES**

The Company leases certain land and equipment under operating leases. Total rent expense under operating leases was \$11,114, \$7,299 and \$5,950 for the years ended December 31, 2012, 2011 and 2010, respectively. For each of the next five calendar years and thereafter, future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

	<b>Total Payments</b>
2013	\$ 10,849
2014	9,848
2015	8,526
2016	8,299
2017	7,804
Thereafter	37,549
<b>Total minimum payments</b>	<b><u>\$ 82,875</u></b>

The Company leases consist primarily of: access to distribution terminals, biodiesel storage facilities, railcars and vehicles. At the end of the lease term the Company, generally, has the option to (a) return the leased equipment to the lessor, (b) purchase the property at its then fair value or (c) renew its lease at the then fair rental value on a year-to-year basis or for an agreed upon term. Certain leases allow for adjustment to minimum rentals in future periods as determined by the Consumer Price Index.

**NOTE 18 — DERIVATIVE INSTRUMENTS**

The Company has entered into derivatives to hedge its exposure to price risk related to feedstock inventory and biodiesel finished goods inventory. Additionally, the Company has entered into an interest rate swap with the objective of managing risk caused by fluctuations in interest rates associated with the REG Danville note payable. The Company does not enter into derivative transactions for trading purposes.

These derivative contracts are accounted for in accordance with ASC Topic 815 that requires that an entity recognize and record all derivatives on the balance sheet at fair value. All of the Company's derivatives are designated as non-hedge derivatives and are utilized to manage cash flow. Although the contracts may be effective economic hedges of specified risks, they are not designated as, nor accounted for, as hedging instruments. Unrealized gains and losses on commodity futures, swaps and options contracts used to hedge feedstock purchases or biodiesel inventory are recognized as a component of biodiesel costs of goods sold reflected in current results of operations. Commodity hedge gains and losses are generally offset by other corresponding changes in gross margin through changes in either biodiesel sales price and/or feedstock price. Unrealized gains and losses on the interest rate swap are recorded in other income (expense), net in the Company's statements of operations. ASC Topic 815 requires all derivative financial instruments to be recorded on the balance sheet at fair value. The Company's derivatives are not designated as hedges and are utilized to manage cash flow. The changes in fair value of the derivative instruments are recorded currently in earnings.

As of December 31, 2012, the Company has entered into heating oil and soy oil derivative instruments and an interest rate swap agreement. The Company has entered into heating oil and soy oil commodity-based derivatives in order to protect gross profit margins from potentially adverse effects of price volatility on biodiesel sales where the prices are set at a future date. As of December 31, 2012, the Company had 3,110 open commodity contracts. In addition, the Company manages interest rate risk associated with the REG Danville variable interest rate note payable using a fixed rate swap. The Company's interest rate swap which existed as of December 31, 2010 expired in November 2011. The Company entered into a new interest rate swap in December 2011. The interest rate swap agreement has an outstanding notional value of \$5,245 as of December 31, 2012.

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The agreement effectively fixes the variable component of the interest rate on the Term Loan at 0.92% through July 2015. The fair value of the interest rate swap agreements were \$46 and \$41 at December 31, 2012 and 2011, respectively, and is recorded in the other noncurrent liabilities. The interest rate swap was not designated as an accounting hedge under ASC Topic 815 and thus all gains and losses are recorded currently in earnings.

ASC Topic 815 requires all derivative financial instruments to be recorded on the balance sheet at fair value. The Company's derivatives are not designated as accounting hedges and are utilized to manage cash flow. The changes in fair value of the derivative instruments are recorded currently in earnings. As of December 31, 2012, the Company posted \$8,053 of collateral associated with its commodity-based derivatives with a net liability position of \$416.

The Company's preferred stock embedded conversion feature related to the Series A Preferred Stock that was converted upon our IPO is further discussed in "Note 2—Summary of Significant Accounting Policies."

The following tables provide details regarding the Company's derivative financial instruments:

As of December 31, 2012				
Asset Derivatives			Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate swap			Other liabilities	\$ 46
Commodity swaps	Prepaid expenses and other assets	\$ 305	Prepaid expenses and other assets	476
Commodity options	Prepaid expenses and other assets	143	Prepaid expenses and other Assets	388
Total derivatives		<u>\$ 448</u>		<u>\$ 910</u>

As of December 31, 2011				
Asset Derivatives			Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Embedded derivative			Preferred stock embedded conversion feature derivatives	\$53,822
Interest rate swap			Other liabilities	41
Commodity swaps	Prepaid expenses and other assets	\$880	Prepaid expenses and other assets	203
Total derivatives		<u>\$880</u>		<u>\$54,066</u>

		2012	2011	2010
Location of Gain (Loss) Recognized in Income		Amount of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Embedded derivative	Change in fair value of preferred stock conversion feature embedded derivatives	\$ 11,975	\$ 7,939	\$ (8,208)
Interest rate swap	Other income (loss)	(5)	571	469
Commodity futures	Cost of goods sold—Biodiesel	(4)	(97)	—
Commodity swaps	Cost of goods sold—Biodiesel	(4,254)	2,557	(1,213)
Commodity options	Cost of goods sold—Biodiesel	(364)	567	—
Total		<u>\$ 7,348</u>	<u>\$ 11,537</u>	<u>\$ (8,952)</u>

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**NOTE 19—FAIR VALUE MEASUREMENT**

ASC Topic 820, *Fair Value Measurement* (ASC Topic 820), establishes a framework for measuring fair value in GAAP and expands disclosures about fair market value measurements. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—Quoted prices for identical instruments in active markets.
- Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.
- Level 3—Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

In addition, ASC Topic 820 requires disclosures about the use of fair value to measure assets and liabilities to enable the assessment of inputs used to develop fair value measures, and for unobservable inputs, to determine the effects of the measurements on earnings.

A summary of assets (liabilities) measured at fair value as of December 31 is as follows:

	As of December 31, 2012			
	Total	Level 1	Level 2	Level 3
Interest rate swap	\$ (46)	\$ —	\$ (46)	\$ —
Commodity swaps	\$ (171)	—	(171)	—
Commodity options	\$ (245)	—	(245)	—
	<u>\$ (462)</u>	<u>\$ —</u>	<u>\$ (462)</u>	<u>\$ —</u>

	As of December 31, 2011			
	Total	Level 1	Level 2	Level 3
Preferred stock embedded derivatives	\$ (53,822)	\$ —	\$ —	\$ (53,822)
Interest rate swap	\$ (41)	—	(41)	—
Seneca Holdco liability	\$ (11,903)	—	—	(11,903)
Commodity swaps	\$ 677	—	677	—
	<u>\$ (65,089)</u>	<u>\$ —</u>	<u>\$ 636</u>	<u>\$ (65,725)</u>



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The following is a reconciliation of the beginning and ending balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended as follows:

	Preferred Stock Embedded Derivatives	Seneca Holdco Liability	Blackhawk Subordinated Debt	Blackhawk Unit Interest
Beginning balance—January 1, 2010	\$ (4,104)	\$ —	\$ —	\$ —
Total unrealized gains (losses)	—	(4,179)	—	—
Deconsolidation of Blackhawk	(8,208)	—	24,298	3,678
Purchases, issuance, and settlements, net	(49,448)	437	—	291
Purchase accounting consolidation	(1)	(6,664)	(24,298)	(3,969)
Ending balance—December 31, 2010	(61,761)	(10,406)	—	—
Total unrealized gains (losses)	7,939	(2,097)	—	—
Purchase accounting consolidation	—	600	—	—
Ending balance—December 31, 2011	(53,822)	(11,903)	—	—
Total realized gains	11,975	349	—	—
Purchases	—	—	—	—
Issuance	—	—	—	—
Settlements	41,847	11,554	—	—
Ending balance—December 31, 2012	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The company used the following methods and assumptions to estimate fair value of its financial instruments:

*Valuation of Preferred Stock embedded conversion feature derivatives:* The estimated fair value of the derivative instruments embedded in the Company's outstanding preferred stock was determined using the option pricing method to allocate the fair value of the underlying stock to the various components comprising the security, including the embedded derivative. The allocation was performed based on each class of preferred stock's liquidation preference and relative seniority. Derivative liabilities are adjusted to reflect fair value at each period end. The effects of interactions between embedded derivatives are calculated and accounted for in arriving at the overall fair value of the financial instruments.

*Interest rate swap:* The fair value of the interest swap was determined based on a discounted cash flow approach using market observable swap curves.

*Commodity derivatives:* The instruments held by the Company consist primarily of futures contracts, swap agreements, purchased put options and written call options. The fair value of contracts based on quoted prices of identical assets in an active exchange-traded market is reflected in Level 1. Contract fair value is determined based on quoted prices of similar contracts in over-the-counter markets and are reflected in Level 2.

*Seneca Holdco liability:* The liability represents the combination of the Call Option and the Put Option related to the purchase of membership interest of Seneca Landlord. The fair value of the Seneca Holdco liability was determined using an option pricing model and represents the probability weighted present value of the gain that is realized upon exercise of each option.

*Notes payable and lines of credit:* The fair value of long-term debt and lines of credit was established using discounted cash flow calculations and current market rates reflecting Level 2 inputs.

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The estimated fair values of the Company's financial instruments, which are not recorded at fair value are as follows as of December 31:

	2012		2011	
	Asset (Liability) Carrying Amount	Estimated Fair Value	Asset (Liability) Carrying Amount	Estimated Fair Value
<b>Financial Liabilities:</b>				
Notes payable and lines of credit	\$ (37,044)	\$ (37,000)	\$ (85,587)	\$ (85,592)

**NOTE 20—BUSINESS CONCENTRATIONS**

Certain customers represented greater than 10% of the total consolidated revenues of the Company for the three years ended December 31, 2012, 2011 and 2010. All customer amounts disclosed in the table are related to biodiesel sales:

	2012	2011	2010
Customer A	\$ —	\$ —	\$ 4,241
Customer B	363,372	189,773	62,632

The Company maintains cash balances at financial institutions, which may at times exceed the \$250 coverage by the U.S. Federal Deposit Insurance Company.

**NOTE 21—REPORTABLE SEGMENTS**

The Company reports its reportable segments based on services provided to customers, which include Biodiesel, Services and Corporate and other activities. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company has chosen to differentiate the reportable segments based on the products and services each segment offers.

The Biodiesel segment processes waste vegetable oils, animal fats, virgin vegetable oils and other feedstocks and methanol into biodiesel. The Biodiesel segment also includes the Company's purchases and resale of biodiesel produced by third parties. Revenue is derived from the purchases and sales of biodiesel and raw material feedstocks acquired from third parties, sales of biodiesel produced under toll manufacturing arrangements with third party facilities, sales of processed biodiesel from Company facilities, related by-products and renewable energy government incentive payments. The Services segment offers services for managing the construction of biodiesel production facilities and managing ongoing operations of third party plants and collects fees related to the services provided. The Company does not allocate items that are of a non-operating nature or corporate expenses to the business segments. Intersegment revenues are reported by the Services segment, which manages the construction and operations of facilities included in the Biodiesel segment. Revenues are recorded by the Services segment at cost. Corporate expenses consist of corporate office expenses including compensation, benefits, occupancy and other administrative costs, including management service expenses.

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The following table represents the significant items by reportable segment for the results of operations for the years ended December 31, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Net sales:</b>			
Biodiesel	\$ 1,014,797	\$ 823,809	\$ 215,142
Services	38,031	13,027	9,484
Intersegment revenues	(37,794)	(12,805)	(8,171)
	<u>\$ 1,015,034</u>	<u>\$ 824,031</u>	<u>\$ 216,455</u>
<b>Income (loss) before income taxes and income (loss) from equity investments:</b>			
Biodiesel	\$ 58,349	\$ 127,187	\$ 21,126
Services	(26)	24	506
Corporate and other (a)	(34,610)	(35,802)	(45,783)
	<u>\$ 23,713</u>	<u>\$ 91,409</u>	<u>\$ (24,151)</u>
<b>Depreciation and amortization expense, net:</b>			
Biodiesel	\$ 7,111	\$ 8,833	\$ 5,928
Services	38	4	—
Corporate and other	772	638	—
	<u>\$ 7,921</u>	<u>\$ 9,475</u>	<u>\$ 5,928</u>
<b>Cash paid for purchases of property, plant and equipment:</b>			
Biodiesel	\$ 11,409	\$ 3,823	\$ 4,550
Services	396	53	—
Corporate and other	849	930	—
	<u>\$ 12,654</u>	<u>\$ 4,806</u>	<u>\$ 4,550</u>
<b>Goodwill:</b>			
Biodiesel	\$ 68,784	\$ 68,784	\$ 68,784
Services	16,080	16,080	16,080
	<u>\$ 84,864</u>	<u>\$ 84,864</u>	<u>\$ 84,864</u>
<b>Assets:</b>			
Biodiesel	\$ 357,305	\$ 341,863	\$ 310,021
Services	20,033	20,474	20,799
Corporate and other (b)	118,446	122,110	38,823
	<u>\$ 495,784</u>	<u>\$ 484,447</u>	<u>\$ 369,643</u>

- (a) Corporate and other includes income/(expense) not associated with the reportable segments, such as corporate general and administrative expenses, shared service expenses, interest expense and interest income, all reflected on an accrual basis of accounting.
- (b) Corporate and other includes cash and other assets not associated with the reportable segments, including investments.

### **NOTE 22—COMMITMENTS AND CONTINGENCIES**

The Company is involved in legal proceedings in the normal course of business. The Company currently believes that any ultimate liability arising out of such proceedings will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

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**NOTE 23—SUPPLEMENTAL QUARTERLY INFORMATION (UNAUDITED)**

The following table represents the significant items for the results of operations on a quarterly basis for the years ended December 31, 2012 and 2011:

	Three Months Ended March 31, 2012	Three Months Ended June 30, 2012	Three Months Ended September 30, 2012	Three Months Ended December 31, 2012
Revenues	\$ 188,247	\$ 271,927	\$ 322,912	\$ 231,948
Gross profit	17,034	30,949	2,791	7,549
Selling, general, and administrative expenses	12,962	11,014	9,902	8,544
Income (loss) from operations	4,072	19,935	(7,111)	(995)
Other income (expense), net	11,308	(1,031)	(1,094)	(1,371)
Net income (loss)	14,017	14,433	(6,040)	(151)
Net income (loss) per share attributable to common stockholders— basic	1.60	0.39	(0.24)	(0.03)
Net income (loss) per share attributable to common stockholders— diluted	0.60	0.39	(0.24)	(0.03)

	Three Months Ended March 31, 2011	Three Months Ended June 30, 2011	Three Months Ended September 30, 2011	Three Months Ended December 31, 2011
Revenues	\$ 104,435	\$ 196,312	\$ 256,502	\$ 266,782
Gross profit	8,228	30,393	54,545	34,045
Selling, general, and administrative expenses	6,278	7,812	11,045	9,344
Income (loss) from operations	1,950	22,581	43,500	24,701
Other income (expense), net	1,851	(23,446)	(41,404)	61,676
Net income (loss)	3,736	(948)	(2,007)	88,088
Net income (loss) per share attributable to common stockholders— basic	(0.40)	(0.78)	(0.85)	3.91
Net income (loss) per share attributable to common stockholders— diluted	(0.40)	(0.78)	(0.85)	0.98

**NOTE 24—SUBSEQUENT EVENTS**

On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which reinstated a set of tax extender items including the reinstatement of the federal biodiesel blenders tax credit for 2013 and retroactively reinstated credit for 2012. The retroactive credit for 2012 is estimated to result in a net benefit to the Company of approximately \$58 million in the first half of 2013. The net benefit received will increase the Company's income before income taxes by a similar amount. The Company will recognize the federal biodiesel blenders tax credit during the first quarter of 2013.

On February 8, 2013, the Company refinanced the promissory note related to Bell, LLC. The note bears interest at 3.5% and matures January 14, 2018. Amount outstanding at 12/31/12 was \$4,313.

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**ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**ITEM 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, under the supervision of and with the participation of the Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report, December 31, 2012. In connection with our evaluation of disclosure controls and procedures, we have concluded that the Company’s disclosure controls and procedures are effective as of December 31, 2012.

**Management’s Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate 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 United States Generally Accepted Accounting Principles (“US GAAP”). Under the supervision of, and with the participation of our CEO and CFO, management assessed the effectiveness of internal control over financial reporting as of December 31, 2012. Management based its assessment on criteria established in “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation, management concluded that its internal control over financial reporting was effective as of December 31, 2012.

**Changes in Internal Control over Financial Reporting**

There have been no changes during the Company’s quarter ended December 31, 2012 in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. Other Information**

None.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance**

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

**ITEM 11. Executive Compensation**

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

**ITEM 13. Certain Relationships and Related Transactions, and Director Independence**

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

**ITEM 14. Principal Accounting Fees and Services**

This Item is incorporated by reference to our definitive proxy statement on Schedule 14A, which will be filed within 120 days after the close of the fiscal year covered by this report on Form 10-K, or if our proxy statement is not filed by that date, will be included in an amendment to this Report on Form 10-K.

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**PART IV**

**ITEM 15. Exhibits, Financial Statement Schedules**

**(a) Financial Statements**

- (i) Consolidated Balance Sheets as of December 31, 2012 and 2011
- (ii) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010
- (iii) Consolidated Statements of Redeemable Preferred Stock and Equity (Deficit) for the years ended December 31, 2012, 2011 and 2010
- (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010
- (v) Notes to the Consolidated Financial Statements for the three years ended December 31, 2012, 2011 and 2010.

**(b) Exhibits**

The Exhibits filed as part of this Annual Report on Form 10-K, or incorporated by reference, are listed on the Exhibit Index immediately preceding such Exhibits, which Exhibit Index is incorporated herein by reference.

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## (c) Financial Statement Schedules

## SCHEDULE I

**RENEWABLE ENERGY GROUP, INC.**  
**FINANCIAL INFORMATION OF PARENT COMPANY**  
**CONDENSED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2012 AND 2011**  
**(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 11,287	\$ —
Notes receivable	8,618	—
Deferred income taxes	—	2,416
Prepaid expenses and other assets	5,518	3,692
Total current assets	<u>25,423</u>	<u>6,108</u>
Property, plant and equipment, net	2,193	861
Property, plant and equipment, net - Seneca Landlord, LLC	—	2,098
Intangible assets, net	4,476	4,290
Deferred income taxes	—	4,051
Investment in subsidiaries	403,549	321,937
Intercompany receivables	721	1,408
Long term notes receivable	14,093	—
Other assets	11	14
TOTAL ASSETS	<u>\$ 450,466</u>	<u>\$ 340,767</u>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of notes payable	\$ —	\$ 2,596
Accounts payable	3,799	1,869
Accrued expenses	1,392	3,685
Deferred income taxes	529	—
Total current liabilities	5,720	8,150
Preferred stock embedded conversion feature derivatives	—	53,822
Seneca Holdco liability, at fair value	—	8,940
Deferred income taxes	36,939	—
Other liabilities	—	1,500
Total liabilities	<u>42,659</u>	<u>72,412</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
Series A preferred stock (\$.0001 par value; 14,000,000 shares authorized; 13,455,522 shares outstanding at December 31, 2011; redemption amount \$222,016 at December 31, 2011)	—	147,779
Series B preferred stock (\$.0001 par value; 3,000,000 shares authorized; 2,995,106 shares issued and outstanding at December 31, 2012; redemption amount \$74,878 at December 31, 2012)	83,043	—
<b>EQUITY:</b>		
Company stockholders' equity :		
Common stock (\$.0001 par value; 140,000,000 shares authorized; 30,559,935 shares outstanding at December 31, 2012)	3	—
Class A Common stock (\$.0001 par value; 140,000,000 shares authorized; 13,962,155 shares outstanding at December 31, 2011)	—	1
Common stock—additional paid-in-capital	273,989	80,747
Warrants—additional paid-in-capital	147	3,698
Retained earnings	53,823	36,528
Total paid-in capital and retained earnings	327,962	120,974
Treasury stock (462,985 and 21,036 shares outstanding as of December 31, 2012 and 2011, respectively)	(3,198)	(398)
Total equity	<u>324,764</u>	<u>120,576</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 450,466</u>	<u>\$ 340,767</u>

See notes to the Renewable Energy Group, Inc. and subsidiaries consolidated financial statements elsewhere herein.



## RENEWABLE ENERGY GROUP, INC.

**FINANCIAL INFORMATION OF PARENT COMPANY  
CONDENSED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010  
(IN THOUSANDS)**

	2012	2011	2010
Equity in earnings (losses) of subsidiaries of continuing operations	\$ 20,071	\$ 98,432	\$ (9,218)
Income from services provided to subsidiaries	5,138	500	490
Total income (loss)	25,209	98,932	(8,728)
General and administrative expenses	(25,473)	(13,019)	(3,951)
Change in fair value of preferred stock conversion feature embedded derivatives	11,975	7,939	(8,208)
Change in fair value of Seneca Holdco liability	349	(2,097)	(4,179)
Other income	109	35	19
Interest expense	(199)	(14)	(2)
Interest income	414	134	209
Income (loss) before income taxes and income loss from equity investments	12,384	91,910	(24,840)
Income tax benefit (expense)	9,804	(2,982)	3,252
Income (loss) from equity investments	71	(59)	—
Net income (loss)	22,259	88,869	(21,588)
Effects of recapitalization	39,107	—	8,521
Less - accretion of Series A preferred stock to redemption value	(1,808)	(25,343)	(27,239)
Less - changes in undistributed dividends allocated to preferred stockholders	(823)	(12,723)	(10,027)
Less—distributed dividends to preferred stockholders	(3,156)	—	—
Less—effect of participating preferred stock	(8,952)	(4,186)	—
Less—effect of participating share-based awards	(3,145)	(3,864)	—
Net income (loss) attributable to the company's common stockholders	<u>\$ 43,482</u>	<u>\$ 42,753</u>	<u>\$ (50,333)</u>

See notes to the Renewable Energy Group, Inc. and subsidiaries consolidated financial statements elsewhere herein.

## RENEWABLE ENERGY GROUP, INC.

**FINANCIAL INFORMATION OF PARENT COMPANY  
 CONDENSED STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010  
 (IN THOUSANDS)**

	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 22,259	\$ 88,869	\$ (21,588)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Equity in (earnings) losses of continuing operations	(20,071)	(98,432)	9,218
Depreciation expense	157	410	241
Amortization expense	240	189	92
Provision for doubtful accounts	12	—	—
Stock compensation expense	13,119	5,934	1,376
(Income) loss from equity method investees	(71)	59	—
Deferred tax benefit	(7,794)	(4,967)	(3,252)
Change in fair value of preferred stock conversion feature embedded derivatives	(11,975)	(7,939)	8,208
Change in fair value of Seneca Holdco liability	(249)	2,097	4,179
Expense settled with stock issuance	1,898	—	—
Dividends received from subsidiary	—	6,802	—
Premium paid for Seneca Landlord investment	(7,063)	—	—
Changes in asset and liabilities, net of effects from mergers and acquisitions:			
Accounts receivable	675	(564)	(633)
Prepaid expenses and other assets	(4,978)	(204)	536
Accounts payable	2,254	674	1,728
Accrued expenses	(973)	1,818	—
Net cash flows provided from (used in) operating activities	<u>(12,560)</u>	<u>(5,254)</u>	<u>105</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Change in investments in subsidiaries	(352)	(158)	(1,855)
Cash paid for purchase of property, plant and equipment	(666)	(679)	(15)
Cash paid for acquisitions	(1,647)	—	—
Net cash flows used in investing activities	<u>(2,665)</u>	<u>(837)</u>	<u>(1,870)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Cash paid on note payable	(22,711)	(1,482)	(2)
Cash paid on note receivables to subsidiaries	—	—	(4,664)
Cash received on note receivable from subsidiaries	(3,846)	4,671	—
Cash received on note payable from subsidiaries	1,250	2,596	—
Repayment of investment in Seneca Landlord	(4,000)	—	—
Cash received upon exercise of warrants	—	48	—
Cash received from issuance of common stock to ARES Corporation	—	—	8,000
Cash received from initial public offering	63,747	—	—
Cash paid for issuance cost of common and preferred stock	(1,699)	(1,199)	(280)
Cash paid for treasury stock	(3,074)	—	—
Cash paid for preferred stock dividends	(3,155)	—	—
Net cash flows provided from financing activities	<u>26,512</u>	<u>4,634</u>	<u>3,054</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>11,287</b>	<b>(1,457)</b>	<b>1,289</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of period</b>	<b>—</b>	<b>1,457</b>	<b>168</b>
<b>CASH AND CASH EQUIVALENTS, End of period</b>	<b><u>\$ 11,287</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 1,457</u></b>

See notes to the Renewable Energy Group, Inc. and subsidiaries consolidated financial statements elsewhere herein.

**RENEWABLE ENERGY GROUP, INC.**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY  
For The Three Years Ended December 31, 2012, 2011 and 2010**

**NOTE 1—BASIS OF PRESENTATION**

The accompanying condensed financial statements (the Parent Company Financial Statements) of Renewable Energy Group, Inc., including the notes thereto, should be read in conjunction with the consolidated financial statements of Renewable Energy Group, Inc. and subsidiaries (the Company) and the notes thereto. The condensed financial statements and notes thereto are presented in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) and do not contain certain information included in the Company's Annual Report to Shareholders for the fiscal year ended December 31, 2012.

The condensed financial information of Renewable Energy Group, Inc. includes only the financial information for the Registrant, Renewable Energy Group, Inc., excluding all of its consolidated subsidiaries. The accompanying financial statement information reflect the financial position, results of operations and cash flows of the Registrant on a separate, parent company basis. All subsidiaries and of Renewable Energy Group, Inc. and its subsidiaries are reflected as investments accounted for using the equity method. In accordance with Rule 12-04 of Regulation S-X, these parent-only financial statements do not include all of the information and footnotes required by Generally Accepted Accounting Principles (GAAP) in the United States (U.S.) for annual financial statements. Because these parent-only financial statements and notes do not include all of the information and footnotes required by GAAP in the U.S. for annual financial statements, these parent-only financial statements and other information included should be read in conjunction with Renewable Energy Group, Inc.'s audited Consolidated Financial Statements for the year ended December 31, 2012. The schedule is required based upon the limitations on dividends and distributions that its subsidiaries can make to the Registrant under the terms of their debt agreements as described in the Note 13 — Borrowings to the consolidated financial statements.

The preparation of the Parent Company Financial Statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and disclosures in the condensed financial statements and accompanying notes. Actual results could differ materially from those estimates.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

See notes to the Renewable Energy Group, Inc. and subsidiaries consolidated financial statements for additional accounting policies.

**NOTE 3—INCOME TAXES**

The Parent Company Financial Statements recognizes deferred tax assets and liabilities for the differences between the financial reporting and tax basis assets and liabilities at the financial statement date using enacted tax rates expected to be in effect in the year the differences are expected to reverse. The Parent Company Financial Statements are included in the Company's consolidated income tax return. However, the Parent Company Financial Statement's income tax assets and liabilities are computed on a stand-alone basis.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RENEWABLE ENERGY GROUP, INC.

By:   /s/ Daniel J. Oh  
  **Daniel J. Oh**  
  **President and Chief Executive Officer**

Date: March 8, 2012

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Chad Stone and Chad A. Baker, and each of them, his true and lawful attorneys-in-fact, each with full power of substitution, for him in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>  /s/ Daniel J. Oh</u>		<u>Date</u>
<b>Daniel J. Oh</b>	President, Chief Executive Officer and Director (Principal Executive Officer)	March 8, 2012
<u>  /s/ Chad Stone</u>		
<b>Chad Stone</b>	Chief Financial Officer (Principal Financial Officer)	March 8, 2012
<u>  /s/ Chad A. Baker</u>		
<b>Chad A. Baker</b>	Controller (Principal Accounting Officer)	March 8, 2012
<u>  /s/ Jeffrey Stroburg</u>		
<b>Jeffrey Stroburg</b>	Director (Chairman)	March 8, 2012
<u>  /s/ Delbert Christensen</u>		
<b>Delbert Christensen</b>	Director	March 8, 2012
<u>  /s/ Randolph L. Howard</u>		
<b>Randolph L. Howard</b>	Director	March 8, 2012
<u>  /s/ Michael A. Jackson</u>		
<b>Michael A. Jackson</b>	Director	March 8, 2012
<u>  /s/ Jonathan Koch</u>		
<b>Jonathan Koch</b>	Director	March 8, 2012
<u>  /s/ Michael Scharf</u>		
<b>Michael Scharf</b>	Director	March 8, 2012
<u>  /s/ Christopher Sorrells</u>		
<b>Christopher Sorrells</b>	Director	March 8, 2012

**EXHIBIT INDEX**

<u>Exhibit Number</u>	<u>Description</u>
3.1	Third Amended and Restated Certificate of Incorporation of Renewable Energy Group, Inc. (the “Company”), effective as of January 24, 2012 (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-1/A filed September 8, 2011)
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form S-1/A filed November 18, 2011)
4.1	Form of Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.1 to the Company’s Registration Statement on Form S-1/A filed November 18, 2011)
10.1	Master Loan Agreement, dated as of March 8, 2010, by and between AgStar Financial Services, PCA and REG Newton, LLC (incorporated by reference to Exhibit 10.1 to the Company’s Registration Statement on Form S-1/A filed September 8, 2011)
10.2	First Supplement to the Master Loan Agreement, dated as of March 8, 2010, by and between AgStar Financial Services, PCA and REG Newton, LLC (incorporated by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2010)
10.3	Second Supplement to the Master Loan Agreement, dated as of March 8, 2010, between AgStar Financial Services, PCA and REG Newton, LLC (incorporated by reference to Exhibit 10.3 to the Company’s Registration Statement on Form S-1/A filed September 8, 2011)
10.4	REG Newton, LLC Revolving Line of Credit Note, dated March 8, 2010 (incorporated by reference to Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2010)
10.5	REG Newton, LLC Term Note, dated March 8, 2010 (incorporated by reference to Exhibit 10.5 to the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2010)
10.6	First Amendment to Second Supplement to the Master Loan Agreement, dated as of March 8, 2010, between AgStar Financial Services, PCA and REG Newton, LLC (incorporated by reference to Exhibit 10.6 to the Company’s Registration Statement on Form S-1/A filed September 8, 2011)
10.7	First Allonge to Revolving Line of Credit Note, dated March 8, 2010 (incorporated by reference to Exhibit 10.7 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010)
10.8	Stockholder Agreement, dated February 26, 2010, by and among REG Newco, Inc., certain holders of REG Newco, Inc. common stock and certain holders of REG Newco, Inc. Series A Preferred Stock (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed March 4, 2010)
10.9	First Amendment to the Stockholder Agreement of REG Newco, Inc. dated June 29, 2010 (incorporated by reference to Exhibit 10.15 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010)
10.10	Registration Rights Agreement, dated February 26, 2010, by and among REG Newco, Inc., certain holders of REG Newco, Inc. common stock and certain holders of REG Newco, Inc. Series A Preferred Stock (incorporated by reference to Exhibit 10.16 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010)
10.11	Amended and Restated Credit Agreement, dated as of April 8, 2010, among Seneca Landlord, LLC and WestLB AG, New York Branch (incorporated by reference to Exhibit 10.17 to the Company’s Registration Statement on Form S-1/A filed September 8, 2011)
10.12	Lease Agreement, dated as of April 8, 2010, by and between Seneca Landlord, LLC and REG Seneca, LLC (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed April 15, 2010)

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<u>Exhibit Number</u>	<u>Description</u>
10.13	Funding, Investor Fee and Put/Call Agreement, dated as of April 8, 2010, by and among Seneca Biodiesel Holdco, LLC, Seneca Landlord, LLC, Renewable Energy Group, Inc., REG Intermediate Holdco, Inc., and REG Seneca, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 15, 2010)
10.14	Accounts Agreement, dated as of April 8, 2010, by and among Seneca Landlord, LLC, REG Seneca, LLC, Sterling Bank, and WestLB AG, New York Branch (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed April 15, 2010)
10.15	Contract for Services by and between West Central Cooperative and the Company dated August 1, 2006 (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-4/A filed October 5, 2009)
10.16	Ground Lease by and between West Central Cooperative and the Company dated July 31, 2006 (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-4/A filed October 5, 2009)
10.17	Asset Use Agreement by and between West Central Cooperative and the Company dated August 1, 2006 (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-4/A filed October 5, 2009)
10.18	2009 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2010)
10.19	Agreement for Purchase and Sale of Assets and Common Stock by and among ARES Corporation, Clovis Biodiesel, LLC, REG Clovis, LLC and the Company dated August 24, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2010)
10.20	Investment Agreement, dated as of July 15, 2011, by and among the Company and certain holders of the Company's Series A Preferred Stock (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 21, 2011)
10.21	Second Amendment to Stockholders Agreement, dated as of July 15, 2011, by and among the Company and certain stockholders of the Company (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 21, 2011)
10.22	Consent and Amendment to Registration Rights Agreement, dated as of July 15, 2011, by and among the Company and certain stockholders of the Company (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed July 21, 2011)
10.23	Limited Waiver Agreement, dated as of May 13, 2011, by and between Fifth Third Bank and REG Danville, LLC (incorporated by reference to Exhibit 10.36 to the Company's Registration Statement on Form S-1/A filed October 26, 2011)
10.24	Employment Agreement, dated as of September 28, 2011, by and between the Company and Daniel J. Oh (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 28, 2011)
10.25	Termination Agreement and Mutual Release, dated as of July 15, 2011, by and among USRG Holdco IX, LLC, the Company, and REG Services, LLC (incorporated by reference to Exhibit 10.41 to the Company's Registration Statement on Form S-1/A filed September 8, 2011)
10.26	Amended and Restated Loan Agreement dated November 3, 2011 by and between REG Danville, LLC and Fifth Third Bank (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 9, 2011)

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<u>Exhibit Number</u>	<u>Description</u>
10.27	Asset Purchase Agreement, by and among, Soymor Cooperative, Soymor Biodiesel, LLC, REG Albert Lea, LLC, and the Company, dated June 8, 2011 (incorporated by reference to Exhibit 10.48 to the Company's Registration Statement on Form S-1/A filed November 28, 2011)
10.28	Credit Agreement dated as of December 23, 2011 by and among the lenders identified on the signature pages thereto, Wells Fargo Capital Finance, LLC, REG Services Group, LLC and REG Marketing & Logistics Group, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 29, 2011)
10.29	General Continuing Guaranty dated as of December 23, 2011 in favor of Wells Fargo Capital Finance, LLC, as agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed December 29, 2011)
10.30†	Biodiesel Purchase Agreement by and between the Company and Pilot Travel Centers LLC, dated January 31, 2013.
10.31	Amendments to Master Loan Agreement and related agreements between AgStar Financial Services, PCA and REG Newton, LLC dated December 14, 2012
21.1	List of Subsidiaries
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney (included in the signature page to this report)
31.1	Certification of Daniel J. Oh pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chad Stone pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Financial Officer.
101.1	The following financial information of the Company and its subsidiaries for the fiscal year ended December 31, 2012, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Redeemable Preferred Stock and Equity; (iii) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not otherwise subject to liability under those sections.
101.2	The following financial information of Parent Company for the fiscal year ended December 31, 2012, is formatted in XBRL interactive data files: (i) Condensed Balance Sheets, (ii) Condensed Statements of Operations; (iii) Condensed Statements of Redeemable Preferred Stock and Equity; and (iii) Condensed Statements of Cash Flows. As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not otherwise subject to liability under those sections.

† Confidential treatment requested

Confidential Treatment Requested. Confidential portions of this document have been redacted and have been separately filed with the Commission.

**PILOT TRAVEL CENTERS LLC  
BIODIESEL PURCHASE AGREEMENT  
“AGREEMENT”**

Buyer: **Pilot Travel Centers LLC** Buyer Contact: **\*\*\***  
**5508 Lonas Road**  
**Knoxville, TN 37909**

Seller: **REG Marketing & Logistics Group, LLC** Seller Contact: **Gary Haer**  
**416 South Bell Avenue**  
**Ames, IA 50010**

Date:  
 Product: **Biodiesel \*\*\* or \*\*\* (\*\*\*) (“Product” or “Biodiesel”)**  
**\*\*\*at the election of Seller**

Quantity: **Over the term of the Agreement, approximately \*\*\* gallons (the “Contract Quantity”) +/- the Purchasing Variance (as defined below).**

Price: **Previous day, nearby month, \*\*\* price \*\*\* \$\*\*\* per gallon FOB Buyer’s \*\*\* locations for B100 plus \*\*\*as further \*\*\*.**  
**Previous day, nearby month, \*\*\*price \*\*\* \$\*\*\* per gallon FOB Buyer’s \*\*\* locations for B99.9 plus \*\*\*as further \*\*\*.**  
**\* \*\*\* for 2013 at \*\*\*.**

Terms: **Net \*\*\* days receipt of invoice via ACH and per the “Biodiesel Purchase Terms” (“Terms”) of this Agreement.**

Term of Agreement: **January 1, 2013 through December 31, 2013.**

F.O.B. **FOB \*\*\* as required by \*\*\* and as further delineated in the Terms.**

Mode of Transportation: **Tanker truck**

Invoice To: **Pilot Travel Centers LLC**  
**5508 Lonas Road**  
**Knoxville, TN 37909**  
**Attn: Fuel Payables**



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\*\*\* Confidential material redacted and filed separately with the Commission.

**SEE THE ATTACHMENT FOR  
ADDITIONAL "TERMS" WHICH ARE REFERRED TO AND  
INCORPORATED HEREIN BY REFERENCE**

Seller: **REG Marketing & Logistics Group, LLC**

Buyer: **PILOT TRAVEL CENTERS LLC**

By: /s/ Gary Haer

By: \*\*\*

Name: Gary Haer

Name: \*\*\*

Date: January 31, 2013

Date: January 17, 2013

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\*\*\* Confidential material redacted and filed separately with the Commission.

## BIODIESEL PURCHASE TERMS

These terms and conditions ("Terms") apply to any agreement to which they are attached, or in which they are incorporated by reference. The agreement which incorporates the Terms and these Terms are collectively referred to as the "Agreement", and the terms "Biodiesel" and/or "Product" refer to those monalkyl esters of long chain fatty acids purchased by Pilot Travel Centers LLC ("Buyer") under the Agreement from **REG Marketing & Logistics Group, LLC** ("Seller").

**1. Taxes:** In addition to the per gallon purchase price stated below, Buyer will be liable for, and will pay and/or reimburse Seller for the payment of, any and all taxes, fees, duties, assessments and other charges ("Tax"), whether now existing or hereafter arising, which are imposed, levied or assessed by any federal, state, tribal or local governmental or regulatory authority with respect to the products sold and delivered to Buyer, the taxable incident of which arises out of or relates to the sale, delivery, receipt, transfer of title, inspection, removal from storage, measurement, receipt of payment, or other activity, regardless of when imposed, of the products to Buyer, or Buyer's payment therefor. In the event that Seller is required to pay any such Tax directly to the appropriate authority, Buyer will promptly upon demand reimburse Seller for such payments. Buyer will furnish Seller with any exemption or resale certificate or direct payment permit to which Buyer may be entitled and will promptly notify Seller of any change in the validity or scope of the same. Buyer shall not be responsible for any taxes based on income, corporate franchise tax, or license fee of Seller. Buyer shall be responsible for any tax arising from the sale, transfer, or delivery of the Biodiesel to Buyer under this Agreement.

**2. Quantity:** Buyer shall purchase and receive from Seller and Seller shall sell and deliver to Buyer an amount equal to the Contract Quantity, as specified on the cover page of this Agreement. A purchasing variance of \*\*\*plus or minus shall apply to the Monthly Volumes (as defined below) as set forth below ("Purchasing Variance").

Buyer will designate quantities required at each Designated Location (as defined below) on a monthly basis (the "Monthly Volumes"). The initial schedule of Monthly Volumes is attached as Appendix A. Buyer shall purchase and receive from Seller and Seller shall sell and deliver to Buyer on a ratable basis each month an amount equal to the Monthly Volumes specified for each Designated Location for that month as further specified on Appendix A. A purchasing variance of \*\*\* plus or minus shall apply to each of the Monthly Volumes. Buyer may modify Monthly Volumes required at each Designated Location with \*\*\* days prior notice to Seller for good reason, provided that during the Term of this Agreement, the Buyer purchases and receives a total amount each month equal to the Monthly Volumes, plus or minus the Purchasing Variance and provided further that any change in the Monthly Volumes greater than \*\*\* is mutually agreed. Good reason shall include, but not be limited to, a sale of a Designated Location. Buyer's desire to source biodiesel from another party shall not be considered a good reason.

Notwithstanding any other provision of this Agreement, at any time after this Agreement is executed or during the Term of this Agreement and any extensions thereof, in the event Buyer closes a Designated Location(s), ceases operation of a Designated Location(s) or transfers its ownership interest, whether fee or leasehold to a third party, Buyer shall be entitled to transfer the volume associated with said Designated Location(s) to another of Buyer's locations, provided that such locations are within \*\*\*of Seller's facilities.

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\*\*\* Confidential material redacted and filed separately with the Commission.

If Buyer, fails to purchase from Seller, a total amount each month equal to the aggregate of the Monthly Volumes specified for each Designated Location for that month as specified on Appendix A, minus the aggregate Purchasing Variance \*\*\* minus any volumes associated with new stores as noted in Appendix A, minus any closed Designated Locations for any reason other than Force Majeure, as defined below, then Buyer shall have breached this Agreement. Buyer shall have 60 days to mitigate breach caused by a shortfall month by increasing the blend percentage at existing Designated Locations or adding additional Designated Locations within \*\*\* of seller's facilities.

After said 60 day period, in addition to such other rights and remedies as may be available to Seller, Buyer shall, within \*\*\* days after \*\*\* of \*\*\* from \*\*\* the \*\*\* to \*\*\* by \*\*\* an \*\*\* to \*\*\* , on a \*\*\* , of \*\*\* that \*\*\* has \*\*\* In addition, the applicable Contract Quantity and applicable Monthly Volume shall be reduced by the \*\*\* of \*\*\* that \*\*\* to \*\*\* but \*\*\* for \*\*\* to the \*\*\*.

To the extent Seller secures \*\*\* to \*\*\* , the \*\*\* will be \*\*\* by \*\*\* to \*\*\* for the \*\*\* the \*\*\* to \*\*\* for the \*\*\* that \*\*\* to \*\*\* the \*\*\* of \*\*\* that \*\*\* to \*\*\* to \*\*\* . To the \*\*\* for the \*\*\* the \*\*\* shall \*\*\* the \*\*\* and \*\*\* for \*\*\* shall be \*\*\*.

Upon mutual agreement between Buyer and Seller, the Contract Quantity specified on the cover page of this Agreement can be further increased or decreased.

**3. Delivery Terms:** All sales shall be F.O.B. Buyer's locations. It is expressly understood that all sales are on a \*\*\* basis unless the parties mutually agree otherwise. The "F.O.B. Point" stated in these Terms shall, at a minimum, include the following locations (each, a "Designated Location"):

\*\*\*

Buyer and Seller may mutually agree to modify, to add to and/or to delete Designated Locations throughout the term of this Agreement. Buyer's discretion to modify, to add to and/or to delete Designated Locations is limited to Buyer's locations within the states of \*\*\* , and \*\*\* and within \*\*\* of Seller's facility located at \*\*\* , or \*\*\* ("Seller's Facility"), provided that during the Term of this Agreement, the Buyer purchases and receives a total amount equal to the Contract Quantity, plus or minus \*\*\*.

Seller, its agents or subcontractors must be properly licensed, trained, understand and follow Buyer's policies and procedures regarding fuel delivery, and are familiar with the physical layout, drop sites, underground storage tanks, and ingress and egress routes of the Designated Location(s) before delivery. Seller, its agents or subcontractors agree to work with Buyer in keeping the unloading area clean. Seller, its agents or subcontractors further agree that in the event of a spill that occurs solely as a result of their negligence, they assume any and all cleanup liability related thereto. Buyer may, with good reason and with thirty (30) days notice to Seller, request that Seller replace any agent or subcontractor acting on Seller's behalf. Good reason shall include safety, environmental and other legitimate operational concerns.

Upon first delivery of Biodiesel under this Agreement at each Designated Location, and unless waived by Buyer, Biodiesel inventory levels at each Designated Location will be managed on a \*\*\* , with Biodiesel inventory levels at each Designated Location maintained at a minimum of \*\*\* and a maximum of \*\*\* of that Designated Location's Tank capacity, provided that maintaining the minimum inventory levels at each Designated Location does not require Seller to ship more than the applicable Monthly Volumes, plus or minus \*\*\*.

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\*\*\* Confidential material redacted and filed separately with the Commission.

If Seller, its agents or subcontractors fail to deliver or make available (up to the maximum quantity allowed to Buyer under this contract) the volume required by Buyer, by Designated Location, such that any or all of Buyer's Designated Locations run out of Biodiesel for any reason other than force majeure (provided that Seller shall not by such provision be required to ship more than the applicable Monthly Volume for a Designated Location, plus or minus the Purchasing Variance), then Seller shall have breached this Agreement. In addition to such other rights and remedies as may be available to Buyer, Seller shall, within ten (10) days after delivery of reasonable documentation from Buyer \*\*\* the \*\*\* to \*\*\* by \*\*\* an \*\*\* to (i) \*\*\*, on a \*\*\*, of \*\*\*or \*\*\*to \*\*\* the \*\*\* has \*\*\* to \*\*\*, if any, of \*\*\*, or \*\*\* by \*\*\*. In addition, the applicable Contract Quantity and the applicable Monthly Volume shall be reduced by the quantity of \*\*\* or \*\*\* by the Buyer.

To the extent Buyer \*\*\* to \*\*\*, the \*\*\*will be \*\*\* by \*\*\* the \*\*\*of the \*\*\*and the \*\*\* the \*\*\* of \*\*\*. To the extent \*\*\* to \*\*\* will be \*\*\* the \*\*\* the \*\*\*, at the \*\*\*, of the \*\*\* and the \*\*\*of the \*\*\*, if any \*\*\* the \*\*\*. To the extent \*\*\* a \*\*\* for \*\*\* or \*\*\* (in the event of \*\*\*, if any), \*\*\* shall \*\*\* the\*\*\* and \*\*\* for \*\*\* shall be \*\*\*.

The \*\*\* will be calculated as the difference between the \*\*\*, to which the \*\*\* would have been entitled if not for the \*\*\*, and the \*\*\* received by the \*\*\*; provided that, it shall be the \*\*\* to evidence, with documentation provided by the \*\*\*, the extent of such difference and that such difference arose solely as a \*\*\*.

**4. Risk of Loss / Title Transfer:** Title and risk of loss shall pass to Buyer at the \*\*\* transfers into the receiving Tank(s). Buyer will only be responsible for gallons actually delivered by Seller's truck. Seller agrees that Buyer may (in order of preference) (a) use electronic monitoring systems to track fuel inventory levels and/or (b) cause Seller's delivery trucks to be weighed on calibrated scales at Buyer's Designated Locations before and after the Product has been delivered at Buyer's Designated Locations. Quantities of Product delivered will be deemed to be the amount listed on the Bill of Lading generated by Seller's Facility or any other Biodiesel facility or terminal; provided however, that in the event that either (a) the gallons shown on the electronic monitoring system installed by Buyer or (b) the gallons calculated from the before/after weight of the truck, is not within \*\*\* gallons of the gallons printed on Seller's Bill of Lading, only those gallons calculated to have been delivered by (a) the electronic monitoring system or (b) the before/after weigh in of the delivery truck shall be deemed to have been delivered to and purchased by Buyer and Seller shall be deemed to have failed to sell and deliver any differences. Any scales and/or electronic monitoring systems used by Buyer will be, in all cases, certified by the relevant government agency, and such certification shall be current at the time of measurement. Seller has the right to inspect and verify the accuracy of the electronic monitoring systems or weigh scales.

Should Buyer desire to utilize its own transportation assets to take delivery \*\*\*, Buyer and Seller agree to use good faith efforts to accommodate Buyer. Should Buyer take delivery \*\*\*:

- a) Buyer and Seller agree to renegotiate the pricing to reflect Seller's changed cost of selling on an \*\*\* versus a \*\*\*.
- b) The title and risk of loss shall pass to Buyer as Biodiesel enters the receiving equipment of Buyer's truck.

c) Buyer is responsible to present suitable trucks for loading and shall comply with all safety and operating procedures applicable to and at Seller's Facility, and the Quality and Quantity of the goods will be considered final at loading,

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\*\*\* Confidential material redacted and filed separately with the Commission.

d) Buyer may \*\*\* with \*\*\* provided by Buyer at Seller's facilities. Seller shall retain title to any vapors or condensate recovered during delivery,

e) Buyer and Seller will need to agree in advance on a schedule for pickup, or other suitable arrangement.

**5. \*\*\* Changes:**

Notwithstanding anything else to the contrary contained herein, in the event that any \*\*\* or \*\*\* \*\*\* or \*\*\* any \*\*\* or \*\*\* that \*\*\* or \*\*\* any to the Buyer for the Designated Location(s), Buyer at its sole discretion, may in whole or in part, unilaterally terminate this Agreement for the affected Designated Location(s) (each a "Terminated Location"). Prior to unilaterally terminating this Agreement for the affected Designated Location(s) pursuant to the terms of this paragraph, Buyer and Seller shall meet and discuss alternatives to termination. In the event that Buyer and Seller are not able to agree upon an alternative to termination, all of the parties rights, duties and obligations under this Agreement related to such Terminated Location(s) shall terminate and be of no further force and effect. Buyer may only exercise this right within thirty (30) days of the effective date of the elimination and/or reduction in the credit.

Should any \*\*\* or \*\*\* in a manner that \*\*\* or \*\*\* (in each party's sole judgment), Buyer and Seller agree to a good faith effort to renegotiate the terms and conditions of this Agreement to account for such change. Should that renegotiation be unsuccessful, then the \*\*\* party may, at its sole discretion, unilaterally terminate this Agreement for the affected Designated Location(s). In the event a \*\*\* party makes such an election, all of the parties rights, duties and obligations under this Agreement related to such Terminated Location(s) shall terminate and be of no further force and effect ten (10) days after such party provides written notice to the other party that it does not believe in good faith that efforts to renegotiate the Agreement will be successful.

In the event that any \*\*\* or \*\*\* a \*\*\* only \*\*\*, or specifically related to the \*\*\* of \*\*\* for the \*\*\*, Buyer and Seller agree to a good faith effort to renegotiate the terms and conditions of this Agreement to account for such change. Should that renegotiation be unsuccessful, then Buyer at its sole discretion, may in whole or in part, unilaterally terminate this Agreement for the affected Designated Location(s) on sixty (60) days prior written notice. In the event Buyer makes such an election, all of the parties' rights, duties and obligations under this Agreement related to such Terminated Location(s) shall terminate and be of no further force and effect at the later of the effective date of such taxes or the end of said sixty (60) day notice period.

In the event that any \*\*\* or \*\*\* or \*\*\* or \*\*\* that \*\*\* or \*\*\* the \*\*\* of \*\*\*, and such \*\*\* results in \*\*\* having to \*\*\* already \*\*\* with \*\*\* for the \*\*\*, \*\*\* may reduce the Contract Quantity by an amount equal to the \*\*\* at the \*\*\* the \*\*\* by the \*\*\* or Buyer and Seller agree to a good faith effort to renegotiate the terms and conditions of this Agreement to account for such change. Should that renegotiation be unsuccessful, then Buyer at its sole discretion, may in whole or in part, unilaterally terminate this Agreement for the affected Designated Location(s) on sixty (60) days prior written notice. In the event Buyer makes such an election, all of the parties rights, duties and obligations under this Agreement related to such Terminated Location(s) shall terminate and be of no further force and effect at the later of the effective date of the \*\*\* or the end of said sixty (60) day notice period. If such \*\*\* the \*\*\* of \*\*\* that can be \*\*\* into \*\*\*, \*\*\* may reduce the Contract Quantity to \*\*\* with the \*\*\*. Such reduction(s) in the Contract Quantity will take effect at the later of the effective date of the \*\*\*days from Seller's receipt of Buyer's written notice.

In the event that any \*\*\* or \*\*\* or \*\*\* any \*\*\* or \*\*\* that \*\*\* the \*\*\*, the \*\*\* or \*\*\* of \*\*\*, or

\*\*\* Confidential material redacted and filed separately with the Commission.

the \*\*\* uses for \*\*\* into \*\*\* for the Designated Location(s), Buyer and Seller agree to a good faith effort to renegotiate the terms and conditions of this Agreement to account for such change. Should that renegotiation be unsuccessful, then Buyer at its sole discretion, may in whole or in part, unilaterally terminate this Agreement for the affected Designated Location(s) on sixty (60) days prior written notice. In the event Buyer makes such an election all of the parties rights, duties and obligations under this Agreement related to such Terminated Location(s) shall terminate and be of no further force and effect at the later of the effective date of the \*\*\* or the end of said sixty (60) day notice period.

In the event that \*\*\* may become limited, at \*\*\* sole discretion, in its \*\*\* because the \*\*\* that \*\*\* may purchase has already been \*\*\* with \*\*\*, Buyer and Seller agree to a good faith effort to renegotiate the terms and conditions of this Agreement to account for such change. Otherwise, Buyer may reduce the Contract Quantity by an amount equal to the \*\*\* at the \*\*\* by the \*\*\* the \*\*\* into the \*\*\* that \*\*\* is \*\*\* in \*\*\*

**6. Measurement:** Quantities delivered to Buyer's Designated Facilities shall be determined in accordance with Section 4 of this Agreement and the requirements of this Section 6. All volumes for delivery shall be temperature-adjusted to 60°F using built-in temperature compensators or ASTM tables. Either party may require that Biodiesel quantity be determined by a jointly selected, licensed petroleum inspector, whose findings shall be conclusive. Customary inspection costs shall be shared equally, but additional services shall be paid for by the party requesting them. The term "gallon" means a U.S. gallon of 231 cubic inches. All measurements and/or tests shall be made in accordance with the latest standards or guidelines published by ASTM. Objections to measurements, including claims for shortage, for quantities delivered from Seller's facility must be made to Seller within Sixty (60) calendar days from the date of delivery.

**7. Price:** Daily prices will be \*\*\* determined from the Product Bill of Lading as Product is loaded from the Seller's Facility or any other Biodiesel facility or terminal.

**The daily price will be:**

**Previous day, nearby month, \*\*\*price \*\*\* \*\*\* per gallon FOB \*\*\* locations for \*\*\* per gallon as further specified in Section 7. \***

**Previous day, nearby month, \*\*\* price \*\*\* \*\*\* per gallon FOB \*\*\* locations for \*\*\* per gallon as further specified in Section 7. \***

\* \*\*\*,

**The \*\*\* shall be the exact \*\*\* that Seller delivered to Buyer with the \*\*\* unless agreed to otherwise by Seller in writing in advance with the only difference being that the Seller is \*\*\* and the Buyer is \*\*\* as the \*\*\*. For the purpose of clarity, the \*\*\* means the very \*\*\* to the \*\*\* pursuant to this Agreement, not \*\*\*. The only difference between the \*\*\* by \*\*\* with the \*\*\* and the \*\*\* delivered to \*\*\* by \*\*\* as payment for the \*\*\* shall be**

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\*\*\* Confidential material redacted and filed separately with the Commission.

that the Seller is \*\*\* and the \*\*\* is \*\*\* after they have been \*\*\* to \*\*\*in accordance with the \*\*\* (as defined below). The \*\*\* shall also be the same. If Seller \*\*\*, Buyer shall \*\*\* and if Seller \*\*\*, Buyer shall \*\*\* as set forth above.

The last reported \*\*\* will be used for weekends, holidays, or other such times that \*\*\* does not publish a value.

Due to the uncertain status of the liquidity of the \*\*\*over the term of this Agreement, both parties acknowledge that an \*\*\* may be needed. If either party determines in good faith that the \*\*\* no longer provides adequate liquidity, it shall so notify the other party and Buyer and Seller agree to convert the price in this Agreement contract effective upon a mutually determined date from the \*\*\* to a Previous day \*\*\*. Upon the effective date of this agreed upon change, the \*\*\* shall change from the noted differential to \*\*\* of the \*\*\* to the noted differential to \*\*\* of the \*\*\* plus or minus the average difference between the \*\*\* during 2012 over the time remaining in the contract.

Should \*\*\* no longer publish the \*\*\* or should the market for fuel traded on this index become illiquid, the parties shall agree to a new index and \*\*\*.

#### **8. Payment Terms:**

(a) Buyer agrees to pay Seller by bank ACH wire transfer based on weekly invoices with said wire transfer to be made to Seller within \*\*\* days after receipt of invoice. Buyer shall pay for Net gallons delivered as determined in accordance with Sections 4 and 6 hereof. Buyer shall pay Seller for delivered product(s) in U.S. dollars without any adjustments, discounts, or setoffs, on or before the due date. All past due payments hereunder shall bear interest from the date due until the date paid at the rate of \*\*\* per month or at the maximum rate authorized by law, whichever is less. Accounts that are past due will be ineligible for applicable allowance, deductions, or discounts, if any. In addition to all other rights and remedies, Seller shall have the right to suspend, cancel or terminate this Agreement if Buyer does not pay all amounts due to Seller in accordance with the terms of this Agreement.

(b) In addition to all other rights and remedies, in the event of either party's default respecting any provision of this Agreement, the non-defaulting party may offset any damages arising therefrom, including, without limitation, withholding payment, delivery or acceptance of product, material or services, relating to any and all agreements or transactions with the defaulting party.

(c) The \*\*\* shall be due, payable and shall be \*\*\* to Seller as follows: all \*\*\* owed for a calendar week shall be due and payable to Seller on the third business day following the end of such week and shall be available to Seller in \*\*\* within 5 days thereof in accordance with the \*\*\*.

**9. Compliance With Laws:** Each of Seller and Buyer will make commercially reasonable efforts to ensure that it and its employees, contractors, carriers, and agents shall comply with all laws, regulations, and standards applicable to the manufacture, storage, sale, transportation, and disposition of Biodiesel.

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\*\*\* Confidential material redacted and filed separately with the Commission.

**10. Safety and Health:** Seller is required to furnish Buyer with a complete Material Safety Data Sheet and other information about the safety and health aspects of Biodiesel prior to the first delivery and shall provide current and updated Material Safety Data Sheets to Buyer during the term of this Agreement.

**11. Warranty of Title:** Seller warrants that it has good title to the Biodiesel sold and delivered hereunder, free of all liens, charges, encumbrances, pledges or security interests. Seller warrants the Biodiesel is free of any claims of infringement of any patent, copyright or misappropriation of any confidential information or trade secret of other parties. THIS WARRANTY AND THE WARRANTY IN SECTION 12 ARE THE SOLE WARRANTIES MADE BY SELLER AND ARE IN LIEU OF ALL OTHER EXPRESS OR IMPLIED WARRANTIES.

**12. Warranty of Quality:** Seller represents and warrants that all Biodiesel supplied to the Buyer's point of title transfer complies with the most current version of \*\*\*for use in \*\*\* or in the case of \*\*\* when it was \*\*\* to \*\*\* to \*\*\*. Seller further represents and warrants that the Biodiesel sold and delivered hereunder complies both with \*\*\* and the most current quality assurance standard observed by the \*\*\* or its successor, or in the case of \*\*\*, complied when it was \*\*\* immediately prior to blending to \*\*\*. Seller represents and warrants that the biodiesel is merchantable and fit for blending into petroleum diesel for on-road consumption.

Seller will, at Buyer's option and at Seller's cost (including, but not limited to, laboratory costs, shipping, and handling), submit sufficient samples of Biodiesel to an independent third party laboratory of Buyer's choosing for quality assurance testing that the Biodiesel meets all specifications described in the Warranty of Quality.

Seller will, at Buyer's option and at Seller's cost (including expense of return and re-delivery), remedy the defect in, replace, or refund the purchase price of, any Biodiesel that fails to meet this warranty.

Seller additionally represents and warrants that any Biodiesel sold to Buyer during the months of\*\*\* will have a \*\*\* of \*\*\*; and during the months of\*\*\* a \*\*\* of \*\*\*. If Buyer, after handling the Biodiesel in conformance with industry practices, experiences any problems with Biodiesel blending resulting from cold weather situations, both parties agree to work together to resolve the issue. With written agreement, Buyer and Seller may agree to waive this \*\*\* if weather conditions and/or other factors allow.

\*\*\*, or diligently pursuing compliance, during the term of this contract.

**13. Biodiesel Certification:** Seller shall provide Buyer a Biodiesel Certificate of Analysis ("CoA") for each shipment setting forth at least the following data: Biodiesel source; lab ID; date of lab receipt, date of analysis; test results for the requirement that the Biodiesel meets the most recent \*\*\* for \*\*\* for use in \*\*\*.

Seller shall provide Buyer at the delivery at the Designated Location, documentation for each load uniquely referencing the CoA applicable to that load and stating: \*\*\* containing a \*\*\* by \*\*\* and meeting all applicable \*\*\* or \*\*\*, made from \*\*\* containing a \*\*\* by \*\*\* and meeting all \*\*\*.



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\*\*\* Confidential material redacted and filed separately with the Commission.

In accordance with EPA's RFS regulations at \*\*\*, Seller shall \*\*\* to at least \*\*\*, but no more than \*\*\* to \*\*\* for each \*\*\* by \*\*\* at the \*\*\* of the \*\*\* is \*\*\*. All such \*\*\* shall be for the \*\*\* in which \*\*\* to \*\*\*, shall be \*\*\* with a \*\*\*, and shall be \*\*\* via a \*\*\* that is \*\*\* with the \*\*\*.

Seller represents and warrants that:

- a) The \*\*\* were \*\*\* and entered into the \*\*\* between January 1, 2013 and December 31, 2013 under the requirements of the \*\*\* and Seller has the right to \*\*\* such \*\*\* pursuant to the \*\*\*; and
- b) Seller has \*\*\* and \*\*\* to the \*\*\* and such \*\*\* are \*\*\* of any \*\*\* or \*\*\* against Seller, and
- c) The \*\*\* have not been previously used for \*\*\* by an \*\*\* or \*\*\* and
- d) Seller has \*\*\* with all \*\*\* of the \*\*\* and \*\*\* with regard to the \*\*\* and the \*\*\* of the \*\*\*.

In the event that Seller breaches any of the warranties contained herein (\*\*\*), Seller shall replace (at Seller's own cost and expense), the \*\*\* with a \*\*\* of \*\*\* within 30 days of discovery of the \*\*\*.

Buyer represents and warrants that it will comply with all \*\*\* of the \*\*\*, including those related to the conversion of \*\*\*, and \*\*\* with regard to the \*\*\* and the \*\*\*.

**14. Force Majeure:** Neither party shall be liable to the other for any delay or failure in performance to the extent that it is caused by circumstances beyond its reasonable control, or by fire; explosion; flood; earthquake; storm; act of God; sabotage or vandalism; strike or other labor disturbance (neither Seller nor Buyer shall be required to settle a labor dispute or take an action that might involve it in a labor dispute); interruption of utility services; or compliance with any law, regulation or order (regardless of validity) of any governmental or military authority ("Force Majeure Event"); provided however, that notwithstanding the foregoing, a failure to make payments accrued prior to a Force Majeure Event when due shall not be excused. \*\*\* of \*\*\* or \*\*\* is not a Force Majeure Event. In the event of a Seller Force Majeure Event, nothing contained in this Agreement shall be construed to require Seller to produce or acquire Biodiesel from facilities other than Seller's Facility.

**15. Indemnity:** Seller shall indemnify, defend and hold harmless Buyer and its employees and agents ("Buyer Indemnitees") against any loss, claim, liability (actual or alleged), fine, or expense (including consequential, incidental, lost profits, or punitive damages, and further to include court costs, attorney fees, and litigation expenses) ("Damages"), of any kind (including those based in tort, warranty, or strict liability), to the extent asserted by a third party against the Buyer Indemnitees and arising out of, or in connection with any failure of Seller to comply with this Agreement, or any act or failure to act by Seller in the handling, storage, transportation, or sale of Biodiesel purchased under the Agreement. In responding to such third-party claims, if Seller has acknowledged in writing its obligation to indemnify Buyer Indemnitees from any such Damages, Seller may select an attorney and may enter into any settlement without affecting this obligation.

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\*\*\* Confidential material redacted and filed separately with the Commission.

Likewise, Buyer shall indemnify, defend and hold harmless Seller and its employees and agents (“Seller Indemnitees”) against any Damages, of any kind (including those based in tort, warranty, or strict liability), to the extent asserted by a third party against the Seller Indemnitees and arising out of, or in connection with any failure of Buyer to comply with this Agreement, or any act or failure to act by Buyer in the handling, storage, transportation, or sale of Biodiesel purchased under the Agreement. In responding to any third-party claims, if Buyer has acknowledged in writing its obligation to indemnify Seller Indemnitees from any such Damages, Buyer may select an attorney and may enter into any settlement without affecting this obligation.

**16. Limitation of Liability:** Subject to the obligations of Section 3, Section 14, and Section 15, neither party shall be liable to the other for consequential, incidental, lost profits, or punitive damages arising out of any breach of this Agreement or for any other reason.

**17. Default and Termination:** Either party may terminate the Agreement in the event of a material default by the other party that is not cured within thirty (30) days after notice of default is given. Upon giving of such notice to the defaulting party, the non-defaulting party may defer shipments or receipt of deliveries until default is cured by the defaulting party. The right to terminate is in addition to any other remedy that may be available. A waiver of a default in one instance does not extend to any subsequent default. Termination of this Agreement shall not relieve Buyer from payment for all Product delivered prior to such termination. In the event of termination of this Agreement, Buyer shall have no further obligation to take Product pursuant to this Agreement and Seller shall have no further obligation to sell or deliver Product pursuant to this Agreement. Notwithstanding any other provision in this Section 17 or this Agreement, if a specific damage remedy for a default is provided under this Agreement (including without limitation, Section 3) and such damages are timely paid by the defaulting party, then such payment shall constitute cure of the default for the purposes of this Section 17 and the non-defaulting party shall not have the right to terminate this Agreement for such default.

**19. \*\*\*:** Both parties shall make all necessary reasonable efforts to ensure that the \*\*\*is fully available to the \*\*\*of the fuel. However, Seller makes no \*\*\* regarding whether \*\*\*will ultimately \*\*\* the \*\*\*.

**20. Governing Law:** The purchase of Biodiesel by Buyer, and the Agreement, shall be governed by Tennessee law, excluding its conflict of laws provisions and excluding the United Nations Convention on Contracts for the International Sales of Goods.

**21. Survivorship:** Seller’s obligations in Sections 1, 8, 11, 13, 15, 16, and 19 above shall survive termination of the Agreement. Buyer’s obligations in Sections 1, 8, 15, 16 and 19 above shall survive termination of the Agreement.

**22. Enforceability:** The invalidity or unenforceability of any part of the Agreement shall not affect the validity or enforceability of its remaining provisions.

**23. Anti-Waiver:** The right of either party to require strict performance by the other of any and/or all the obligations imposed upon the other by the Agreement shall not in any way be affected by any previous waiver, forbearance or course of dealing.

**24. Merger:** The Agreement contains the entire agreement of the parties with respect to its subject matter.

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\*\*\* Confidential material redacted and filed separately with the Commission.

**25. Assignment:** The Agreement, and any rights or duties under it may not be assigned or delegated by operation of law or otherwise by Seller or Buyer without the prior written consent of the other, which consent shall not be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, Seller shall be permitted to assign its rights and/or obligations under the Agreement without the prior consent of Buyer (a) to another entity, or to Seller's affiliate or successor (collectively herein "Assignee"), if such Assignee expressly assumes all obligations not otherwise remaining with Seller hereunder, and Seller nonetheless remains responsible hereunder, and (b) to any lender as collateral security for any indebtedness of Seller to such lender, provided, however, that any further assignment by Seller's lender requires the prior written consent of Buyer, which consent shall not be unreasonably withheld, conditioned or delayed. Any attempted assignment or delegation in violation of this Section 25 shall be void.

**26. Notice Requirement:** Any claim or notice required by the Agreement to be given shall be in writing and shall be sent by either (a) certified mail return receipt requested; (b) by a national overnight courier service to the address specified on page one of the Biodiesel Purchase Agreement to which these terms are attached; or (c) by facsimile to the number specified on page one of the Biodiesel Purchase Agreement to which these terms are attached followed within five business days by a copy delivered by certified mail return receipt requested or by national overnight courier service.

**27. Modification:** Both parties agree that no proposals, amendments, modifications, purchase orders, other writings or actions will modify the terms of this Agreement unless they are in writing and are signed by authorized representatives of both parties.

**28. Buyer's Quality Initiative:** Seller shall use commercially reasonable efforts to ensure that Seller's employees, contractors, carriers, and agents reasonably cooperate with Buyer's reasonable product quality initiatives, including completion of Buyer's survey questionnaires and granting Buyer permission to conduct reasonable periodic on-site auditing upon reasonable prior notice of the manufacturing, storage, sampling, testing, inspection, loading, and transportation processes; provided that prior to the event of such on-site auditing Buyer agrees to be bound by such confidentiality provisions as are requested by Seller.

**29. \*\*\*:** Effective as of the date of this Agreement, and through the end of its Term, in the event that \*\*\* to an \*\*\* in a \*\*\* at a \*\*\* to \*\*\* than the \*\*\* to the \*\*\* as provided herein, then \*\*\* shall \*\*\* the \*\*\* to the \*\*\* to \*\*\* any \*\*\*. The \*\*\* of the \*\*\* shall be \*\*\* as of the date that the \*\*\* was effective for the \*\*\*, and shall be effective for the \*\*\* to be \*\*\* within the \*\*\* for which the \*\*\* is \*\*\* for the \*\*\*.

An \*\*\* as that term is used here, is defined as a \*\*\* in the \*\*\* within the states of \*\*\*.

A \*\*\* as that term is used here, is defined as a \*\*\* within the \*\*\* of a \*\*\* between the \*\*\* and a single \*\*\* taken as a whole; involving not less than \*\*\* for \*\*\* within a \*\*\*; for the same \*\*\* as those specified \*\*\*, or portions thereof; for delivery within the states of v; and with \*\*\* and \*\*\* to those \*\*\*.

The \*\*\* shall be \*\*\* on the basis of \*\*\* by \*\*\* to an \*\*\* in a \*\*\*, on the \*\*\* at which the \*\*\* was \*\*\*.

Should Buyer desire an inspection or audit to determine compliance with provisions of

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\*\*\* Confidential material redacted and filed separately with the Commission.

this Section 29, Buyer shall nonetheless not be entitled to review any information which relates to the confidential information of a third party. With respect to such information the Buyer shall have the right, subject to the terms of this Section 29, to engage an independent auditor to perform such inspection that is otherwise permitted hereunder (such independent auditor agreeing to sign an appropriate agreement to hold such information confidential). Alternatively, at Buyer's option, the Buyer may seek the verification and certification of compliance contemplated above from Seller's independent auditors.

The expense of any such inspection or audit shall be borne by the Buyer, unless the need for a material correction in the premium to be charged to the Buyer results, in which case the reasonable expense of such inspection or audit shall be borne by the Seller whose books and records are being audited.

**30. Miscellaneous:** If Buyer designates a third party location for delivery in accordance with the terms of this Agreement, Seller shall use reasonable commercial efforts to ensure that its transport carriers, contractors, and agents execute and comply with third party's access, loading/unloading, receipt and/or delivery procedures. Seller shall use reasonable commercial efforts to ensure that all Seller's employees, contractors, and agents comply with all reasonable rules and guidelines established by Buyer from time to time, including applicable safety rules and its Drug, Alcohol, And Firearm Policy which prohibits possession, use, consumption, distribution or sale of drugs, drug paraphernalia, alcohol, firearms, ammunition or other weapons upon Buyer's premises.

**31. \*\*\*:** \*\*\* shall retain title to any and all \*\*\*associated with the \*\*\* sold pursuant to this Agreement.

END OF DOCUMENT-NO SIGNATURE REQUIRED.

**FIRST ALLONGE**  
**(to the Term Note Dated March 8, 2010)**

THIS FIRST ALLONGE (the "Allonge") is made effective as of the 14<sup>th</sup> day of December, 2012, by and between REG NEWTON, LLC, an Iowa limited liability company (the "Borrower") and AGSTAR FINANCIAL SERVICES, PCA, a United States instrumentality, its successors and assigns (the "Lender").

**RECITALS**

A. The Borrower previously executed and delivered to the Lender a Term Note in the original principal amount of \$23,610,731.50, dated March 8, 2010 (the "Note"). This Allonge is permanently attached to said Note.

B. The Borrower has requested that the Lender make certain modifications to the Note and the Lender has agreed to make certain modifications to the Note, all in accordance with the terms and conditions of this Allonge.

**AGREEMENT**

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants contained in this Allonge and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Borrower and the Lender, the parties agree as follows:

**1. Modification of Note.** Notwithstanding any of the provisions of that certain Master Loan Agreement dated March 8, 2010 and that certain First Supplement to the Master Loan Agreement and the Note to the contrary, paragraph #5 of the Note is hereby amended and restated to read as follows:

5. The outstanding principal balance hereof, together with all accrued interest, if not paid sooner, shall be due and payable in full on March 8, 2014 (the "Term Loan Maturity Date").

**2. Remaining Terms.** It is further understood and agreed by and between the Borrower and the Lender that all other terms and provisions of the Note shall remain in full force and effect, enforceable by the Lender against the Borrower as fully as though no amendments had been made hereby, and this Allonge shall not be deemed to hinder, compromise or lessen the enforceability of the Note, or any security interest or guaranty securing repayment of the Note, in any way.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY BLANK.  
THE SIGNATURE PAGE IMMEDIATELY FOLLOWS]

SIGNATURE PAGE TO THAT CERTAIN  
FIRST ALLONGE (TO THE TERM NOTE DATED MARCH 8, 2010)  
BY AND BETWEEN  
REG NEWTON, LLC AND AGSTAR FINANCIAL SERVICES, PCA  
DATED DECEMBER 14, 2012

IN WITNESS WHEREOF, the parties hereto have caused this Allonge to be duly executed and delivered as of the date and year first above written.

**BORROWER:**

**REG NEWTON, LLC**, an Iowa limited liability company

/s/ Daniel J. Oh

By: Daniel J. Oh

Its: President

**LENDER:**

**AGSTAR FINANCIAL SERVICES, PCA**, a United States instrumentality

/s/ Mark Schmidt

By: Mark Schmidt

Its: Vice President

**FIRST AMENDMENT**  
**TO THE FIRST SUPPLEMENT TO THE MASTER LOAN AGREEMENT**  
**(TERM LOAN)**

This FIRST AMENDMENT TO THE FIRST SUPPLEMENT TO THE MASTER LOAN AGREEMENT (TERM LOAN) (this "Amendment") is made to be effective as of December 14, 2012, by and between REG NEWTON, LLC, an Iowa limited liability company (the "Borrower") and AGSTAR FINANCIAL SERVICES, PCA, a United States instrumentality (the "Lender").

**RECITALS**

A. The Borrower and the Lender previously entered into that certain First Supplement to the Master Loan Agreement (Term Loan), dated March 8, 2010 (the "First Supplement") and that certain Master Loan Agreement dated March 8, 2010, and related supplements as amended, modified or restated from time to time (together with the First Supplement, the "Loan Agreement") under which the Lender agreed to extend certain financial accommodations to the Borrower.

B. The Borrower has requested that the Lender extend the maturity date of the Term Note to March 8, 2014. The Lender is willing to so amend the loan, in accordance with the terms and conditions of this Amendment and that certain First Allonge to Term Note and Second Amendment to Master Loan Agreement of even date herewith.

C. All terms used and not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement.

**AGREEMENT**

NOW THEREFORE, in consideration of the facts set forth in the foregoing Recitals which the parties agree are true and correct, and in consideration for entering into this Amendment and the related documents to be executed concurrently with or pursuant hereto, the parties agree as follows:

1. **Amendment to Defined Term.** Except as amended by this Amendment, all terms used and not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement. The following defined term in the First Supplement is hereby amended and restated to read as follows:

**"Term Loan Maturity Date"** shall mean March 8, 2014.

2. **Effect on Loan Agreement.** Except as expressly amended by this Amendment, all of the terms of the Loan Agreement shall be unaffected by this Amendment and shall remain in full force and effect. Nothing contained in this Amendment shall be deemed to constitute a waiver of any default, Event of Default, right

or remedy of the Lender, or to affect, modify, or otherwise impair any of the rights of Lender as provided in the Loan Agreement.

3. **Representations and Warranties of Borrower.** Borrower hereby agrees with, reaffirms, and acknowledges:

a. the representations and warranties in the Loan Agreement, the Loan Documents and the Related Documents. Furthermore, Borrower represents that the representations and warranties contained in the Loan Agreement, the Loan Documents and the Related Documents continue to be true and correct and in full force and effect.

b. that Borrower has the power and authority to execute, deliver, and perform this Amendment and each other document required under this Amendment and that all documents contemplated herein when executed and delivered to Lender will constitute the valid, binding and legally enforceable obligations of Borrower in accordance with their respective terms and conditions, except as enforceability may be limited by any applicable bankruptcy or insolvency laws.

4. **Conditions Precedent to Effectiveness and Continuing Effectiveness of this Amendment.** The obligations of the Lender hereunder are subject to the conditions precedent that Lender shall have received the following, in form and substance satisfactory to the Lender:

a. this Amendment duly executed by Borrower and the Lender;

b. on or before December 14, 2012, an Allonge to the Term Note in form and substance acceptable to the Lender duly executed by the Borrower and the Lender;

c. written consents to this Amendment from Jasper County, Iowa, REG Marketing & Logistics Group, LLC, and REG Services Group, LLC, in form and substance substantially similar to Exhibits A and B to this Amendment;

d. all other documents, instruments, or agreements required to be delivered to Lender under the Loan Agreement and not previously delivered to Lender; and

e. payment for all cost and expenses (including attorney's fees) of Lender associated with the documentation, execution and delivery of this Amendment.

5. **Counterparts.** It is understood and agreed that this Amendment may be executed in several counterparts, each of which shall, for all purposes, be deemed an original, and all of such counterparts, taken together, shall constitute one and the same agreement, even though all of the parties hereto may not have executed the same counterpart of this Amendment.

[SIGNATURE PAGE IMMEDIATELY FOLLOWS]



**SIGNATURE PAGE TO  
FIRST AMENDMENT  
TO THE FIRST SUPPLEMENT  
TO THE MASTER LOAN AGREEMENT  
(REVOLVING LINE OF CREDIT LOAN)  
BY AND BETWEEN  
REG NEWTON, LLC  
AND  
AGSTAR FINANCIAL SERVICES, PCA  
DATED: DECEMBER 14, 2012**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers and duly authorized, as of the date first above written.

**BORROWER:**

**REG NEWTON, LLC**, an Iowa limited liability company

/s/ Daniel J. Oh

By: Daniel J. Oh

Its: President

**LENDER:**

**AGSTAR FINANCIAL SERVICES, PCA**, a United States corporation

/s/ Mark Schmidt

By: Mark Schmidt

Its: Vice President

**EXHIBIT A**

**FORM OF CONSENT FOR JASPER COUNTY**

**CONSENT AND REAFFIRMATION OF JASPER COUNTY**

The undersigned hereby:

(a) consents to the modifications set forth in that certain (i) Second Amendment to Master Loan Agreement dated December 14, 2012, (ii) First Amendment to the First Supplement to the Master Loan Agreement (Term Loan) dated December 14, 2012, by and between REG Newton, LLC and AgStar Financial Services, PCA (the "Lender"), and (iii) First Allonge (to the Term Note dated March 8, 2010) dated December 14, 2012; and

(b) reaffirms that the subordination agreement of the undersigned as set forth in that certain Subordination Agreement dated March 8, 2010, by and between Jasper County, Iowa and the Lender, as amended, restated, supplemented or modified from time to time, is and shall remain in full force and effect.

Dated to be effective as of December 14, 2012.

**JASPER COUNTY, IOWA**, a political subdivision  
created and existing under the laws of the State of Iowa

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By:  
Its:

**EXHIBIT B**

**FORM OF CONSENT FOR SUBORDINATED LENDERS**

**CONSENT AND REAFFIRMATION**

The undersigned hereby:

(a) consent to the modifications set forth in that certain (i) Second Amendment to Master Loan Agreement dated December 14, 2012, (ii) First Amendment to the First Supplement to the Master Loan Agreement (Term Loan) dated December 14, 2012, by and between REG Newton, LLC and AgStar Financial Services, PCA (the "Lender"), and (iii) First Allonge (to the Term Note dated March 8, 2010) dated December 14, 2012; and

(b) reaffirm that the subordination and waiver agreement of the undersigned as set forth in that certain Subordination and Waiver Agreement dated March 8, 2010, by and between REG Newton, LLC, REG Marketing & Logistics Group, LLC, REG Services Group, LLC and the Lender, as amended, restated, supplemented or modified from time to time, is and shall remain in full force and effect.

Dated to be effective as of December 14, 2012.

**REG MARKETING & LOGISTICS GROUP, LLC,**  
an Iowa limited liability company

\_\_\_\_\_  
By:  
Its:

**REG SERVICES GROUP, LLC,** an Iowa limited  
liability company

\_\_\_\_\_  
By:  
Its:

**SECOND AMENDMENT TO MASTER LOAN AGREEMENT**

**THIS SECOND AMENDMENT TO MASTER LOAN AGREEMENT** (the “**Second Amendment**”), is entered into as of December 14, 2012, by and between **REG NEWTON, LLC**, an Iowa limited liability company (the “**Borrower**”), and **AGSTAR FINANCIAL SERVICES, PCA**, a United States instrumentality (the “**Lender**”). In consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, hereby agree as follows:

**RECITALS**

A. On or about March 8, 2010, Borrower and Lender entered into that certain Master Loan Agreement (the “**MLA**”) that provided for various credit facilities for the purposes of owning and operating a biodiesel production facility located near the city of Newton, Jasper County, Iowa.

B. The Borrower has requested and Lender has agreed to make certain amendments to the Loan Agreement pursuant to the provisions of this Second Amendment.

C. The parties desire to set forth their agreement with respect to such amendments to the Loan Agreement in accordance with the terms and conditions of this Second Amendment and the Loan Agreement.

NOW THEREFORE, in consideration of the facts set forth in these Recitals which the parties agree are true and correct, and in consideration for entering into this Second Amendment and the related documents to be executed concurrently with or pursuant hereto, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

**AMENDMENT**

1. **Defined Terms.** Except as specifically amended by this Second Amendment, all terms used and not otherwise defined herein shall have the meanings assigned to them in the Loan Agreement.

2. **Amendments to the Loan Agreement.** The definition of the term “Maturity Date” contained in Section 1.01 of the MLA is hereby amended to read as follows:

“Maturity Date” means March 8, 2014.

3. **Conditions to Effectiveness of this Amendment.** Except as otherwise expressly stated in this Amendment, this Amendment shall become effective as of the date hereof upon the satisfaction of the conditions precedent that Lender shall have received, on or before the date hereof, the following documents, reports and related matters, duly executed (as applicable) by the Borrower and in a form acceptable to the Lender:

- a. The Second Amendment.
- b. The Plant shall be open and continuously operational to the satisfaction of Lender.

- c. As of the effective date hereof, the Borrower shall have made all required payments on the Loans.
- d. The Borrower shall have executed an extension of that certain Contract Manufacturing Agreement by and between the Borrower and REG Marketing & Logistics Group, LLC, dated March 8, 2010, in form and substance acceptable to the Lender.
- e. The Borrower shall have executed an extension of that certain Service Agreement by and between the Borrower and Renewable Energy Group, Inc., dated March 8, 2010, in form and substance acceptable to the Lender.
- f. The Lender shall have received duly executed written consents to this Second Amendment and the First Amendment to First Supplement to Master Loan Agreement of even date herewith and that certain First Allonge to Term Note of even date herewith from Jasper County, Iowa, REG Marketing & Logistics Group, LLC, and REG Services Group, LLC, in form and substance acceptable to the Lender.

4. **Warranties of Borrower**. Borrower hereby represents and warrants as follows:

- a. Borrower hereby affirms as of the date hereof each and every representation and warranty contained in the Loan Agreement, the promissory notes, the mortgage and all other documents delivered by Borrower to Lender in connection therewith are true in all material respects.
- b. The execution, delivery and performance by Borrower of this Second Amendment have been duly authorized by the Borrower.
- c. After giving effect to this Second Amendment, Borrower is not in default under the Loan Agreement, and no condition exists which, with the giving of notice or lapse of time, or both, would constitute a default by the Borrower thereunder, except as disclosed on Exhibit A hereto.

5. **Amendment to Control**. In the event of any conflict between this Second Amendment and the Loan Agreement, the provisions of this Amendment shall control.

6. **Ratification of Loan Agreement**. As amended hereby, the Loan Agreement remains in full force and effect and is hereby ratified and affirmed.

7. **Severability**. Any provision contained in this Second Amendment which is held to be inoperative, unenforceable or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions of this Second Amendment in that jurisdiction or the operation, enforceability or validity of such provision in any other jurisdiction.

8. **GOVERNING LAW.** THIS SECOND AMENDMENT SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MINNESOTA.

9. **Counterparts.** This Second Amendment may be executed in any number of counterparts, each of which, when so executed and delivered, shall be considered an original and all of which counterparts, taken together, shall constitute but one and the same instrument, even though all of the parties hereto may not have executed the same counterpart of this Second Amendment.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY BLANK.  
THE SIGNATURE PAGE IMMEDIATELY FOLLOWS.]

SIGNATURE PAGE TO  
SECOND AMENDMENT TO MASTER LOAN AGREEMENT  
BY AND BETWEEN  
REG NEWTON, LLC  
AND  
AGSTAR FINANCIAL SERVICES, PCA  
DATED: December 14, 2012

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be executed by their respective officers and duly authorized, as of the date first above written.

**BORROWER:**

**REG NEWTON, LLC**, an Iowa limited liability company

/s/ Daniel J. Oh

By: Daniel J. Oh

Its: President

**LENDER:**

**AGSTAR FINANCIAL SERVICES, PCA**, a United States instrumentality

/s/ Mark Schmidt

By: Mark Schmidt

Its: Vice President

EXHIBIT A

None



## RENEWABLE ENERGY GROUP, INC. SUBSIDIARIES

REG Biofuels, LLC	Iowa
REG Marketing & Logistics Group, LLC	Iowa
REG Services Group, LLC	Iowa
REG Construction & Technology Group, LLC	Iowa
REG Ventures, LLC	Iowa
REG Venture Services, LLC	Iowa
REG Ralston, LLC	Iowa
REG Houston, LLC	Texas
REG Danville, LLC	Delaware
REG Newton, LLC	Iowa
REG Seneca, LLC	Iowa
REG New Orleans, LLC	Iowa
REG New Boston, LLC	Iowa
REG Emporia, LLC	Iowa
REG Clovis, LLC	Iowa
REG Atlanta, LLC	Iowa
REG Processing Systems, LLC	Iowa
416 S. Bell, LLC 50% owned	Iowa

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-161187 on Form S-8 of our report dated March 8, 2013, relating to the consolidated financial statements and financial statement schedule of Renewable Energy Group, Inc. and subsidiaries, appearing in the Annual Report on Form 10-K of Renewable Energy Group, Inc. and subsidiaries for the year ended December 31, 2012.

/s/ Deloitte & Touche LLP  
Des Moines, Iowa  
March 8, 2013

I, Daniel J. Oh, certify that:

1. I have reviewed this annual report on Form 10-K of Renewable Energy Group, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 8, 2013

/s/ Daniel J. Oh

Daniel J. Oh

Chief Executive Officer

I, Chad Stone, certify that:

1. I have reviewed this annual report on Form 10-K of Renewable Energy Group, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 8, 2013

/s/ Chad Stone  
Chad Stone  
Chief Financial Officer

SECTION 1350 CERTIFICATIONS

I, Daniel J. Oh, Chief Executive Officer of Renewable Energy Group, Inc. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10-K of the Company (the "Report"), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 8, 2013

/s/ Daniel J. Oh  
Daniel J. Oh  
Chief Executive Officer

SECTION 1350 CERTIFICATIONS

I, Chad Stone, Chief Financial Officer of Renewable Energy Group, Inc. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge the Annual Report on Form 10-K of the Company (the "Report"), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 8, 2013

/s/ Chad Stone  
\_\_\_\_\_  
Chad Stone  
Chief Financial Officer