Green Plains Renewable Energy, Inc.
Form 424B5
March 05, 2010
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Filed Pursuant to Rule 424(b)
Registration File No. 333-163203

Prospectus Supplement

(To Prospectus dated January 14, 2010)

5,500,000 Shares

GREEN PLAINS RENEWABLE ENERGY, INC.

Common Stock

We are offering for sale up to 5,500,000 shares of our common stock. Our common stock is quoted on The NASDAQ Global Market under the symbol GPRE. On March 4, 2010, the last reported sale price of our common stock on The NASDAQ Global Market was $14.83 per share.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page S-7.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$ 13.50	$ 74,250,000
Underwriting Discounts and Commissions	$ 0.81	$ 4,455,000
Proceeds to Green Plains Renewable Energy (Before Expenses)	$ 12.69	$ 69,795,000

Delivery of the shares of common stock is expected to be made on or about March 10, 2010. We have granted the underwriters an option for a period of 30 days to purchase additional 825,000 shares of common stock to cover overallotments. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $5,123,250, and the total proceeds to us, before expenses, will be $80,264,250.

Joint Bookrunning Managers

Jefferies & Company

Piper Jaffray

Co-Managers

Imperial Capital

Stephens Inc.

Prospectus Supplement dated March 4, 2010.

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You should rely only on the information contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus and any free writing prospectus authorized by us. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus supplement and the accompanying prospectus is accurate only as of the date it is presented. Our business, financial condition, results of operations and prospects may have changed since these dates.

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About this Prospectus Supplement

Unless the context otherwise requires, all references in this prospectus supplement to we, us or our refer to Green Plains Renewable Energy, Inc. and its subsidiaries.

This prospectus supplement is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC, utilizing a shelf registration process. Under this shelf registration process, we are offering to sell our common stock using this prospectus supplement and the accompanying prospectus. In this prospectus supplement, we provide you with specific information about the securities that we are selling in this offering. Both this prospectus supplement and the accompanying prospectus include important information about us, our securities being offered and other information you should know before investing. This prospectus supplement also adds, updates and changes information contained in the accompanying prospectus. You should read both this prospectus supplement and the accompanying prospectus as well as additional information described in the section entitled Incorporation of Certain Documents by Reference in this prospectus supplement and the accompanying prospectus before investing in our securities.

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Special Note Regarding Forward-looking Statements

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This prospectus supplement contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this prospectus supplement, and they may also be made a part of this prospectus supplement by reference to other documents filed with the SEC, which is known as incorporation by reference.

This prospectus supplement contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Forward-looking statements generally do not relate strictly to historical or current facts, but rather to plans and objectives for future operations based upon management s reasonable estimates of future results or trends, and include statements preceded by, followed by, or that include words such as anticipates, believes, continue, estimates, expects, intends, outlook, plans, predicts, may, could, should, phrases of similar impact, and include, but are not limited to, statements regarding future operating or financial performance, business strategy, business environment, key trends, and benefits of actual or planned acquisitions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The forward-looking statements are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe that our expectations regarding future events are based on reasonable assumptions, any or all forward-looking statements in this prospectus supplement may turn out to be incorrect. They may be based on inaccurate assumptions or may not account for known or unknown risks and uncertainties. Consequently, no forward-looking statement is guaranteed, and actual future results may vary materially from the results expressed or implied in our forward-looking statements. The cautionary statements in this prospectus supplement expressly qualify all of our forward-looking statements. In addition, we are not obligated, and do not intend, to update any of our forward-looking statements at any time unless an update is required by applicable securities laws. Factors that could cause actual results to differ from those expressed or implied in the forward-looking statements include, but are not limited to, those discussed in the section entitled Risk Factors in this prospectus supplement or in any document incorporated by reference. Specifically, we may experience significant fluctuations in future operating results due to a number of economic conditions, including, but not limited to, competition in the ethanol and other industries in which we compete, commodity market risks, financial market risks, counter-party risks, risks associated with changes to federal policy or regulation, and other risk factors detailed in our reports filed with the SEC. Actual results may differ from projected results due, but not limited, to unforeseen developments.

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

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Prospectus Supplement Summary

This summary highlights certain information appearing elsewhere in this prospectus supplement and in the accompanying prospectus and in the documents we incorporate by reference. After you read this summary, you should read and consider carefully the more detailed information and financial statements and related notes that we include in or incorporate by reference into this prospectus supplement and the accompanying prospectus, especially the section entitled Risk Factors in this prospectus supplement. If you invest in our securities, you are assuming a high degree of risk.

Our Business

We are a leading, vertically-integrated producer of ethanol. We have grown rapidly, primarily through acquisitions, and today we have operations throughout the ethanol value chain. Our operations begin upstream with our agronomy and grain handling operations, continue through our approximately 480 million gallons per year, or mmgy, of ethanol production capacity and end downstream with our ethanol marketing, distribution and blending facilities. We focus on generating stable operating margins through our diversified business segments and our risk management strategy. We believe that owning and operating assets throughout the ethanol value chain enables us to mitigate the effects of changes in commodity prices on our profitability and differentiates us from companies focused only on ethanol production.

Our disciplined risk management strategy is designed to lock in operating margins by forward contracting the four primary commodities involved in ethanol production: corn, natural gas, ethanol and distillers grains. We also seek to maintain an environment of continuous operational improvement to increase our efficiency and effectiveness as a low-cost producer of ethanol. For the year ended December 31, 2009, we generated $1.3 billion in revenues and $67.7 million in EBITDA, which we define as earnings before interest, income taxes, noncontrolling interests, depreciation and amortization.

Our Operating Segments

Currently, we operate within the three segments outlined below:

Ethanol Production. We operate a total of six ethanol plants in Indiana, Iowa, Nebraska and Tennessee, with approximately 480 mmgy of total ethanol production capacity. At capacity, our plants collectively will consume approximately 175 million bushels of corn and produce approximately 1.5 million tons of distillers grains annually. We are focused on maximizing the operational efficiency at each of our plants in order to achieve the lowest cost per gallon of ethanol produced.

Agribusiness. We operate three lines of business within our agribusiness segment: bulk grain, agronomy and petroleum. In our bulk grain business, we have total storage capacity of approximately 18.6 million bushels. We sell fertilizer and other agricultural inputs and provide application services to area producers through our agronomy business. Additionally, we sell petroleum products including diesel, soydiesel, blended gasoline and propane, primarily to agricultural producers and consumers. We believe our bulk grain business provides synergies with our ethanol production segment as it supplies a portion of the feedstock for our ethanol plants.

Marketing and Distribution. Our in-house, fee-based marketing business is responsible for the sales, marketing and distribution of all ethanol and distillers grains produced at our six plants. We also market and distribute ethanol for four third-party ethanol producers with expected production totaling approximately 360 mmgy. Additionally, we hold a majority interest in Blendstar, LLC, which operates nine blending or terminaling facilities with approximately 495 mmgy of total throughput capacity in seven states in the south central United States.

Our Competitive Strengths

We believe we have created a platform that diversifies our revenues and income stream. Fundamentally, we focus on managing commodity price risks, improving operating efficiencies and controlling costs. We believe our competitive strengths include:

Disciplined Risk Management. We believe risk management is a core competency of ours. Our primary focus is to lock in favorable operating margins whenever possible. We do not speculate on general price movements by taking unhedged positions on commodity products such as corn or natural gas. Our comprehensive risk management platform allows us to monitor real-time commodity price risk exposure at each of our plants, and to respond quickly to lock in acceptable

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margins. By using a variety of risk management tools and hedging strategies, including our internally-developed real-time operating margin management system, we believe we are able to maintain a disciplined approach to risk management.

Demonstrated Asset Acquisition and Integration Capabilities. We have demonstrated the ability to make strategic acquisitions that we believe create synergies with our vertically-integrated platform. Our belief is that acquiring and developing complementary businesses enhances our ability to mitigate risks. Our balance sheet allows us to be selective in that process. Since our inception, we have acquired or developed six ethanol plants in addition to upstream grain elevators and agronomy businesses and downstream blending and distribution businesses. We believe these acquisitions have been successfully integrated into our business and have enhanced our overall returns.

Focus on Operational Excellence. Five of our six plants were built by Fagen Inc. using industry-leading ICM technology and all of our plants are staffed by experienced industry personnel. We focus on incremental operational improvements to enhance overall production efficiencies and we share operational knowledge across our plants. Using real-time production data and control systems, we continually monitor our plants in an effort to optimize performance. We believe our ability to improve operating efficiencies provides an operating cost advantage over most of our competitors. In turn, we believe we are well positioned to increase operating margins for any facilities that we may acquire in the future.

Leading Vertically-Integrated Ethanol Producer. We believe our operations throughout the ethanol value chain reduce our commodity and operating risks, and increase our pricing visibility and influence in key markets. Combined, we believe our agribusiness, ethanol production, and marketing and distribution businesses give us efficiencies across the ethanol value chain, from grain procurement to blending fuel. Our agribusiness operations help to reduce our supply risk by providing grain handling and storage capabilities for approximately 18.6 million bushels. Assuming full production capacity at each of our plants and those of our third-party ethanol producers, we would market approximately 840 mmgy of ethanol from ten plants. Our majority interest in Blendstar allows us to source, store, blend and distribute ethanol and biodiesel across multiple states.

Proven Management Team. Our senior management team brings an average of 20 years of commodity risk management and related industry experience. We have specific expertise across all aspects of the ethanol supply, production, and distribution chain from agribusiness, to plant operations and management, to commodity markets and risk management, to ethanol marketing.

Our Growth Strategy

We intend to continue to focus on strengthening and diversifying our vertically-integrated platform by implementing the following growth strategies:

Develop or Acquire Strategically-Located Grain Elevators. We intend to pursue opportunities to develop or acquire additional grain elevators within the agribusiness segment, specifically those located near our ethanol plants. We believe that owning additional grain elevators in close proximity to our ethanol plants enables us to strengthen relationships with local corn producers, allowing us to source corn more effectively and at a lower average cost. Since all of our plants are located within or near the corn belt where a number of competitors also have ethanol facilities, we believe that owning grain elevators provides us with a competitive advantage in the origination of corn.

Pursue Consolidation Opportunities within the Ethanol Industry. We continue to focus on the potential acquisition of additional ethanol plants. Throughout 2009, we were approached with opportunities to acquire existing ethanol plants. We believe those plants were available for a number of reasons including financial distress of a particular facility, a lack of operational expertise or a desire by existing owners to exit their original investment. We will continue to take a disciplined approach in evaluating new opportunities by considering whether the plants fit within the design, engineering and geographic criteria we have developed. We believe that our integrated platform, plant operations experience and disciplined risk management approach give us the ability to generate favorable returns from our acquisitions.

Improve Operational Efficiency. We seek to enhance profitability at each of our plants by increasing our production volumes through operational improvements. We continually research operational processes that may increase our efficiency by increasing yields, lowering our processing cost per gallon and increasing our production volumes. Additionally, we employ an extensive cost control system at each of our plants to continuously monitor our plants performance. We are able to use performance data from our plants to develop strategies for cost reduction and efficiency that can be applied across our platform.

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Expand Our Third-Party Marketing Volumes. We plan to continue to grow our downstream access to customers and are actively looking at new marketing opportunities with other ethanol producers. We maintain active dialogues with prospective ethanol producers whose location, production and risk management practices are consistent with our vertically-integrated platform. We believe that further expansion of our third-party marketing volumes will enable us to continue to meet major ethanol customers needs by providing us with a broader market presence and allowing us to further leverage our marketing expertise and distribution systems.

Invest in Next Generation Biofuel Opportunities. We plan to continue our investment in the BioProcessAlgae joint venture, which is focused on developing technology to grow and harvest algae, which consume carbon dioxide, in commercially viable quantities. We believe this technology has specific applications with facilities, including ethanol plants, that emit carbon dioxide. The algae produced has the potential to be used for advanced biofuel production, high quality animal feed or as biomass for energy production.

Recent Developments

Record Fourth Quarter 2009 Results. For the quarter ended December 31, 2009, we reported revenues of $436.7 million, a 138% increase over the fourth quarter of 2008, and net income attributable to us of $23.1 million, or $0.91 per diluted share. For the year ended December 31, 2009, revenues were $1.3 billion with net income attributable to us of $19.8 million, or $0.79 per diluted share. EBITDA for the year ended December 31, 2009 was $67.7 million. Our ethanol production segment increased ethanol sold from 73.2 million gallons in the first quarter of 2009 to 121.8 million gallons in the fourth quarter of 2009.

Acquisition of Central City and Ord Ethanol Plants. In July 2009, we acquired the membership interests in two limited liability companies that owned ethanol plants in Central City and Ord, Nebraska for approximately $121 million. These plants, which are a part of our ethanol production segment, were acquired to add to our overall ethanol and distillers grains production. The Central City and Ord plants added annual expected operating capacity totaling 150 mmgy.

Blendstar Acquisition. In January 2009, we acquired a majority interest in biofuel terminal operator Blendstar, LLC for $8.9 million. The acquisition of Blendstar was a strategic investment within the ethanol value chain whose operations are included in our marketing and distribution segment.

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The Offering

Common stock offered by us:	**5,500,000 shares, or 6,325,000 shares if the underwriters exercise their overallotment option in full.**
Common stock outstanding after this offering:	**30,457,378 shares, or 31,282,378 shares if the underwriters exercise their overallotment option in full.**
Use of proceeds:	**We intend to use the net proceeds of this offering for general corporate purposes. While we do not currently have any binding commitments or definitive agreements to enter into potential acquisitions, we may also use a portion of the net proceeds to acquire or invest in additional facilities, assets or technologies consistent with our growth strategy.**
NASDAQ Global Market symbol:	**GPRE**
Lock-ups:	**Our directors and executive officers and certain of our shareholders, including NTR, plc and Wilon Holdings, S.A., have agreed with the underwriters that, without the prior written consent of Jefferies and Piper Jaffray, subject to certain exceptions, neither we nor any of our directors or executive officers or certain of our shareholders will, for a period of 90 days following the date of this prospectus supplement, offer, sell or contract to sell any of our common stock.**

The number of shares to be outstanding after this offering is based on 24,957,378 shares outstanding on December 31, 2009 and excludes:

- 1,162,934 shares of common stock issuable upon the exercise of outstanding options at a weighted-average exercise price of $15.27 per share;
- 692,005 shares of common stock available for issuance under our 2009 Equity Incentive Plan; and

327,256 shares of unvested restricted stock and deferred stock units.

Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the underwriters overallotment option.

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Summary Selected Financial Data

The following selected financial data have been derived from our consolidated financial statements. The statement of operations for the year ended December 31, 2009 and the nine-month transition period ended December 31, 2008 and the balance sheet data as of December 31, 2008 and 2009 in the table is derived from and should be read in conjunction with our audited consolidated financial statements, including accompanying notes, incorporated by reference in this prospectus supplement from our Annual Report on Form 10-K for the year ended December 31, 2009. Amounts shown for the three months ended December 31, 2009 are derived from our consolidated financial statements, which are unaudited and not included or incorporated by reference into this prospectus supplement. The financial information below is not necessarily indicative of results to be expected for any future period. Future results could differ materially from historical results due to many factors, including those discussed in Risk Factors in this prospectus supplement.

	Year Ended December 31, 2009	Nine-Month Transition Period Ended December 31, 2008[1]	Quarter Ended December 31, 2009
	(In thousands, except per share information)		
Statement of Operations Data:			
Revenues	$ 1,304,174	$ 188,758	$ 436,713
Cost of goods sold	1,221,745	175,444	392,449
Gross profit	82,429	13,314	
Selling, general and administrative expenses	44,923	18,467	14,501
Operating income (loss)	37,506	(5,153)	29,763
Total other income (expense)	(17,261)	(2,896)	(6,165)
Net income (loss)	20,154	(8,049)	23,319
Net income (loss) attributable to Green Plains	19,790	(6,897)	23,050
Earnings (loss) per share attributable to Green Plains:			
Basic	$ 0.79	$ (0.56)	$ 0.92
Diluted	0.79	$ (0.56)	$ 0.91
Other Data:			
EBITDA (unaudited) (2)	$ 67,707	$ 601	$ 37,798
Statement of Cash Flows Data:			
Cash flows provided by (used in) operating activities	$ 53,427	$ (44,450)	$ 42,101
Cash flows provided by (used in) investing activities	(17,784)	(72,954)	(6,243)
Cash flows provided by (used in) financing activities	(8,158)	179,160	(10,344)

	December 31, 2009	December 31, 2008
Balance Sheet Data:		
Cash and cash equivalents	$ 89,779	$ 62,294
Current assets	252,446	190,797
Total assets	878,081	693,263
Current liabilities	174,332	108,446
Long-term debt	388,573	299,011
Total liabilities	567,373	413,278

Stockholders equity	310,708	279,985

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(1) The October 15, 2008 merger with VBV, LLC was accounted for as a reverse acquisition. Although VBV was considered the acquiring entity for accounting purposes, the merger was structured so that VBV became our wholly-owned subsidiary. As a result, our assets and liabilities as of October 15, 2008, the date of the merger closing, were incorporated into VBV s balance sheet based on the fair values of the net assets, which equaled the consideration paid in the merger. U.S. generally accepted accounting principles, or GAAP, also requires an allocation of the acquisition consideration to individual assets and liabilities including tangible assets, financial assets, separately-recognized intangible assets and goodwill.

Pursuant to reverse merger accounting rules, our consolidated financial statements and results of operations for the nine-month transition period ended December 31, 2008 reflect the historical financial results of VBV and its subsidiaries for these periods, along with the acquired fair value of our assets and liabilities as of October 15, 2008 and our financial results since October 15, 2008.

(2) Management uses earnings before interest, income taxes, noncontrolling interests, depreciation and amortization, or EBITDA, to compare the financial performance of our business segments and to internally manage those segments. Management believes that EBITDA provides useful information to investors as a measure of comparison with peer and other companies. EBITDA should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with generally accepted accounting principles. EBITDA calculations may vary from company to company. Accordingly, our computation of EBITDA may not be comparable with a similarly titled measure of another company. The following sets forth the reconciliation of net income to EBITDA for the periods indicated (in thousands):

	Year Ended December 31, 2009	Nine-Month Transition Period Ended December 31, 2008	Quarter Ended December 31, 2009
Net income (loss) attributable to Green Plains	$ 19,790	$ (6,897)	$ 23,050
Interest expense	18,049	3,933	6,048
Depreciation and amortization	29,413	4,717	8,152
Net income (loss) attributable to noncontributing interests	364	(1,152)	268
Income taxes	91		280
EBITDA	$ 67,707	$ 601	$ 37,798

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Risk Factors

We operate in an evolving industry that presents numerous risks. Many of these risks are beyond our control and are driven by factors that often cannot be predicted. Investors should carefully consider the risk factors set forth below, as well as the other information appearing in this prospectus supplement, before making any investment in our securities. If any of the risks described below or in the documents incorporated by reference in this prospectus supplement actually occur, our financial results, financial condition or stock price could be materially adversely affected. These risk factors should be considered in conjunction with the other information included in this prospectus supplement and the accompanying prospectus.

Risks relating to our business and industry

We have a limited operating history and our business may not be as successful as envisioned.

We began our business in 2004; however, our first ethanol production facility did not commence operations until August 2007, and the fourth quarter of 2009 represents the first full quarter during which all of our current plants were operating at capacity. Accordingly, we have a limited operating history from which you can evaluate our business and prospects. In addition, our prospects must be considered in light of the risks and uncertainties encountered by a company with limited operating history in rapidly-evolving markets, such as the ethanol market, where supply and demand may change significantly in a short amount of time.

Some of these risks relate to our potential inability to:

- effectively manage our business and operations;
- successfully execute plans to sell ethanol at prices and on terms favorable to us;
- recruit and retain key personnel;
- successfully maintain a low-cost structure through the expansion of scale in business;
- manage rapid growth in personnel and operations; and
- successfully address the other risks described throughout this prospectus.

If we cannot successfully address these risks, our business and our results of operations and financial position may suffer.

Our results of operations and ability to operate at a profit is largely dependent on managing the spread among the prices of corn, natural gas, ethanol and distillers grains, the prices of which are subject to significant volatility and uncertainty.

The results of our ethanol production business are highly impacted by commodity prices, including the spread between the cost of corn and natural gas that we must purchase, and the price of ethanol and distillers grains that we sell. Prices and supplies are subject to and determined by market forces over which we have no control, such as weather, domestic and global demand, shortages, export prices, and various governmental policies in the United States and around the world. As a result of price volatility for these commodities, our operating results may fluctuate substantially. Increases in corn prices or natural gas or decreases in ethanol or distillers grains prices may make it unprofitable to operate our plants. No assurance can be given that we will be able to purchase corn and natural gas at, or near, current prices and that we will be able to sell ethanol or distillers grains at, or near, current prices. Consequently, our results of operations and financial position may be adversely affected by increases in the price of corn or natural gas or decreases in the price of ethanol and distillers grains.

In early 2006, the spread between ethanol and corn prices was at historically high levels, driven in large part by oil companies removing a competitive product, methyl tertiary butyl ether, or MTBE, from the fuel stream and replacing it with ethanol in a relatively short time period. However, since that time, this spread has fluctuated widely and narrowed significantly. Fluctuations are likely to continue to occur. A sustained narrow spread or any further reduction in the spread between ethanol and corn prices, whether as a result of sustained high or increased corn prices or sustained low or decreased ethanol prices, would adversely affect our results of operations and financial position. Further, combined revenues from sales of ethanol and distillers grains could decline below our marginal cost of production, which could cause us to suspend production of ethanol and distillers grains at some or all of our plants.

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Our risk management strategies, including hedging transactions, may be ineffective and may expose us to decreased liquidity.

In an attempt to partially offset the effects of volatility of ethanol, distillers grains, corn and natural gas prices, we enter into forward contracts to sell a portion of our respective ethanol and distillers grains production or to purchase a portion of our respective corn or natural gas requirements. To a much lesser extent, we also engage in other hedging transactions involving exchange-traded futures contracts for corn, natural gas, ethanol and unleaded gasoline from time to time. The financial statement impact of these activities is dependent upon, among other things, the prices involved and our ability to physically receive or deliver the commodities involved. Hedging arrangements also expose us to the risk of financial loss in situations where the other party to the hedging contract defaults on its contract or, in the case of exchange-traded contracts, where there is a change in the expected differential between the price of the commodity underlying the hedging agreement and the actual prices paid or received by us for the physical commodity bought or sold. Hedging activities can themselves result in losses when a position is purchased in a declining market or a position is sold in a rising market. A hedge position is often settled in the same time frame as the physical commodity is either purchased (corn and natural gas) or sold (ethanol and distillers grains). Hedging losses may be offset by a decreased cash price for corn and natural gas and an increased cash price for ethanol and distillers grains. We also vary the amount of hedging or other risk mitigation strategies we undertake, and we may choose not to engage in hedging transactions at all. We cannot assure you that our risk management and hedging activities will be effective in offsetting the effects of volatility. If we fail to offset such volatility, our results of operations and financial position may be adversely affected.

We also attempt to reduce the market risk associated with fluctuations in commodity prices through the use of derivative financial instruments. Sudden changes in commodity prices may require cash deposits with brokers, or margin calls. Depending on our open derivative positions, we may require additional liquidity with little advance notice to meet margin calls. As part of our risk management strategy, we have routinely had to, and in the future will likely be required to, cover margin calls. While we continuously monitor our exposure to margin calls, we cannot guarantee you that we will be able to maintain adequate liquidity to cover margin calls in the future.

Price volatility of each commodity that we buy and sell could each adversely affect our results of operations and our ability to operate at a profit.

Corn. Because ethanol competes with non-corn derived fuels, we generally are unable to pass along increased corn costs to our customers. At certain levels, corn prices may make ethanol uneconomical to produce. There is significant price pressure on local corn markets caused by nearby ethanol plants, livestock industries and other corn consuming enterprises. Additionally, local corn supplies and prices could be adversely affected by rising prices for alternative crops, increasing input costs, changes in government policies, shifts in global markets, or damaging growing conditions such as plant disease or adverse weather.

Natural Gas. The prices for and availability of natural gas are subject to volatile market conditions. These market conditions often are affected by factors beyond our control, such as weather conditions, overall economic conditions, and foreign and domestic governmental regulation and relations. Significant disruptions in the supply of natural gas could impair our ability to manufacture ethanol for our customers. Furthermore, increases in natural gas prices or changes in our natural gas costs relative to natural gas costs paid by competitors may adversely affect our results of operations and financial position.

Ethanol. Our revenues are dependent on market prices for ethanol. These market prices can be volatile as a result of a number of factors, including, but not limited to, the availability and price of competing fuels, the overall supply and demand for ethanol and corn, the price of gasoline and corn, and the level of government support.

Ethanol is marketed as a fuel additive to reduce vehicle emissions from gasoline, as an octane enhancer to improve the octane rating of the gasoline with which it is blended and, to a lesser extent, as a gasoline substitute. As a result, ethanol prices are influenced by the supply of and demand for gasoline. Our results of operations may be materially harmed if the demand for, or the price of, gasoline decreases. Conversely, a prolonged increase in the price of, or demand for, gasoline could lead the U.S. government to relax import restrictions on foreign ethanol that currently benefit us.

Distillers Grains. Distillers grains compete with other protein-based animal feed products. The price of distillers grains may decrease when the prices of competing feed products decrease. The prices of competing animal feed products are

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based in part on the prices of the commodities from which these products are derived. Downward pressure on commodity prices, such as soybeans, will generally cause the price of competing animal feed products to decline, resulting in downward pressure on the price of distillers grains.

Historically, sales prices for distillers grains has tracked along with the price of corn. However, there have been occasions when the price increase for this co-product has lagged behind increases in corn prices. In addition, our distillers grains co-product competes with products made from other feedstocks, the cost of which may not have risen as corn prices have risen. Consequently, the price we may receive for distillers grains may not rise as corn prices rise, thereby lowering our cost recovery percentage relative to corn.

Due to recent and planned industry increases in U.S. dry mill ethanol production, the production of distillers grains in the United States has increased dramatically, and this trend may continue. This may cause distillers grains prices to fall in the United States, unless demand increases or other market sources are found. To date, demand for distillers grains in the United States has increased roughly in proportion to supply. We believe this is because U.S. farmers use distillers grains as a feedstock, and distillers grains are slightly less expensive than corn, for which it is a substitute. However, if prices for distillers grains in the United States fall, it may have a material adverse effect on our business.

Our existing debt arrangements require us to abide by certain restrictive loan covenants that may hinder our ability to operate and reduce our profitability.

The loan agreements governing secured debt financing at our subsidiaries contain a number of restrictive affirmative and negative covenants. These covenants limit the ability of our subsidiaries to, among other things, incur additional indebtedness, make capital expenditures above certain limits, pay dividends, merge or consolidate, or dispose of substantially all of their assets.

We are also required to maintain specified financial ratios, including minimum cash flow coverage, minimum working capital and minimum net worth. Some of our loan agreements require us to utilize a portion of any excess cash flow generated by operations to prepay the respective term debt. A breach of any of these covenants or requirements could result in a default under our loan agreements. If any of our subsidiaries default, and if such default is not cured or waived, our lenders could, among other remedies, accelerate their debt and declare that debt immediately due and payable. If this occurs, we may not be able to repay such debt or borrow sufficient funds to refinance. Even if new financing is available, it may not be on terms that are acceptable. No assurance can be given that the future operating results of our subsidiaries will be sufficient to achieve compliance with such covenants and requirements, or in the event of a default, to remedy such default.

In the past, we have received waivers from our lenders for failure to meet certain financial covenants and have amended our subsidiary loan agreements to change these covenants if they have not been met. For example, during 2009, loan agreements for Bluffton, Obion and Superior were amended to reduce certain financial covenants related to working capital and net worth balances. No assurance can be given that, if we are unable to comply with these covenants in the future, we will be able to obtain the necessary waivers or amend our subsidiary loan agreements to prevent a default.

The ethanol industry is highly dependent on government usage mandates affecting ethanol production and favorable tax benefits for ethanol blending and any changes to such regulation could adversely affect the market for ethanol and our results of operations.

The domestic market for ethanol is largely dictated by federal mandates for blending ethanol with gasoline. The Renewable Fuel Standard, or RFS, mandate level for 2010 of 12.0 billion gallons approximates current domestic production levels. Future demand will be largely dependent upon the economic incentives to blend based upon the relative value of gasoline versus ethanol, taking into consideration the blender s credit and the RFS. Any significant increase in production capacity beyond the RFS level might have an adverse impact on ethanol prices. Additionally, the RFS mandate with respect to ethanol derived from grain could be reduced or waived entirely. A reduction or waiver of the RFS mandate could adversely affect the prices of ethanol and our future performance.

The American Jobs Creation Act of 2004 created the volumetric ethanol excise tax credit, or VEETC, which is currently set to expire on December 31, 2010. Referred to as the blender s credit, VEETC provides companies with a tax credit to blend ethanol with gasoline. The Food, Conservation and Energy Act of 2008, or the 2008 Farm Bill, amended the amount of tax credit provided under VEETC to 45 cents per gallon of pure ethanol and 38 cents per gallon for E85, a

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blended motor fuel containing 85% ethanol and 15% gasoline. The elimination or further reduction of VEETC or other federal tax incentives to the ethanol industry would likely have a material adverse impact on our business by reducing demand and price for the ethanol we produce.

Federal law mandates the use of oxygenated gasoline. If these mandates are repealed, the market for domestic ethanol would be diminished significantly. Additionally, flexible-fuel vehicles receive preferential treatment in meeting corporate average fuel economy, or CAFE, standards. However, high blend ethanol fuels such as E85 result in lower fuel efficiencies. Absent the CAFE preferences, it may be unlikely that auto manufacturers would build flexible-fuel vehicles. Any change in these CAFE preferences could reduce the growth of E85 markets and result in lower ethanol prices.

To the extent that such federal or state laws are modified, the demand for ethanol may be reduced, which could negatively and materially affect our ability to operate profitably.

Future demand for ethanol is uncertain and may be affected by changes to federal mandates, public perception and consumer acceptance, any of which could negatively affect demand for ethanol and our results of operations.

Ethanol production from corn has not been without controversy. Although many trade groups, academics and governmental agencies have supported ethanol as a fuel additive that promotes a cleaner environment, including the recently-released U.S. Environmental Protection Agency, or EPA regulations on the Renewable Fuel Standard program, others have criticized ethanol production as consuming considerably more energy and emitting more greenhouse gases than other biofuels and potentially depleting water resources. Some studies have suggested that corn-based ethanol is less efficient than ethanol produced from switchgrass or wheat grain and that it negatively impacts consumers by causing prices for dairy, meat and other foodstuffs from livestock that consume corn to increase. Additionally, ethanol critics contend that corn supplies are redirected from international food markets to domestic fuel markets. If negative views of corn-based ethanol production gain acceptance, support for existing measures promoting use and domestic production of corn-based ethanol could decline, leading to reduction or repeal of federal mandates which would adversely affect the demand for ethanol. These views could also negatively impact public perception of the ethanol industry and acceptance of ethanol as an alternative fuel.

Beyond the federal mandates, there are limited markets for ethanol. Discretionary blending and E85 blending is an important secondary market. Discretionary blending is often determined by the price of ethanol versus the price of gasoline. In periods when discretionary blending is financially unattractive, the demand for ethanol may be reduced. A reduction in the demand for our products may depress the value of our products, erode our margins, and reduce our ability to generate revenue or to operate profitably. Consumer acceptance of E85 fuels and flexible-fuel technology vehicles is needed before ethanol can achieve any significant growth in market share.

Increased federal support of cellulosic ethanol may result in reduced incentives to corn-derived ethanol producers.

Recent legislation, such as the American Recovery and Reinvestment Act of 2009 and the Energy Independence and Security Act of 2007, provides numerous funding opportunities in support of cellulosic ethanol, which is obtained from other sources of biomass such as switchgrass and fast growing poplar trees. In addition, the amended RFS mandates an increasing level of production of biofuels that are not derived from corn. Federal policies suggest a long-term political preference for cellulosic processes using alternative feedstocks such as switchgrass, silage, wood chips or other forms of biomass. Cellulosic ethanol has a smaller carbon footprint because the feedstock does not require energy-intensive fertilizers and industrial production processes. Additionally, cellulosic ethanol is favored because it is unlikely that foodstuff is being diverted from the market. Several cellulosic ethanol plants are under development. As research and development programs persist, there is the risk that cellulosic ethanol could displace corn ethanol. In addition, any replacement of federal incentives from corn-based to cellulosic-based ethanol production may reduce our profitability.

Our plants are designed as single-feedstock facilities and would require significant additional investment to convert to the production of cellulosic ethanol. Additionally, our plants are strategically located in high-yield, low-cost corn production areas. At present, there is limited supply of alternative feedstocks near our facilities. As a result, the adoption of cellulosic ethanol and its use as the preferred form of ethanol would have a significant adverse impact on our business.

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Any inability to maintain required regulatory permits may impede or completely prohibit our ability to successfully operate our plants. Additionally, any change in environmental and safety regulations, or violations thereof, could impede our ability to successfully operate our businesses.

Our ethanol production and agribusiness segments are subject to extensive air, water and other environmental regulation. We have had to obtain a number of environmental permits to construct and operate our plants. Ethanol production involves the emission of various airborne pollutants, including particulate, carbon dioxide, oxides of nitrogen, hazardous air pollutants and volatile organic compounds. In addition, the governing state agencies could impose conditions or other restrictions in the permits that are detrimental to us or which increase our costs above those required for profitable operations. Any such event could have a material adverse effect on our operations, cash flows and financial position.

Environmental laws and regulations, both at the federal and state level, are subject to change and changes can be made retroactively. It is possible that more stringent federal or state environmental rules or regulations could be adopted, which could increase our operating costs and expenses. Consequently, even if we have the proper permits at the present time, we may be required to invest or spend considerable resources to comply with future environmental regulations. Furthermore, ongoing plant operations are governed by the Occupational Safety and Health Administration, or OSHA. OSHA regulations may change in a way that increases the costs of operations at our plants. If any of these events were to occur, they could have a material adverse impact on our operations, cash flows and financial position.

Part of our business is regulated by environmental laws and regulations governing the labeling, use, storage, discharge and disposal of hazardous materials. Because we use and handle hazardous substances in our businesses, changes in environmental requirements or an unanticipated significant adverse environmental event could have a material adverse effect on our business. We cannot assure you that we have been, or will at all times be, in compliance with all environmental requirements, or that we will not incur material costs or liabilities in connection with these requirements. Private parties, including current and former employees, could bring personal injury or other claims against us due to the presence of, or exposure to, hazardous substances used, stored or disposed of by us, or contained in its products. We are also exposed to residual risk because some of our facilities and land may have environmental liabilities arising from their prior use. In addition, changes to environmental regulations may require us to modify existing plant and processing facilities and could significantly increase the cost of those operations.

Our business is affected by the regulation of greenhouse gases, or GHG, and climate change. New climate change regulations could impede our ability to successfully operate our business.

Our plants emit carbon dioxide as a by-product of the ethanol production process. In 2007, the U.S. Supreme Court classified carbon dioxide as an air pollutant under the Clean Air Act in a case seeking to require the EPA to regulate carbon dioxide in vehicle emissions. On February 3, 2010, the EPA released its final regulations on the Renewable Fuel Standard program, or RFS 2. We believe these final regulations grandfather our plants at their current operating capacity, though expansion of our plants will need to meet a threshold of a 20% reduction in GHG emissions from a 2005 baseline measurement for the ethanol over current capacity to be eligible for the RFS 2 mandate. Additionally, legislation is pending in Congress on a comprehensive carbon dioxide regulatory scheme, such as a carbon tax or cap-and-trade system. In order to expand capacity at our plants, we may have to apply for additional permits, install advanced technology such as corn oil extraction, or reduce drying of certain amounts of distillers grains. We may also be required to install carbon dioxide mitigation equipment or take other steps unknown to us at this time in order to comply with other future law or regulation. Compliance with future law or regulation of carbon dioxide, or if we choose to expand capacity at certain of our plants, compliance with then-current regulation of carbon dioxide, could be costly and may prevent us from operating our plants as profitably, which may have a material adverse impact on our operations, cash flows and financial position.

The California Air Resources Board has adopted a Low Carbon Fuel Standard requiring a 10% reduction in GHG emissions from transportation fuels by 2020. Additionally, an Indirect Land Use Change, or ILUC, component is included in the lifecycle GHG emissions calculation. While this standard is currently being challenged by various lawsuits, implementation of such a standard may have an adverse impact on our market for corn-based ethanol if it is determined that in California corn-based ethanol fails to achieve lifecycle GHG emission reductions.

Our agribusiness business is subject to significant governmental and private sector regulations.

Our agribusiness operations are subject to government regulation and regulation by certain private sector associations, compliance with which can impose significant costs on our business. Failure to comply with such regulations can result in additional costs, fines or criminal action. Production levels, markets and prices of the grains we merchandise are affected by federal government programs, which include acreage control and price support programs of the U.S. Department of Agriculture, or USDA. In addition, grain that we sell must conform to official grade standards imposed by the USDA. Other examples of government policies that can have an impact on our business include tariffs, duties, subsidies, import and export restrictions and outright embargos. Changes in government policies and producer supports may impact the amount and type of grains planted, which in turn, may impact our ability to buy grain in our market region. Because a portion of our grain sales are to exporters, the imposition of export restrictions could limit our sales opportunities.

Our agribusiness segment is affected by the supply and demand of commodities, and is sensitive to factors that are often outside of our control.

Within our agribusiness segment, we compete with other grain merchandisers, grain processors and end-users for the purchase of grain, as well as with other grain merchandisers, private elevator operators and cooperatives for the sale of grain. Many of our grain competitors are significantly larger and compete in more diverse markets, and our failure to compete effectively would impact our profitability.

We buy and sell various other commodities within our agribusiness division, some of which are readily traded on commodity futures exchanges. For example, we sell agronomy products to producers which necessitates the purchase of large volumes of fertilizer and chemicals for retail sale. Fixed-price purchase obligations and carrying inventories of these products subject us to the risk of market price fluctuations for periods of time between the time of purchase and final sale. Weather, economic, political, environmental and technological conditions and developments, both local and worldwide, as well as other factors beyond our control, can affect the supply and demand of these commodities and expose them to liquidity pressures due to rapidly rising or falling market prices. Changes in the supply and demand of these commodities can also affect the value of inventories held for resale, as well as the price of raw materials. Fluctuating costs of inventory and prices of raw materials could decrease operating margins and adversely affect profitability.

While our grain business hedges the majority of its grain inventory positions with derivative instruments to manage risk associated with commodity price changes, including purchase and sale contracts, we are unable to hedge all of the price risk of each transaction due to timing, unavailability of hedge contract counterparties and third-party credit risk. Furthermore, there is a risk that the derivatives we employ will not be effective in offsetting the changes associated with the risks we are attempting to manage. This can happen when the derivative and the hedged item are not perfectly matched. Our grain derivatives, for example, do not hedge the basis pricing component of our grain inventory and contracts. Basis is defined as the difference between the cash price of a commodity in one of our grain facilities and the nearest in time exchange-traded futures price. Differences can reflect time periods, locations or product forms. Although the basis component is smaller and generally less volatile than the futures component of grain market prices, significant unfavorable basis movement on grain positions as large as ours may significantly impact our profitability.

Our debt level could negatively impact our financial condition, results of operations and business prospects.

As of December 31, 2009, our total debt was $457.0 million. Our level of debt could have significant consequences to our shareholders, including the following:

- requiring the dedication of a substantial portion of cash flow from operations to make payments on debt, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;

- requiring a substantial portion of our corporate cash reserves to be held as a reserve for debt service, limiting our ability to invest in new growth opportunities;

limiting the ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions and general corporate and other activities;

limiting the flexibility in planning for, or reacting to, changes in the business and industry in which we operate;

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- increasing our vulnerability to both general and industry-specific adverse economic conditions;
- being at a competitive disadvantage against less leveraged competitors;
- being vulnerable to increases in prevailing interest rates;
- subjecting all or substantially all of our assets to liens, which means that there may be no assets left for shareholders in the event of a liquidation; and
- limiting our ability to make business and operational decisions regarding our business and subsidiaries, including, among other things, limiting our ability to pay dividends to our respective shareholders, make capital improvements, sell or purchase assets or engage in transactions deemed appropriate and in our best interest.

Most of our debt bears interest at variable rates, which creates exposure to interest rate risk. If interest rates increase, our debt service obligations with respect to the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income would decrease.

We operate in capital intensive businesses and rely on cash generated from operations and external financing. Limitations on access to external financing could adversely affect our operating results.

Some ethanol producers have faced financial distress recently, culminating with bankruptcy filings by several companies. This, in combination with continued volatility in the capital markets has resulted in reduced availability of capital for the ethanol industry generally. Construction of our plants and anticipated levels of required working capital were funded under long-term credit facilities. Increases in liquidity requirements could occur due to, for example, increased commodity prices. Our operating cash flow is dependent on our ability to profitably operate our businesses and overall commodity market conditions. In addition, we may need to raise additional financing to fund growth of our businesses. In this market environment, we may experience limited access to incremental financing. This could cause us to defer or cancel growth projects, reduce our business activity or, if we are unable to meet our debt repayment schedules, cause a default in our existing debt agreements. These events could have a materially adverse effect on our operations and financial position.

Our subsidiaries debt facilities have ongoing payment requirements which we generally expect to meet from their operating cash flow. Our ability to repay current and anticipated future indebtedness will depend on our financial and operating performance and on the successful implementation of our business strategies. Our financial and operational performance will depend on numerous factors including prevailing economic conditions, volatile commodity prices, and financial, business and other factors beyond our control. If we cannot pay our debt service, we may be forced to reduce or delay capital expenditures, sell assets, restructure our indebtedness or seek additional capital. If we are unable to restructure our indebtedness or raise funds through sales of assets, equity or otherwise, our ability to operate could be harmed and the value of our stock could be significantly reduced.

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

We conduct most of our operations through subsidiaries and are dependent upon dividends or other intercompany transfers of funds from our subsidiaries to generate free cashflow. Moreover, some of our subsidiaries are currently, or are expected in the future to be, limited in their ability to pay dividends or make distributions to us by the terms of their financing agreements. Consequently, we are not able to rely on the cash flow from one subsidiary to satisfy the loan obligations of another subsidiary. As a result, if a subsidiary is unable to satisfy its loan obligations, we may not be able to prevent a default on the loan by providing additional cash to that subsidiary, even if sufficient cash exists elsewhere in our consolidated organization.

Increased ethanol industry penetration by oil companies or other multinational companies may adversely impact our margins.

We operate in a very competitive environment. The ethanol industry is primarily comprised of smaller entities that engage exclusively in ethanol production and large integrated grain companies that produce ethanol along with their base grain businesses. We face competition for capital, labor, corn and other resources from these companies. Until recently, oil companies, petrochemical refiners and gasoline retailers have not been engaged in ethanol production to a large extent. These companies, however, form the primary distribution networks for marketing ethanol through blended gasoline. During the past year, several large oil companies have entered the ethanol production market. If these companies increase their ethanol plant ownership or other oil companies seek to engage in direct ethanol production, there will be less of a need to purchase ethanol from independent ethanol producers like us. Such a structural change in the market could result in a material adverse effect on our operations, cash flows and financial position.

We operate in a highly competitive industry.

In the United States, we compete with other corn processors and refiners, including Archer-Daniels-Midland Company, POET, LLC and Valero Energy Corporation. Some of our competitors are divisions of larger enterprises and have greater financial resources than we do. Although some of our competitors are larger than we are, we also have many smaller competitors. Farm cooperatives comprised of groups of individual farmers have been able to compete successfully. As of December 31, 2009, the top ten domestic producers accounted for approximately 47% of all production. If our competitors consolidate or otherwise grow and we are unable to similarly increase our size and scope, our business and prospects may be significantly and adversely affected.

Our competitors also include plants owned by farmers who earn their livelihood through the sale of corn, and competitors whose primary business is oil refining and retail gasoline sales. Hence, these competitors may not be as focused on obtaining optimal value for their produced ethanol as we are.

Depending on commodity prices, foreign producers may produce ethanol at a lower cost than we can, which may result in lower ethanol prices which would adversely affect our financial results.

There is a risk of foreign competition in the ethanol industry. Brazil is currently the second largest ethanol producer in the world. Brazil s ethanol production is sugar-cane based, as opposed to corn based, and has historically been less expensive to produce. Other foreign producers may be able to produce ethanol at lower input costs, including costs of feedstock, facilities and personnel, than we can.

At present, there is a $0.54 per gallon tariff on foreign ethanol. However, this tariff might not be sufficient to deter overseas producers from importing ethanol into the domestic market, resulting in depressed ethanol prices. It is also important to note that the tariff on foreign ethanol is the subject of ongoing controversy and disagreement amongst lawmakers. Many lawmakers attribute increases in food prices to growth in the ethanol industry. They see foreign competition in ethanol production as a means of reducing food prices. Additionally, the tariff on ethanol is controversial internationally because critics contend that it diverts corn from export and impedes Latin American agricultural development.

Ethanol produced or processed in numerous countries in Central America and the Caribbean region is eligible for tariff reduction or elimination upon importation to the United States under a program known as the Caribbean Basin Initiative. Large multinational companies have expressed interest in building dehydration plants in participating Caribbean Basin countries, such as El Salvador, which would convert ethanol into fuel-grade ethanol for shipment to the United States Ethanol imported from Caribbean Basin countries may be a less expensive alternative to domestically produced ethanol. As a result, our business faces a threat from imported ethanol either from Brazil, even with the import tariff, or from a Caribbean Basin source. While transportation and infrastructure constraints may temper the market impact throughout the United States, competition from imported ethanol may affect our ability to sell our ethanol profitably, which may have a material adverse effect on our operations, cash flows and financial position.

If significant additional foreign ethanol production capacity is created, such facilities could create excess supplies of ethanol on world markets, which may result in lower prices of ethanol throughout the world, including the United States. Such foreign competition is a risk to our business. Further, if the tariff on foreign ethanol is ever lifted, overturned, reduced, repealed or expires, our ability to profitably compete with low-cost international producers could be impaired. Any penetration of ethanol imports into the domestic market may have a material adverse effect on our operations, cash flows and financial position.

Our success may depend on our ability to manage our growing and changing operations.

Since our formation in 2004, 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

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physical resources. Much of our operations are decentralized at our various facilities, with many functions being performed at the local level. This requires us to expend significant resources implementing and monitoring compliance at the local level. 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.

We may fail to realize all of the anticipated benefits of mergers and acquisitions that we have undertaken or may undertake because of integration challenges.

We have increased the size of our operations significantly through mergers and acquisitions and intend to continue to explore potential merger or acquisition opportunities. The anticipated benefits and cost savings of such mergers and acquisitions may not be realized fully, or at all, or may take longer to realize than expected. Acquisitions involve numerous risks, any of which could harm our business, including:

- difficulties in integrating the operations, technologies, products, existing contracts, accounting processes and personnel of the target and realizing the anticipated synergies of the combined businesses;
- risks relating to environmental hazards on purchased sites;
- risks relating to acquiring or developing the infrastructure needed for facilities or acquired sites, including access to rail networks;
- difficulties in supporting and transitioning customers, if any, of the target company;
- diversion of financial and management resources from existing operations;
- the purchase price or other devoted resources may exceed the value realized, or the value we could have realized if the purchase price or other resources had been allocated to another opportunity;
- risks of entering new markets or areas in which we have limited or no experience, or are outside our core competencies;
- potential loss of key employees, customers and strategic alliances from either our current business or the business of the target;
- assumption of unanticipated problems or latent liabilities, such as problems with the quality of the target company s products; and
- inability to generate sufficient revenue to offset acquisition costs and development costs.

We also may pursue growth through joint ventures or partnerships. Partnerships and joint ventures typically involve restrictions on actions that the partnership or joint venture may take without the approval of the partners. These types of provisions may limit our ability to manage a partnership or joint venture in a manner that is in our best interest but is opposed by our other partner or partners.

Future acquisitions may involve the issuance of equity securities as payment or in connection with financing the business or assets acquired and, as a result, could dilute your ownership interest. In addition, additional debt may be necessary in order to complete these transactions, which could have a material adverse effect on our financial condition. The failure to successfully evaluate and execute acquisitions or joint ventures or otherwise adequately address the risks associated with acquisitions or joint ventures could have a material adverse effect on our business, results of operations and financial condition.

We have had a history of operating losses and may incur future operating losses.

We have had a history of operating losses and may incur operating losses in the future, which could be substantial. Although we recently achieved profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis, which could result in a decrease in the trading price of our common stock.

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Our ability to use our net operating losses to offset future taxable income will be subject to certain limitations.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, a corporation that undergoes an ownership change is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. Our existing NOLs will be subject to limitations arising from previous ownership changes, and if we undergo an ownership change in the future, our ability to utilize NOLs could be further limited by Section 382 of the Internal Revenue Code. Furthermore, our ability to utilize NOLs of any companies that we may acquire in the future may be subject to limitations. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income will be subject to limitations, which could potentially result in increased future tax liability to us.

Our ability to successfully operate is dependent on the availability of energy and water at anticipated prices.

Our plants require a significant and uninterrupted supply of natural gas, electricity and water to operate. We rely on third parties to provide these resources. We cannot assure you that we will be able to secure an adequate supply of energy or water to support current and expected plant operations. If there is an interruption in the supply of energy or water for any reason, such as supply, delivery or mechanical problems, we may be required to halt production. If production is halted for an extended period of time, it may have a material adverse effect on our operations, cash flows and financial position.

Replacement technologies are under development that might result in the obsolescence of corn-derived ethanol or our process systems.

Ethanol is primarily an additive and oxygenate for blended gasoline. Although use of oxygenates is currently mandated, there is always the possibility that a preferred alternative product will emerge and eclipse the current market. Critics of ethanol blends argue that ethanol decreases fuel economy, causes corrosion of ferrous components and damages fuel pumps. Any alternative oxygenate product would likely be a form of alcohol (like ethanol) or ether (like MTBE). Prior to federal restrictions and ethanol mandates, MTBE was the dominant oxygenate. It is possible that other ether products could enter the market and prove to be environmentally or economically superior to ethanol. It is also possible that alternative biofuel alcohols such as methanol and butanol could evolve into ethanol replacement products.

Research is currently underway to develop other products that could directly compete with ethanol and may have more potential advantages than ethanol. Advantages of such competitive products may include, but are not limited to: lower vapor pressure, making it easier to add gasoline; energy content closer to or exceeding that of gasoline, such that any decrease in fuel economy caused by the blending with gasoline is reduced; an ability to blend at a higher concentration level for use in standard vehicles; reduced susceptibility to separation when water is present; and suitability for transportation in gas pipelines. Such products could have a competitive advantage over ethanol, making it more difficult to market our ethanol, which could reduce our ability to generate revenue and profits.

New ethanol process technologies may emerge that require less energy per gallon produced. The development of such process technologies would result in lower production costs. Our process technologies may become outdated and obsolete, placing us at a competitive disadvantage against competitors in the industry. The development of replacement technologies may have a material adverse effect on our operations, cash flows and financial position.

Our revenue from the sale of distillers grains depends upon its continued market acceptance as an animal feed.

Distillers grains is a co-product from the fermentation of various crops, including corn, to produce ethanol. The U.S. Food and Drug Administration s, or FDA s, Center for Veterinary Medicine has expressed concern about potential animal and human health hazards from the use of distillers grains as an animal feed. As a result, the market value of this co-product could be diminished if the FDA were to introduce regulations that limit the sale of distillers grains in the domestic market or for export to international markets, which in turn would have a negative impact on our profitability. In addition, if public perception of distillers grains as an acceptable animal feed were to change or if the public became concerned about the impact of distillers grains in the food supply, the market for distillers grains would be negatively impacted, which would have a negative impact on our profitability.

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Our operating results may suffer if our marketing and sales efforts are not effective.

We have established our own marketing, transportation and storage infrastructure. We lease tanker railcars and have contracted with storage depots near our customers and at strategic locations for efficient delivery of our finished ethanol product. We have also hired a marketing and sales force, as well as logistical and other operational personnel to staff our distribution activities. The marketing, sales, distribution, transportation, storage or administrative efforts we have implemented may not achieve expected results. Any failure to successfully execute these efforts would have a material adverse effect on our results of operations and financial position. Our financial results also may be adversely affected by our need to establish inventory in storage locations to fulfill our marketing and distribution contracts.

We are exposed to credit risk resulting from the possibility that a loss may occur from the failure of our contractual counterparties to perform according to the terms of our agreements.

In selling ethanol and distillers grains, we may experience concentrations of credit risk from a variety of customers, including major integrated oil companies, large independent refiners, petroleum wholesalers, other marketers and jobbers. We are also exposed to credit risk resulting from sales of grain to large commercial buyers, including other ethanol plants. Our fixed-price forward contracts also result in credit risk when prices change significantly prior to delivery. We continually monitor this credit risk exposure. In addition, we may prepay for or make deposits on undelivered inventories. Concentrations of credit risk with respect to inventory advances are primarily with a few major suppliers of petroleum products and agricultural inputs. The inability of a third party to make payments to us for our accounts receivable or to provide inventory to us on advances made may cause us to experience losses and may adversely impact our liquidity and our ability to make our payments when due.

A loss may occur from the failure of our counterparties to perform according to the terms of their marketing agreements.

Under our third-party marketing agreements, we purchase all of our third-party producers ethanol production. In turn, we sell the ethanol in various markets for future deliveries. Under these marketing agreements, the third-party producers are not obligated to produce any minimum amount of ethanol, and we cannot assure you that we will receive the full amount of ethanol that the third-party plants are expected to produce. The interruption or curtailment of production could cause us to be unable to deliver quantities of ethanol sold under the contracts. As a result, we may be forced to purchase replacement quantities of ethanol at higher prices to fulfill these contractual obligations.

We are exposed to potential business disruption from factors outside our control, including natural disasters, seasonality, severe weather conditions, accidents, and unforeseen plant shutdowns, any of which could adversely affect our cash flows and operating results.

Potential business disruption in available transportation due to natural disasters, significant track damage resulting from a train derailment, or strikes by our transportation providers could result in delays in procuring and supplying raw materials to our ethanol or grain facilities, or transporting ethanol and distillers grains to our customers. We also run the risk of unforeseen operational issues that may result in an extended plant shutdown. Such business disruptions would cause the normal course of our business operations to stall and may result in our inability to meet customer demand or contract delivery requirements, as well as the potential loss of customers.

Many of our grain business activities, as well as corn procurement for our ethanol plants, are dependent on weather conditions. Adverse weather may result in a reduction in the sales of fertilizer or pesticides during typical application periods, a reduction in grain harvests caused by inadequate or excessive amounts of rain during the growing season, or by overly wet conditions, an early freeze or snowy weather during the harvest season. Additionally, corn stored in an open pile may become damaged by too much rain and warm weather before the corn is dried, shipped, consumed or moved into a storage structure.

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Casualty losses may occur for which we have not secured adequate insurance.

We have acquired insurance that we believe to be adequate to prevent loss from foreseeable risks. However, events occur for which no insurance is available or for which insurance is not available on terms that are acceptable to us. Loss from such an event, such as, but not limited to, earthquake, tornados, war, riot, terrorism or other risks, may not be insured and such a loss may have a material adverse effect on our operations, cash flows and financial position.

Our Obion, Tennessee plant is located within a recognized seismic zone. The design of this facility has been modified to fortify it to meet structural requirements for that region of the country. We have also obtained additional insurance coverage specific to earthquake risk for this plant. However, there is no assurance that this facility would remain in operation if a seismic event were to occur.

If our internal computer network and applications suffer disruptions or fail to operate as designed, our operations will be disrupted and our business may be harmed.

We rely on network infrastructure and enterprise applications, and internal technology systems for our operational, marketing support and sales, and product development activities. The hardware and software systems related to such activities are subject to damage from earthquakes, floods, lightning, tornadoes, fire, power loss, telecommunication failures and other similar events. They are also subject to acts such as computer viruses, physical or electronic vandalism or other similar disruptions that could cause system interruptions and loss of critical data, and could prevent us from fulfilling our customers orders. We cannot assure you that any of our backup systems would be sufficient. Any event that causes failures or interruption in our hardware or software systems could result in disruption of our business operations, have a negative impact on our operating results, and damage our reputation.

We may not be able to hire and retain qualified personnel to operate our ethanol plants.

Our success depends, in part, on our ability to attract and retain competent personnel. For each of our plants, qualified managers, engineers, operations and other personnel must be hired, which can be challenging in a rural community. Competition for both managers and plant employees in the ethanol industry is intense, and we may not be able to attract and retain qualified personnel. If we are unable to hire and retain productive and competent personnel, the amount of ethanol we produce may decrease and we may not be able to efficiently operate our ethanol plants and execute our business strategy.

Risks relating to the offering and ownership of our common stock

We have broad discretion in the use of the net proceeds from this offering, and we may not use these proceeds effectively.

Our management will have considerable discretion in the application of the net proceeds of this offering, and you will not have the opportunity, as part of your investment decision, to assess whether we are using the proceeds effectively. We intend to use the net proceeds for general corporate purposes. While we do not currently have any binding commitments or definitive agreements to enter into potential acquisitions, we may also use a portion of the net proceeds to acquire or invest in additional facilities, assets or technologies that we believe further our growth strategy. Despite these efforts, we may not be able to increase our profitability or the market value of our common stock. Accordingly, investors in this offering will be relying on management s judgment with only limited information about our specific intentions regarding substantially all of the net proceeds of this offering.

The price of our common stock may be volatile.

The trading price of our common stock may be highly volatile and could be subject to fluctuations in response to a number of factors beyond our control. Some of these factors are:

our results of operations and the performance of our competitors;

the public s reaction to our press releases, other public announcements and filings with the SEC;

changes in earnings estimates or recommendations by research analysts who follow us or other companies in our industry;

changes in general economic conditions;

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changes in market prices for our products or for our raw materials;

actions of our historical equity investors, including sales of common stock by our directors, executive officers and significant shareholders;

actions by institutional investors trading in our stock;

disruption of our operations;

any major change in our management team;

other developments affecting us, our industry or our competitors; and

U.S. and international economic, legal and regulatory factors unrelated to our performance.

In recent years the stock market has experienced significant price and volume fluctuations. These fluctuations may be unrelated to the operating performance of particular companies. These broad market fluctuations may cause declines in the market price of our common stock. The price of our common stock could fluctuate based upon factors that have little or nothing to do with us or our performance, and those fluctuations could materially reduce our common stock price.

Our principal shareholders have substantial influence over us and they may make decisions with which you disagree.

Following this offering, subsidiaries of NTR, plc, Wilon Holdings, S.A., and Wayne Hoovestol, a director and our former Chief Executive Officer, will beneficially own 36.9%, 6.8% and 3.1%, respectively, of our outstanding common stock. NTR, Wilon and Mr. Hoovestol have entered into a Shareholders Agreement with us, in which NTR has the right to designate four individuals to be nominated to our board, so long as it owns more than 33.5% of our outstanding stock, and Wilon has the right to designate one individual to be nominated to our board, so long it holds more than 2.5% of our outstanding stock. NTR, Wilon and Mr. Hoovestol have agreed to vote for such nominees at any meeting of shareholders for the purpose of electing directors. As a result, these persons have the ability to control the composition of our Board of Directors and significantly influence other matters requiring shareholder approval including mergers and other significant transactions. These shareholders may have interests that differ from yours, and they may vote in a way with which you disagree and that may be adverse to your interests. This concentration of ownership could present or delay a change of control of us or deprive shareholders of a right to receive a premium for their shares as part of our sale, which could also affect the market price of our common stock.

A significant percent of our outstanding voting stock is held by a concentrated number of shareholders which could impact your liquidity.

Following this offering, 49.8% of our outstanding common stock will continue to be held by NTR, Wilon, and our executive officers and directors. Continued concentrated ownership could result in fewer shares being available to be traded in the market, resulting in reduced liquidity. In addition, a decision by one or more large shareholder to liquidate its holdings could adversely affect the trading price of our stock.

Anti-takeover provisions could make it difficult for a third party to acquire us.

Our second amended and restated articles of incorporation, our amended and restated bylaws and Iowa law contain anti-takeover provisions that could have the effect of delaying or preventing changes in control of us or our management. These provisions could also discourage proxy contests and make it more difficult for our shareholders to elect directors

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and take other corporate actions without the concurrence of our management or Board of Directors. The provisions in our charter documents include the following:

- a classified Board of Directors pursuant to which our directors are divided into three classes, with three-year staggered terms;
- members of our Board of Directors can only be removed for cause by shareholders with the affirmative vote of not less than two-thirds of the outstanding shares of capital stock;
- shareholder action may be taken only at a special or annual meeting, and not by any written consent, except where required by Iowa law;
- our bylaws provide that certain transactions, including a merger or the sale of substantially all of our assets, if approved by fewer than seven of ten board members, must also be approved by the affirmative vote of 80% of the shares outstanding, which provision is effective until we have issued, after the effective date of the bylaws (October 15, 2008), an aggregate of 6,000,000 shares of common stock to non-affiliates;
- our bylaws restrict our shareholders ability to make proposals at shareholder meetings; and
- our Board of Directors has the ability to cause us to issue authorized and unissued shares of stock from time to time.

We are subject to the provisions of the Iowa Business Corporations Act, or IBCA, under which, certain business combinations between an Iowa corporation whose stock is publicly traded or held by more than 2,000 shareholders and an interested shareholder are prohibited for a three-year period following the date that such a shareholder became an interested shareholder unless certain exemption requirements are met. In addition, certain other provisions of the IBCA may have anti-takeover effects in certain situations.

The foregoing items may discourage transactions that otherwise could provide for the payment of a premium over prevailing market prices of our common stock and also could limit the price that investors are willing to pay in the future for shares of our common stock.

Non-U.S. holders may be subject to U.S. income tax with respect to gain on disposition of their common stock.

If we are or have been a U.S. real property holding corporation, or USRPHC, under the Internal Revenue Code at any time within the shorter of the five-year period preceding a disposition of common stock by a non-U.S. holder or such holder s holding period of the stock disposed of, such non-U.S. holder may be subject to U.S. federal income tax with respect to gain on such disposition. Because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property interests relative to the fair market value of our other trade or business assets and our non-U.S. real property interests, there can be no assurance that we are not a USRPHC or will not become one in the future.

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Use of Proceeds

We will receive net proceeds from this offering of approximately $68.8 million after deducting the underwriting discounts and commissions and our estimated offering expenses, or approximately $79.3 million if the underwriters exercise their overallotment option in full.

We intend to use the net proceeds of this offering for general corporate purposes. While we currently do not have any binding commitments or definitive agreements to enter into potential acquisitions, we may also use a portion of the net proceeds to acquire or invest in additional facilities, assets or technologies that we believe further our growth strategy. Pending our use of the net proceeds, we intend to invest these net proceeds in short-term investment-grade, interest bearing securities.

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Capitalization

The following table sets forth our capitalization as of December 31, 2009:

- on an actual basis; and
- on an as adjusted basis, giving effect to our sale of 5,500,000 shares of common stock at a public offering price of $13.50 per share, and after deducting the underwriting discounts and commission and estimated offering expenses payable by us.

You should read this table in conjunction with our consolidated financial statements, including accompanying notes, incorporated by reference in this prospectus supplement and the accompanying prospectus. You should also read this table in conjunction with the section entitled Use of Proceeds and our consolidated financial statements and the related notes thereto, which are incorporated by reference herein from our Annual Report on Form 10-K for the year ended December 31, 2009.

(In thousands except per share amounts)	**As of December 31, 2009** **Actual**	**As Adjusted (Unaudited)**
Cash and cash equivalents	$ 89,779	$ 158,574
Stockholders equity		
Common stock, $.001 par value; 50,000,000 shares authorized; 24,957,378 issued and outstanding, actual; 30,457,378 issued and outstanding, as adjusted	$ 25	$ 30
Additional paid-in capital	292,231	361,021
Retained earnings	9,331	9,331
Accumulated other comprehensive loss	(123)	(123)
Noncontrolling interests	9,244	9,244
Total stockholders equity	$ 310,708	$ 379,503

The information in the table above excludes the following as of December 31, 2009:

- 1,162,934 shares of common stock issuable upon the exercise of outstanding options at a weighted-average exercise price of $15.27 per share;

692,005 shares of common stock available for issuance under our 2009 Equity Incentive Plan; and

327,256 shares of unvested restricted stock and deferred stock units.

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Our Business

Overview

We are a leading, vertically-integrated producer of ethanol. We have grown rapidly, primarily through acquisitions, and today we have operations throughout the ethanol value chain. Our operations begin upstream with our agronomy and grain handling operations, continue through our approximately 480 million gallons per year, or mmgy, of ethanol production capacity and end downstream with our ethanol marketing, distribution and blending facilities. We focus on generating stable operating margins through our diversified business segments and our risk management strategy. We believe that owning and operating assets throughout the ethanol value chain enables us to mitigate the effects of changes in commodity prices on our profitability and differentiates us from companies focused only on ethanol production. Following is our visual presentation of the ethanol value chain:

Our disciplined risk management strategy is designed to lock in operating margins by forward contracting the four primary commodities involved in ethanol production: corn, natural gas, ethanol and distillers grains. We also seek to maintain an environment of continuous operational improvement to increase our efficiency and effectiveness as a low-cost producer of ethanol.

Currently, we operate within the three segments outlined below:

Ethanol Production. We operate a total of six ethanol plants in Indiana, Iowa, Nebraska and Tennessee, with approximately 480 mmgy of total ethanol production capacity. At capacity, our plants collectively will consume approximately 175 million bushels of corn and produce approximately 1.5 million tons of distillers grains annually. We are focused on maximizing the operational efficiency at each of our plants in order to achieve the lowest cost per gallon of ethanol produced.

Agribusiness. We operate three lines of business within our agribusiness segment: bulk grain, agronomy and petroleum. In our bulk grain business, we have total storage capacity of approximately 18.6 million bushels. We sell fertilizer and other agricultural inputs and provide application services to area producers through our agronomy business. Additionally, we sell petroleum products including diesel, soydiesel, blended gasoline and propane, primarily to agricultural producers and consumers. We believe our bulk grain business provides synergies with our ethanol production segment as it supplies a portion of the feedstock for our ethanol plants.

Marketing and Distribution. Our in-house, fee-based marketing business is responsible for the sales, marketing and distribution of all ethanol and distillers grains produced at our six plants. We also market and distribute ethanol for four third-party ethanol producers with expected production totaling approximately 360 mmgy. Additionally, we hold a majority interest in Blendstar, LLC, which operates nine blending or terminaling facilities with approximately 495 mmgy of total throughput capacity in seven states in the south central United States.

Our Competitive Strengths

We believe we have created a platform that diversifies our revenues and income stream. Fundamentally, we focus on managing commodity price risks, improving operating efficiencies and controlling costs. We believe our competitive strengths include:

Disciplined Risk Management. We believe risk management is a core competency of ours. Our primary focus is to lock in favorable operating margins whenever possible. We do not speculate on general price movements by taking unhedged

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positions on commodity products such as corn or natural gas. Our comprehensive risk management platform allows us to monitor real-time commodity price risk exposure at each of our plants, and to respond quickly to lock in acceptable margins. By using a variety of risk management tools and hedging strategies, including our internally-developed real-time operating margin management system, we believe we are able to maintain a disciplined approach to risk management.

Demonstrated Asset Acquisition and Integration Capabilities. We have demonstrated the ability to make strategic acquisitions that we believe create synergies with our vertically-integrated platform. Our belief is that acquiring and developing complementary businesses enhances our ability to mitigate risks. Our balance sheet allows us to be selective in that process. Since our inception, we have acquired or developed six ethanol plants in addition to upstream grain elevators and agronomy businesses and downstream blending and distribution businesses. We believe these acquisitions have been successfully integrated into our business and have enhanced our overall returns.

Focus on Operational Excellence. Five of our six plants were built by Fagen Inc. using industry-leading ICM technology and all of our plants are staffed by experienced industry personnel. We focus on incremental operational improvements to enhance overall production efficiencies and we share operational knowledge across our plants. Using real-time production data and control systems, we continually monitor our plants in an effort to optimize performance. We believe our ability to improve operating efficiencies provides an operating cost advantage over most of our competitors. In turn, we believe we are well positioned to increase operating margins for any facilities that we may acquire in the future.

Leading Vertically-Integrated Ethanol Producer. We believe our operations throughout the ethanol value chain reduce our commodity and operating risks, and increase our pricing visibility and influence in key markets. Combined, we believe our agribusiness, ethanol production, and marketing and distribution businesses give us efficiencies across the ethanol value chain, from grain procurement to blending fuel. Our agribusiness operations help to reduce our supply risk by providing grain handling and storage capabilities for approximately 18.6 million bushels. Assuming full production capacity at each of our plants and those of our third-party ethanol producers, we would market approximately 840 mmgy of ethanol from ten plants. Our majority interest in Blendstar allows us to source, store, blend and distribute ethanol and biodiesel across multiple states.

Proven Management Team. Our senior management team brings an average of 20 years of commodity risk management and related industry experience. We have specific expertise across all aspects of the ethanol supply, production, and distribution chain from agribusiness, to plant operations and management, to commodity markets and risk management, to ethanol marketing.

Our Growth Strategy

We intend to continue to focus on strengthening and diversifying our vertically-integrated platform by implementing the following growth strategies:

Develop or Acquire Strategically-Located Grain Elevators. We intend to pursue opportunities to develop or acquire additional grain elevators within the agribusiness segment, specifically those located near our ethanol plants. We believe that owning additional grain elevators in close proximity to our ethanol plants enables us to strengthen relationships with local corn producers, allowing us to source corn more effectively and at a lower average cost. Since all of our plants are located within or near the corn belt where a number of competitors also have ethanol facilities, we believe that owning grain elevators provides us with a competitive advantage in the origination of corn.

Pursue Consolidation Opportunities within the Ethanol Industry. We continue to focus on the potential acquisition of additional ethanol plants. Throughout 2009, we were approached with opportunities to acquire existing ethanol plants. We believe those plants were available for a number of reasons including financial distress of a particular facility, a lack of operational expertise or a desire by existing owners to exit their original investment. We will continue to take a disciplined approach in evaluating new opportunities by considering whether the plants fit within the design, engineering and geographic criteria we have developed. We believe that our integrated platform, plant operations experience and disciplined risk management approach give us the ability to generate favorable returns from our acquisitions.

Improve Operational Efficiency. We seek to enhance profitability at each of our plants by increasing our production volumes through operational improvements. We continually research operational processes that may increase our efficiency by increasing yields, lowering our processing cost per gallon and increasing our production volumes. Additionally, we employ an extensive cost control system at each of our plants to continuously monitor our plants

performance. We are able to use performance data from our plants to develop strategies for cost reduction and efficiency that can be applied across our platform.

Expand Our Third-Party Marketing Volumes. We plan to continue to grow our downstream access to customers and are actively looking at new marketing opportunities with other ethanol producers. We maintain active dialogues with prospective ethanol producers whose location, production and risk management practices are consistent with our vertically-integrated platform. We believe that further expansion of our third-party marketing volumes will enable us to continue to meet major ethanol customers needs by providing us with a broader market presence and allowing us to further leverage our marketing expertise and distribution systems.

Invest in Next Generation Biofuel Opportunities. We plan to continue our investment in the BioProcessAlgae joint venture, which is focused on developing technology to grow and harvest algae, which consume carbon dioxide, in commercially viable quantities. We believe this technology has specific applications with facilities, including ethanol plants, that emit carbon dioxide. The algae produced has the potential to be used for advanced biofuel production, high quality animal feed or as biomass for energy production.

Ethanol Industry Overview

The ethanol industry has grown significantly over the past several years, with production increasing from 1.4 billion gallons in 1998 to 10.6 billion gallons for the twelve months ended November 30, 2009, according to the U.S. Energy Information Administration. This represents a compound annual growth rate of approximately 20%. While the market prices for feedstock commodities are volatile and at times results in unprofitable ethanol operations, since January 2008, we believe there have been few occasions where the simple crush spread, which we define as the sale of 2.8 gallons of ethanol less the cost of one bushel of corn (which represents the typical industry yield), has dropped below $0.10 per gallon. We believe that ethanol will continue to experience increased demand in the United States as there remains a focus on reducing reliance on petroleum-based transportation fuels due to high and volatile oil prices, heightened environmental concerns, and energy independence and national security concerns. Also according to the U.S. Energy Information Administration, ethanol blends accounted for approximately 7.7% of the U.S. gasoline supply for the twelve months ended November 30, 2009. We believe ethanol s environmental benefits, ability to improve gasoline performance, fuel supply extender capabilities, attractive production economics and favorable government incentives could enable ethanol to comprise an increasingly larger portion of the U.S. fuel supply as more fully described below:

Emissions Reduction. Ethanol demand increased substantially in the 1990 s, when federal law began requiring the use of oxygenates in reformulated gasoline in cities with unhealthy levels of air pollution on a seasonal or year-round basis. These oxygenates included ethanol and MTBE which, when blended with gasoline, reduces vehicle emissions. Although the federal oxygenate requirement was eliminated in May 2006, oxygenated gasoline continues to be used in order to help meet separate federal and state air emission standards. The refining industry has all but abandoned the use of MTBE making ethanol the primary clean air oxygenate currently used.

Octane Enhancer. Ethanol, with an octane rating of 113, is used to increase the octane value of gasoline with which it is blended, thereby improving engine performance. It is used as an octane enhancer both for producing regular grade gasoline from lower octane blending stocks and for upgrading regular gasoline to premium grades.

Fuel Stock Extender. Ethanol is a valuable blend component that is used by refiners to extend fuel supplies. According to the Energy Information Administration, while domestic petroleum refinery output has increased by approximately 29% from 1980 to 2008, domestic gasoline consumption has increased 36% over the same period. By blending ethanol with gasoline, refiners are able to expand the volume of the gasoline they are able to sell.

E15 Blending Waiver. On March 6, 2009, Growth Energy, an ethanol industry trade association, and 54 ethanol producers requested that the EPA approve the use of up to 15% ethanol blended with gasoline. The EPA has not yet granted the requested waiver although it has indicated that increasing the allowable percentage of ethanol blended in the U.S. gasoline supply could be an important step towards the long-term introduction of more renewable fuels into the transportation sector. We believe that increasing the ethanol blended in the domestic gasoline supply could have a positive impact on the demand for ethanol.

Economics of Ethanol Blending. We believe that the costs ethanol producers incur in producing a gallon of ethanol currently are lower than the costs refiners incur in producing a gallon of petroleum-based gasoline. Ethanol s favorable production economics are further enhanced by the blender s tax credit, which can be captured by refiners or passed on to consumers for a benefit of $0.45 per gallon of ethanol.

Mandated Use of Renewable Fuels. In addition to the blender s tax credit, the growth in ethanol usage has also been supported by legislative requirements dictating the use of renewable fuels, including ethanol. The Energy Independence and Security Act of 2007, confirmed by the EPA regulations on RFS 2, issued on February 3, 2010 mandated a minimum usage of corn-derived renewable fuels of 10.5 billion gallons in 2009 and 12.0 billion gallons in 2010. The upper mandate for corn-based ethanol is 15.0 billion gallons by 2015.

Our Operating Segments

Ethanol Production Segment

Our ethanol production segment has the capacity to produce approximately 480 mmgy of ethanol. Our ethanol plants also produce co-products such as wet, modified wet or dried distillers grains. Processing at full capacity, our plants will consume approximately 175 million bushels of corn and produce approximately 1.5 million tons of distillers grains annually. Our plants use a dry mill process to produce ethanol and co-products. We operate each of our six ethanol plants through separate wholly-owned operating subsidiaries. A summary of these plants is outlined below:

Plant	Plant Production Capacity (mmgy)	Start Date	Technology	Land Owned (acres)	On Site Corn Storage Capacity (bushels)
Bluffton, Indiana	110	Sept. 2008	ICM	419	1,040,000
Central City, Nebraska[1]	100	July 2009	ICM	40	1,200,000
Obion, Tennessee[2]	110	Nov. 2008	ICM	230	2,100,000
Ord, Nebraska[1]	50	July 2009	ICM	170	400,000
Shenandoah, Iowa	55	Aug. 2007	ICM	108	500,000
Superior, Iowa	55	July 2008	Delta-T	264	525,000

(1) These plants operated under different ownership prior to the stated start date.
(2) We lease an additional 129 acres of land near the Obion, Tennessee plant.

Corn Feedstock and Ethanol Production

Ethanol is a chemical produced by the fermentation of carbohydrates found in grains and other biomass. Ethanol can be produced from a number of different types of grains, such as corn, wheat and sorghum, as well as from agricultural waste products such as rice hulls, cheese whey, potato waste, brewery and beverage wastes and forestry and paper wastes. At present, the majority of ethanol in the United States is produced from corn because corn contains large quantities of carbohydrates, can be handled efficiently and is in greater supply than other grains. Such carbohydrates convert into glucose more easily than most other kinds of biomass. Outside the United States, sugarcane is the primary feedstock used in ethanol production.

Our plants use corn as feedstock in the dry mill ethanol production process. Each of our plants require, depending on their production capacity, 20 million to 40 million bushels of corn annually. The price and availability of corn are subject to significant fluctuations depending upon a number of factors that affect commodity prices in general, including crop conditions, weather, governmental programs and foreign purchases. Because the market price of ethanol is not directly related to corn prices, ethanol producers are generally not able to compensate for increases in the cost of corn feedstock through adjustments to prices charged for their ethanol.

Our corn supply is obtained primarily from local markets. We utilize cash and forward fixed-price contracts with grain producers and elevators for the physical deliveal-align:bottom;background-color:#cceeff;">

—

4,032

Issuance of shares under share award plans, net of shares withheld for taxes

(3,989
)

—

(3,989
)

(2,245
)

—

(2,245
)
Tax benefit from share award plans

3,592

—

3,592

927

—

927

Cash dividends paid on common stock

(6,729
)

—

(6,729
)

(5,429

)

—

(5,429
)
Repurchases of common stock

—

—

—

(7,869
)

—

(7,869
)
Contributions (distributions) from/to noncontrolling interests, net

—

64

64

—

(46
)

(46
)
Foreign currency translation adjustments

294

—

294

—

—

—

Balance, end of period

$
738,371

$
14,058

$
752,429

$
763,430

$
13,925

$
777,355

Fair Value Instruments— The recorded amounts for cash and cash equivalents, trade receivables, other current assets, and accounts payable and accrued liabilities approximate fair value due to their short-term nature. The fair value of amounts outstanding under the Employee Housing Bonds (Note 4, Long-Term Debt) approximate book value due to the variable nature of the interest rate associated with that debt. The fair value of the 6.50% Senior Subordinated Notes due 2019 ("6.50% Notes") (Note 4, Long-Term Debt) are based on quoted market prices (a Level 1 input). The fair value of the Company's Industrial Development Bonds (Note 4, Long-Term Debt) and other long-term debt have been estimated using discounted cash flow analyses based on current borrowing rates for debt with similar remaining maturities and ratings (a Level 3 input). The estimated fair values of the 6.50% Notes, Industrial Development Bonds and other long-term debt as of October 31, 2012 are presented below (in thousands):

	October 31, 2012	
	Carrying Value	Fair Value
6.50% Notes	$390,000	$424,125
Industrial Development Bonds	$41,200	$47,434
Other long-term debt	$6,598	$7,324

3. Net Loss Per Common Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net loss attributable to Vail Resorts stockholders by the weighted-average shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, resulting in the issuance of shares of common stock that would then share in the earnings of Vail Resorts. Presented below is basic and diluted EPS for the three months ended October 31, 2012 and 2011 (in thousands, except per share amounts):

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	Three Months Ended October 31,			
	2012		2011	
	Basic	Diluted	Basic	Diluted
Net loss per share:				
Net loss attributable to Vail Resorts	$(60,580)	$(60,580)	$(55,709)	$(55,709)
Weighted-average shares outstanding	35,700	35,700	36,066	36,066
Effect of dilutive securities	—	—	—	—
Total shares	35,700	35,700	36,066	36,066
Net loss per share attributable to Vail Resorts	$(1.70)	$(1.70)	$(1.54)	$(1.54)

The Company computes the effect of dilutive securities using the treasury stock method and average market prices during the period. The number of shares issuable on the exercise of share based awards that were excluded from the calculation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive totaled 1.4 million and 1.5 million for the three months ended October 31, 2012 and 2011, respectively.
On June 7, 2011 the Company's Board of Directors approved the commencement of a regular quarterly cash dividend on the Company's common stock at an annual rate of $0.60 per share, subject to quarterly declaration. On March 5, 2012 the Company's Board of Directors approved a 25% increase to the annual cash dividend to an annual rate of $0.75 per share, subject to quarterly declaration. The Company paid cash dividends of $0.1875 per share and $0.15 per share ($6.7 million and $5.4 million in the aggregate) during the three months ended October 31, 2012 and 2011, respectively. On November 30, 2012 the Company's Board of Directors approved a quarterly cash dividend of $0.1875 per share payable on December 27, 2012 to stockholders of record as of December 19, 2012.

4. Long-Term Debt

Long-term debt as of October 31, 2012, July 31, 2012 and October 31, 2011 is summarized as follows (in thousands):

	Maturity (a)	October 31, 2012	July 31, 2012	October 31, 2011
Credit Facility Revolver	2016	$—	$—	$—
Industrial Development Bonds	2020	41,200	41,200	41,200
Employee Housing Bonds	2027-2039	52,575	52,575	52,575
6.50% Notes	2019	390,000	390,000	390,000
Other	2013-2029	6,598	6,990	7,665
Total debt		490,373	490,765	491,440
Less: Current maturities (b)		848	990	1,063
Long-term debt		$489,525	$489,775	$490,377

(a) Maturities are based on the Company's July 31 fiscal year end.
(b) Current maturities represent principal payments due in the next 12 months.

Aggregate maturities for debt outstanding as of October 31, 2012 reflected by fiscal year are as follows (in thousands):

2013	$624
2014	509
2015	533
2016	244
2017	257
Thereafter	488,206

Total debt	$490,373

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The Company incurred gross interest expense of $8.4 million for both the three months ended October 31, 2012 and 2011, respectively, of which $0.5 million was amortization of deferred financing costs. The Company had no capitalized interest during the three months ended October 31, 2012. The Company capitalized $0.1 million of interest during the three months ended October 31, 2011.

5. Acquisitions

Skiinfo
On February 1, 2012, the Company acquired the capital stock of Skiinfo, AS, a Norwegian company which owns and operates several European websites focused on the ski and snowboarding industry, for total cash consideration of $5.7 million, net of cash assumed. The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has completed its preliminary purchase price allocation and has recorded $2.4 million in property plant and equipment, $2.7 million in other assets, $1.8 million in goodwill, $0.7 million in indefinite-lived intangible assets, $0.5 million in other intangible assets (with a weighted-average amortization period of 6.7 years), and $2.6 million of assumed liabilities on the date of acquisition. The operating results of Skiinfo are reported within the Mountain segment.

Kirkwood Mountain Resort
On April 12, 2012, the Company acquired substantially all of the assets of Kirkwood Mountain Resort (“Kirkwood”), a mountain resort located in Lake Tahoe, California, for total cash consideration of approximately $18.2 million, net of cash assumed, subject to certain working capital adjustments as provided for in the purchase agreement. The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has completed its preliminary purchase price allocation and has recorded $16.8 million in property, plant and equipment, $2.5 million in other assets, $0.8 million in indefinite-lived intangible assets, $1.2 million in other intangible assets (with a weighted-average amortization period of 21.5 years), and $3.1 million of assumed liabilities on the date of acquisition. The operating results of Kirkwood are reported within the Mountain segment.

6. Supplementary Balance Sheet Information

The composition of property, plant and equipment follows (in thousands):

	October 31, 2012	July 31, 2012	October 31, 2011
Land and land improvements	$282,161	$281,729	$271,777
Buildings and building improvements	838,745	838,780	802,431
Machinery and equipment	566,368	563,309	540,492
Furniture and fixtures	245,295	243,587	216,608
Software	85,122	81,659	66,577
Vehicles	46,972	44,798	41,111
Construction in progress	62,907	36,979	83,808
Gross property, plant and equipment	2,127,570	2,090,841	2,022,804
Accumulated depreciation	(1,070,927)	(1,041,634)	(972,778)
Property, plant and equipment, net	$1,056,643	$1,049,207	$1,050,026

The composition of accounts payable and accrued liabilities follows (in thousands):

	October 31, 2012	July 31, 2012	October 31, 2011
Trade payables	$87,422	$56,508	$96,807
Deferred revenue	134,963	78,793	123,364
Accrued salaries, wages and deferred compensation	19,882	21,242	18,365
Accrued benefits	19,397	20,216	21,525
Deposits	9,633	12,031	9,163
Accrued interest	13,433	8,015	13,933
Other accruals	33,528	30,733	33,435
Total accounts payable and accrued liabilities	$318,258	$227,538	$316,592

The composition of other long-term liabilities follows (in thousands):

	October 31, 2012	July 31, 2012	October 31, 2011
Private club deferred initiation fee revenue	$134,134	$135,660	$138,430
Unfavorable lease obligation, net	35,390	36,058	38,061
Other long-term liabilities	62,276	61,151	59,784
Total other long-term liabilities	$231,800	$232,869	$236,275

7. Variable Interest Entities

The Company is the primary beneficiary of four employee housing entities (collectively, the “Employee Housing Entities”), Breckenridge Terrace, LLC, The Tarnes at BC, LLC, BC Housing, LLC and Tenderfoot Seasonal Housing, LLC, which are variable interest entities (“VIEs”), and has consolidated them in its Consolidated Condensed Financial Statements. As a group, as of October 31, 2012, the Employee Housing Entities had total assets of $30.4 million (primarily recorded in property, plant and equipment, net) and total liabilities of $62.9 million (primarily recorded in long-term debt as “Employee Housing Bonds”). The Company’s lenders have issued letters of credit totaling $53.4 million under the Company's senior credit facility (“Credit Agreement”) related to Employee Housing Bonds. Payments under the letters of credit would be triggered in the event that one of the entities defaults on required payments. The letters of credit have no default provisions.

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The Company is the primary beneficiary of Avon Partners II, LLC ("APII"), which is a VIE. APII owns commercial space and the Company currently leases substantially all of that space. APII had total assets of $4.6 million (primarily recorded in property, plant and equipment, net) and no debt as of October 31, 2012.

8. Fair Value Measurements

The FASB issued fair value guidance that establishes how reporting entities should measure fair value for measurement and disclosure purposes. The guidance establishes a common definition of fair value applicable to all assets and liabilities measured at fair value and prioritizes the inputs into valuation techniques used to measure fair value. Accordingly, the Company uses valuation techniques which maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value. The three levels of the hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities;

Level 2: Inputs include quoted prices for similar assets and liabilities in active and inactive markets or that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs which are supported by little or no market activity.

The table below summarizes the Company's cash equivalents measured at fair value (all other assets and liabilities measured at fair value are immaterial) (in thousands):

	Fair Value Measurement as of October 31, 2012			
Description	Balance at October 31, 2012	Level 1	Level 2	Level 3
Money Market	$9,025	$9,025	$—	$—
Commercial Paper	$630	$—	$630	$—
Certificates of Deposit	$630	$—	$630	$—

	Fair Value Measurement as of July 31, 2012			
Description	Balance at July 31, 2012	Level 1	Level 2	Level 3
Money Market	$6,581	$6,581	$—	$—
Commercial Paper	$2,441	$—	$2,441	$—
Certificates of Deposit	$1,260	$—	$1,260	$—

	Fair Value Measurement as of October 31, 2011			
Description	Balance at October 31, 2011	Level 1	Level 2	Level 3
US Treasury	$8,385	$8,385	$—	$—
Certificates of Deposit	$2,807	$—	$2,807	$—

The Company's cash equivalents are measured utilizing quoted market prices or pricing models whereby all significant inputs are either observable or corroborated by observable market data.

9. Commitments and Contingencies

Metropolitan Districts

The Company credit-enhances $8.0 million of bonds issued by Holland Creek Metropolitan District ("HCMD") through an $8.1 million letter of credit issued under the Company's Credit Agreement. HCMD's bonds were issued and used to build infrastructure associated with the Company's Red Sky Ranch residential development. The Company has agreed to pay capital improvement fees to Red Sky Ranch Metropolitan District ("RSRMD") until RSRMD's revenue streams from property taxes are sufficient to meet debt service requirements under HCMD's bonds, and the Company has recorded a liability of $1.8 million primarily within “other long-term liabilities” in the accompanying Consolidated Condensed Balance Sheets, as of October 31, 2012, July 31, 2012 and October 31, 2011, respectively, with respect to the estimated present value of future

RSRMD capital improvement fees. The Company estimates that it will make capital improvement fee payments under this arrangement through the year ending July 31, 2028.

Guarantees/Indemnifications

As of October 31, 2012, the Company had various other letters of credit in the amount of $59.5 million, consisting primarily of $53.4 million in support of the Employee Housing Bonds and $4.3 million for workers' compensation and general liability deductibles related to construction and development activities.

In addition to the guarantees noted above, the Company has entered into contracts in the normal course of business which include certain indemnifications under which it could be required to make payments to third parties upon the occurrence or non-occurrence of certain future events. These indemnities include indemnities to licensees in connection with the licensees' use of the Company's trademarks and logos, indemnities for liabilities associated with the infringement of other parties' technology and software products, indemnities related to liabilities associated with the use of easements, indemnities related to employment of contract workers, the Company's use of trustees, indemnities related to the Company's use of public lands and environmental indemnifications. The duration of these indemnities generally is indefinite and generally do not limit the future payments the Company could be obligated to make.

As permitted under applicable law, the Company and certain of its subsidiaries indemnify their directors and officers over their lifetimes for certain events or occurrences while the officer or director is, or was, serving the Company or its subsidiaries in such a capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that should enable the Company to recover a portion of any future amounts paid.

Unless otherwise noted, the Company has not recorded any significant liabilities for the letters of credit, indemnities and other guarantees noted above in the accompanying Consolidated Condensed Financial Statements, either because the Company has recorded on its Consolidated Condensed Balance Sheets the underlying liability associated with the guarantee, the guarantee is with respect to the Company's own performance and is therefore not subject to the measurement requirements as prescribed by GAAP, or because the Company has calculated the fair value of the indemnification or guarantee to be immaterial based upon the current facts and circumstances that would trigger a payment under the indemnification clause. In addition, with respect to certain indemnifications it is not possible to determine the maximum potential amount of liability under these guarantees due to the unique set of facts and circumstances that are likely to be involved in each particular claim and indemnification provision. Historically, payments made by the Company under these obligations have not been material.

As noted above, the Company makes certain indemnifications to licensees in connection with their use of the Company's trademarks and logos. The Company does not record any liabilities with respect to these indemnifications.

Self Insurance

The Company is self-insured for claims under its health benefit plans and for the majority of workers' compensation claims, subject to a stop loss policy. The self-insurance liability related to workers' compensation is determined actuarially based on claims filed. The self-insurance liability related to claims under the Company's health benefit plans is determined based on analysis of actual claims. The amounts related to these claims are included as a component of accrued benefits in accounts payable and accrued liabilities (see Note 6, Supplementary Balance Sheet Information).

Legal

The Company is a party to various lawsuits arising in the ordinary course of business. Management believes the Company has adequate insurance coverage and/or has accrued for loss contingencies for all known matters that are deemed to be probable losses and estimable. As of October 31, 2012, July 31, 2012 and October 31, 2011, the accrual for the above loss contingencies was not material individually and in the aggregate.

10. Segment Information

The Company has three reportable segments: Mountain, Lodging and Real Estate. The Mountain segment includes the operations of the Company's ski resorts and related ancillary services. The Lodging segment includes the operations of all of the Company's owned hotels, RockResorts, NPS concessionaire properties, condominium management, CME and golf operations. The Real Estate segment owns and develops real estate in and around the Company's resort communities. The Company's reportable segments, although integral to the success of the others, offer distinctly different products and services and require different types of management focus. As such, these segments are managed separately.

The Company reports its segment results using Reported EBITDA (defined as segment net revenue less segment operating expenses, plus or minus segment equity investment income or loss), which is a non-GAAP financial measure. The Company reports segment results in a manner consistent with management’s internal reporting of operating results to the chief operating decision maker (the Chief Executive Officer) for purposes of evaluating segment performance.
Reported EBITDA is not a measure of financial performance under GAAP. Items excluded from Reported EBITDA are significant components in understanding and assessing financial performance. Reported EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income (loss), net change in cash and cash equivalents or other financial statement data presented in the Consolidated Condensed Financial Statements as indicators of financial performance or liquidity. Because Reported EBITDA is not a measurement determined in accordance with GAAP and thus is susceptible to varying calculations, Reported EBITDA as presented may not be comparable to other similarly titled measures of other companies.

The Company utilizes Reported EBITDA in evaluating performance of the Company and in allocating resources to its segments. Mountain Reported EBITDA consists of Mountain net revenue less Mountain operating expense plus or minus Mountain equity investment income or loss. Lodging Reported EBITDA consists of Lodging net revenue less Lodging operating expense. Real Estate Reported EBITDA consists of Real Estate net revenue less Real Estate operating expense. All segment expenses include an allocation of corporate administrative expenses. Assets are not allocated between segments, or used to evaluate performance, except as shown in the table below.

The following table presents financial information by reportable segment which is used by management in evaluating performance and allocating resources (in thousands):

	Three Months Ended October 31,	
	2012	2011
Net revenue:		
Lift tickets	$—	$—
Ski school	—	—
Dining	6,373	5,647
Retail/rental	26,725	26,964
Other	18,814	17,059
Total Mountain net revenue	51,912	49,670
Lodging	52,508	53,594
Total Resort net revenue	104,420	103,264
Real estate	11,930	13,109
Total net revenue	$116,350	$116,373
Operating expense:		
Mountain	$107,548	$98,555
Lodging	51,806	55,301
Total Resort operating expense	159,354	153,856
Real estate	15,614	17,847
Total segment operating expense	$174,968	$171,703
Mountain equity investment income, net	$434	$430
Reported EBITDA:		
Mountain	$(55,202)	$(48,455)
Lodging	702	(1,707)
Resort	(54,500)	(50,162)
Real estate	(3,684)	(4,738)
Total Reported EBITDA	$(58,184)	$(54,900)
Real estate held for sale and investment	$227,662	$263,130
Reconciliation to net loss attributable to Vail Resorts, Inc:		
Total Reported EBITDA	$(58,184)	$(54,900)
Depreciation and amortization	(31,679)	(28,930)
Loss on disposal of fixed assets, net	(2)	(114)
Investment income, net	54	64
Interest expense, net	(8,375)	(8,241)
Loss before benefit from income taxes	(98,186)	(92,121)
Benefit from income taxes	37,583	36,387
Net loss	$(60,603)	$(55,734)
Net loss attributable to noncontrolling interests	23	25
Net loss attributable to Vail Resorts, Inc.	$(60,580)	$(55,709)

11. Stock Repurchase Plan

On March 9, 2006, the Company's Board of Directors approved the repurchase of up to 3,000,000 shares of common stock and on July 16, 2008 approved an increase of the Company's common stock repurchase authorization by an additional 3,000,000 shares. The Company did not repurchase any shares of common stock during the three months ended October 31, 2012. Since inception of its stock repurchase program through October 31, 2012, the Company has repurchased 4,949,111 shares at a cost of approximately $193.2 million. As of October 31, 2012, 1,050,889 shares remained available to repurchase under the existing repurchase authorization. Shares of common stock purchased pursuant to the repurchase program will be held as treasury shares and may be used for the issuance of shares under the Company's employee share award plan.

12. Guarantor Subsidiaries and Non-Guarantor Subsidiaries

The Company's payment obligations under the 6.50% Notes (see Note 4, Long-Term Debt) are fully and unconditionally guaranteed on a joint and several, senior subordinated basis by substantially all of the Company's consolidated subsidiaries (collectively, and excluding Non-Guarantor Subsidiaries (as defined below), the "Guarantor Subsidiaries"), except for Eagle Park Reservoir Company, Larkspur Restaurant & Bar, LLC, Black Diamond Insurance, Inc., Skiinfo AS and certain other insignificant entities (together, the "Non-Guarantor Subsidiaries"). APII and the Employee Housing Entities are included with the Non-Guarantor Subsidiaries for purposes of the consolidated financial information, but are not considered subsidiaries under the indenture governing the 6.50% Notes.

Presented below is the consolidated financial information of the Parent Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. Financial information for the Non-Guarantor Subsidiaries is presented in the column titled "Other Subsidiaries." Balance sheets are presented as of October 31, 2012, July 31, 2012, and October 31, 2011. Statements of operations, statements of comprehensive income (loss), and statements of cash flows are presented for the three months ended October 31, 2012 and 2011.

Investments in subsidiaries are accounted for by the Parent Company and Guarantor Subsidiaries using the equity method of accounting. Net income (loss) of Guarantor and Non-Guarantor Subsidiaries is, therefore, reflected in the Parent Company's and Guarantor Subsidiaries' investments in and advances to (from) subsidiaries. Net income (loss) of the Guarantor and Non-Guarantor Subsidiaries is reflected in Guarantor Subsidiaries and Parent Company as equity in consolidated subsidiaries. The elimination entries eliminate investments in Other Subsidiaries and intercompany balances and transactions for consolidated reporting purposes.

Supplemental Condensed Consolidating Balance Sheet
As of October 31, 2012
(in thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Current assets:					
Cash and cash equivalents	$—	$36,779	$7,206	$—	$43,985
Restricted cash	—	13,578	948	—	14,526
Trade receivables, net	—	26,639	3,082	—	29,721
Inventories, net	—	84,548	204	—	84,752
Other current assets	25,782	22,827	506	—	49,115
Total current assets	25,782	184,371	11,946	—	222,099
Property, plant and equipment, net	—	1,008,799	47,844	—	1,056,643
Real estate held for sale and investment	—	227,662	—	—	227,662
Goodwill, net	—	268,058	1,801	—	269,859
Intangible assets, net	—	72,262	19,357	—	91,619
Other assets	6,836	42,299	5,877	(9,459)	45,553
Investments in subsidiaries	1,684,088	(1,996)	—	(1,682,092)	—
Advances	(428,299)	425,366	2,933	—	—
Total assets	$1,288,407	$2,226,821	$89,758	$(1,691,551)	$1,913,435
Current liabilities:					
Accounts payable and accrued liabilities	$12,906	$297,715	$7,637	$—	$318,258
Income taxes payable	17,026	—	—	—	17,026
Long-term debt due within one year	—	629	219	—	848
Total current liabilities	29,932	298,344	7,856	—	336,132
Long-term debt	390,000	41,787	57,738	—	489,525
Other long-term liabilities	28,050	202,602	10,607	(9,459)	231,800
Deferred income taxes	102,054	—	1,495	—	103,549
Total Vail Resorts, Inc. stockholders' equity (deficit)	738,371	1,684,088	(1,996)	(1,682,092)	738,371
Noncontrolling interests	—	—	14,058	—	14,058
Total stockholders' equity	738,371	1,684,088	12,062	(1,682,092)	752,429
Total liabilities and stockholders' equity	$1,288,407	$2,226,821	$89,758	$(1,691,551)	$1,913,435

Supplemental Condensed Consolidating Balance Sheet
As of July 31, 2012
(in thousands)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Current assets:					
Cash and cash equivalents	$—	$38,380	$7,673	$—	$46,053
Restricted cash	—	13,300	984	—	14,284
Trade receivables, net	—	64,185	1,558	—	65,743
Inventories, net	—	65,673	200	—	65,873
Other current assets	24,458	15,522	437	—	40,417
Total current assets	24,458	197,060	10,852	—	232,370
Property, plant and equipment, net	—	1,000,767	48,440	—	1,049,207
Real estate held for sale and investment	—	237,668	—	—	237,668
Goodwill, net	—	268,058	1,711	—	269,769
Intangible assets, net	—	72,751	19,319	—	92,070
Other assets	7,113	42,939	5,937	(9,459)	46,530
Investments in subsidiaries	1,775,195	(553)	—	(1,774,642)	—
Advances	(421,115)	418,001	3,114	—	—
Total assets	$1,385,651	$2,236,691	$89,373	$(1,784,101)	$1,927,614
Current liabilities:					
Accounts payable and accrued liabilities	$6,542	$215,308	$5,688	$—	$227,538
Income taxes payable	20,721	—	—	—	20,721
Long-term debt due within one year	—	782	208	—	990
Total current liabilities	27,263	216,090	5,896	—	249,249
Long-term debt	390,000	41,817	57,958	—	489,775
Other long-term liabilities	28,104	203,589	10,635	(9,459)	232,869
Deferred income taxes	137,973	—	1,420	—	139,393
Total Vail Resorts, Inc. stockholders' equity (deficit)	802,311	1,775,195	(553)	(1,774,642)	802,311
Noncontrolling interests	—	—	14,017	—	14,017
Total stockholders' equity	802,311	1,775,195	13,464	(1,774,642)	816,328
Total liabilities and stockholders' equity	$1,385,651	$2,236,691	$89,373	$(1,784,101)	$1,927,614

Supplemental Condensed Consolidating Balance Sheet
As of October 31, 2011
(in thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Current assets:					
Cash and cash equivalents	$—	$38,060	$6,678	$—	$44,738
Restricted cash	—	12,881	734	—	13,615
Trade receivables, net	—	28,664	963	—	29,627
Inventories, net	—	75,569	220	—	75,789
Other current assets	30,700	26,744	378	—	57,822
Total current assets	30,700	181,918	8,973	—	221,591
Property, plant and equipment, net	—	1,001,793	48,233	—	1,050,026
Real estate held for sale and investment	—	263,130	—	—	263,130
Goodwill, net	—	268,058	—	—	268,058
Intangible assets, net	—	73,205	18,155	—	91,360
Other assets	7,876	33,739	4,568	—	46,183
Investments in subsidiaries	1,633,628	(4,696)	—	(1,628,932)	—
Advances	(358,390)	365,244	(6,854)	—	—
Total assets	$1,313,814	$2,182,391	$73,075	$(1,628,932)	$1,940,348
Current liabilities:					
Accounts payable and accrued liabilities	$13,594	$298,661	$4,337	$—	$316,592
Income taxes payable	19,568	—	—	—	19,568
Long-term debt due within one year	—	855	208	—	1,063
Total current liabilities	33,162	299,516	4,545	—	337,223
Long-term debt	390,000	42,419	57,958	—	490,377
Other long-term liabilities	28,104	206,828	1,343	—	236,275
Deferred income taxes	99,118	—	—	—	99,118
Total Vail Resorts, Inc. stockholders' equity (deficit)	763,430	1,633,628	(4,696)	(1,628,932)	763,430
Noncontrolling interests	—	—	13,925	—	13,925
Total stockholders' equity	763,430	1,633,628	9,229	(1,628,932)	777,355
Total liabilities and stockholders' equity	$1,313,814	$2,182,391	$73,075	$(1,628,932)	$1,940,348

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Supplemental Condensed Consolidating Statement of Operations
For the three months ended October 31, 2012
(in thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Total net revenue	$—	$116,004	$3,011	$(2,665)	$116,350
Total operating expense	113	204,358	4,805	(2,627)	206,649
Loss from operations	(113)	(88,354)	(1,794)	(38)	(90,299)
Other expense, net	(6,610)	(1,414)	(335)	38	(8,321)
Equity investment income, net	—	434	—	—	434
Loss before benefit from income taxes	(6,723)	(89,334)	(2,129)	—	(98,186)
Benefit from income taxes	2,610	34,791	182	—	37,583
Net loss before equity in loss of consolidated subsidiaries	(4,113)	(54,543)	(1,947)	—	(60,603)
Equity in loss of consolidated subsidiaries	(56,467)	(1,924)	—	58,391	—
Net loss	(60,580)	(56,467)	(1,947)	58,391	(60,603)
Net loss attributable to noncontrolling interests	—	—	23	—	23
Net loss attributable to Vail Resorts, Inc.	$(60,580)	$(56,467)	$(1,924)	$58,391	$(60,580)

Supplemental Condensed Consolidating Statement of Operations
For the three months ended October 31, 2011
(in thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Total net revenue	$—	$117,034	$2,066	$(2,727)	$116,373
Total operating expense	128	200,266	3,042	(2,689)	200,747
Loss from operations	(128)	(83,232)	(976)	(38)	(84,374)
Other expense, net	(6,599)	(1,283)	(333)	38	(8,177)
Equity investment income, net	—	430	—	—	430
Loss before benefit from income taxes	(6,727)	(84,085)	(1,309)	—	(92,121)
Benefit from income taxes	3,044	33,343	—	—	36,387
Net loss before equity in loss of consolidated subsidiaries	(3,683)	(50,742)	(1,309)	—	(55,734)
Equity in loss of consolidated subsidiaries	(52,026)	(1,284)	—	53,310	—
Net loss	(55,709)	(52,026)	(1,309)	53,310	(55,734)
Net loss attributable to noncontrolling interests	—	—	25	—	25
Net loss attributable to Vail Resorts, Inc.	$(55,709)	$(52,026)	$(1,284)	$53,310	$(55,709)

Consolidated Condensed Statements of Comprehensive Income (Loss)
For the three months ended October 31, 2012
(In thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Net loss	$(60,580)	$(56,467)	$(1,947)	$58,391	$(60,603)
Foreign currency translation adjustments	294	294	294	(588)	294
Comprehensive loss	(60,286)	(56,173)	(1,653)	57,803	(60,309)
Comprehensive loss attributable to noncontrolling interests	—	—	23	—	23
Comprehensive loss attributable to Vail Resorts, Inc.	$(60,286)	$(56,173)	$(1,630)	$57,803	$(60,286)

Consolidated Condensed Statements of Comprehensive Income (Loss)
For the three months ended October 31, 2011
(In thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Eliminating Entries	Consolidated
Net loss	$(55,709)	$(52,026)	$(1,309)	$53,310	$(55,734)
Foreign currency translation adjustments	—	—	—	—	—
Comprehensive loss	(55,709)	(52,026)	(1,309)	53,310	(55,734)
Comprehensive loss attributable to noncontrolling interests	—	—	25	—	25
Comprehensive loss attributable to Vail Resorts, Inc.	$(55,709)	$(52,026)	$(1,284)	$53,310	$(55,709)

Supplemental Condensed Consolidating Statement of Cash Flows
For the three months ended October 31, 2012
(in thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Consolidated
Net cash (used in) provided by operating activities	$(38,785)	$73,658	$(296)	$34,577
Cash flows from investing activities:				
Capital expenditures	—	(35,654)	(253)	(35,907)
Other investing activities, net	—	255	—	255
Net cash used in investing activities	—	(35,399)	(253)	(35,652)
Cash flows from financing activities:				
Dividends paid	(6,729)	—	—	(6,729)
Other financing activities, net	3,628	2,170	(94)	5,704
Advances	41,886	(42,030)	144	—
Net cash provided by (used in) financing activities	38,785	(39,860)	50	(1,025)
Effect of exchange rate changes on cash and cash equivalents	—	—	32	32
Net decrease in cash and cash equivalents	—	(1,601)	(467)	(2,068)
Cash and cash equivalents:				
Beginning of period	—	38,380	7,673	46,053
End of period	$—	$36,779	$7,206	$43,985

Supplemental Condensed Consolidating Statement of Cash Flows
For the three months ended October 31, 2011
(in thousands)
(Unaudited)

	Parent Company	100% Owned Guarantor Subsidiaries	Other Subsidiaries	Consolidated
Net cash (used in) provided by operating activities	$(34,685)	$73,005	$15	$38,335
Cash flows from investing activities:				
Capital expenditures	—	(50,893)	(110)	(51,003)
Other investing activities, net	—	(136)	—	(136)
Net cash used in investing activities	—	(51,029)	(110)	(51,139)
Cash flows from financing activities:				
Repurchase of common stock	(7,869)	—	—	(7,869)
Dividends paid	(5,429)	—	—	(5,429)
Other financing activities, net	994	(292)	(5)	697
Advances	46,989	(46,989)	—	—
Net cash provided by (used in) financing activities	34,685	(47,281)	(5)	(12,601)
Net decrease in cash and cash equivalents	—	(25,305)	(100)	(25,405)
Cash and cash equivalents:				
Beginning of period	—	63,365	6,778	70,143
End of period	$—	$38,060	$6,678	$44,738

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended July 31, 2012 ("Form 10-K") and the Consolidated Condensed Financial Statements as of October 31, 2012 and 2011 and for the three months then ended, included in Part I, Item 1 of this Form 10-Q, which provide additional information regarding our financial position, results of operations and cash flows. To the extent that the following Management's Discussion and Analysis contains statements which are not of a historical nature, such statements are forward-looking statements which involve risks and uncertainties. See "Forward-Looking Statements" below. These risks include, but are not limited to those discussed in this Form 10-Q and in our other filings with the Securities and Exchange Commission ("SEC"), including the risks described in Item 1A "Risk Factors" of Part I of the Form 10-K.

Management's Discussion and Analysis includes discussion of financial performance within each of our segments. We have chosen to specifically include Reported EBITDA (defined as segment net revenue less segment operating expense, plus or minus segment equity investment income or loss) and Net Debt (defined as long-term debt plus long-term debt due within one year less cash and cash equivalents), in the following discussion because we consider these measurements to be significant indications of our financial performance and available capital resources. Reported EBITDA and Net Debt are not measures of financial performance or liquidity under accounting principles generally accepted in the United States of America ("GAAP"). We utilize Reported EBITDA in evaluating our performance and in allocating resources to our segments. Refer to the end of the Results of Operations section for a reconciliation of Reported EBITDA to net loss attributable to Vail Resorts, Inc. We also believe that Net Debt is an important measurement as it is an indicator of our ability to obtain additional capital resources for our future cash needs. Refer to the end of the Results of Operations section for a reconciliation of Net Debt to long-term debt.

Items excluded from Reported EBITDA and Net Debt are significant components in understanding and assessing financial performance or liquidity. Reported EBITDA and Net Debt should not be considered in isolation or as an alternative to, or substitute for, net income (loss), net change in cash and cash equivalents or other financial statement data presented in the Consolidated Condensed Financial Statements as indicators of financial performance or liquidity. Because Reported EBITDA and Net Debt are not measurements determined in accordance with GAAP and are thus susceptible to varying calculations, Reported EBITDA and Net Debt as presented may not be comparable to other similarly titled measures of other companies.

Overview

Our operations are grouped into three integrated and interdependent segments: Mountain, Lodging and Real Estate. Resort is the combination of the Mountain and Lodging segments.

Mountain Segment

The Mountain segment is comprised of the operations of seven ski resort properties at the Vail, Breckenridge, Keystone and Beaver Creek mountain resorts in Colorado ("Colorado" resorts) and the Heavenly, Northstar and Kirkwood (acquired on April 12, 2012) mountain resorts in the Lake Tahoe area of California and Nevada ("Tahoe" resorts) as well as ancillary services, primarily including ski school, dining and retail/rental operations. Mountain segment revenue is seasonal in nature, with the majority of revenue earned in our second and third fiscal quarters. Our first fiscal quarter is a seasonally low period as our ski operations are generally not open for business until mid-November, which falls in our second fiscal quarter. Revenue of the Mountain segment during the first fiscal quarter is primarily generated from summer and group related visitation at our mountain resorts, as well as retail operations.

Lodging Segment

Operations within the Lodging segment include (i) ownership/management of a group of luxury hotels through the RockResorts brand, including several proximate to our ski resorts; (ii) ownership/management of non-RockResorts branded hotels and condominiums proximate to our ski resorts; (iii) National Park Service ("NPS") concessionaire properties including Grant Teton Lodge Company ("GTLC"); (iv) Colorado Mountain Express ("CME"), a resort ground transportation company; and (v) golf courses.

Revenue of the Lodging segment during our first fiscal quarter is generated primarily by the operations of our NPS concessionaire properties (as their peak operating season occurs during the summer months), as well as golf operations and seasonally low operations from our other owned and managed properties and businesses. Lodging properties (including managed condominium rooms) at or around our ski resorts, and CME, are closely aligned with the performance of the Mountain segment and generally experience similar seasonal trends as the Mountain segment. Management primarily focuses on Lodging net revenue excluding payroll cost reimbursement and Lodging operating expense excluding reimbursed payroll

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costs (which are not measures of financial performance under GAAP) as the reimbursements are made based upon the costs incurred with no added margin, as such the revenue and corresponding expense have no effect on our Lodging Reported EBITDA which we use to evaluate Lodging segment performance.

Real Estate Segment

The Real Estate segment owns and develops real estate in and around our resort communities and primarily engages in vertical development of projects. Currently, the principal activities of our Real Estate segment include the marketing and selling of remaining condominium units that are available for sale, planning for future real estate development projects, including zoning and acquisition of applicable permits, and the purchase of selected strategic land parcels for future development. Revenue from vertical development projects is not recognized until closing of individual units within a project, which occurs after substantial completion of the project. We attempt to mitigate the risk of vertical development by often utilizing guaranteed maximum price construction contracts (although certain construction costs may not be covered by contractual limitations), pre-selling a portion of the project, requiring significant non-refundable deposits, and potentially obtaining non-recourse financing for certain projects (although our last two major vertical development projects have not incurred any such direct third party financing). Additionally, our real estate development projects most often result in the creation of certain resort assets that provide additional benefit to the Mountain and Lodging segments. Our revenue from the Real Estate segment, and associated expense, can fluctuate significantly based upon the timing of closings and the type of real estate being sold, causing volatility in the Real Estate segment’s operating results from period to period.

Recent Trends, Risks and Uncertainties

Together with those risk factors that we have identified in our Form 10-K, our management has identified the following important factors (as well as risks and uncertainties associated with such factors) that could impact our future financial performance or condition:

- The timing and amount of snowfall can have an impact on Mountain and Lodging revenue particularly in regards to skier visits and the duration and frequency of guest visitation. For the 2011/2012 ski season there were unprecedented low snowfall conditions across the United States that resulted in a reduction of approximately 9.6 million, or 15.8%, skier visits industry wide and a 12.1% decline in our total visitation as compared to the 2010/2011 ski season which had record snowfall. To help mitigate the impact to our operating results from the timing and amount of snowfall, we sell a variety of season pass products prior to the beginning of the ski season resulting in a more stabilized stream of lift revenue within the second and third fiscal quarters, when the season pass sales are recorded as revenue. Additionally, our season pass products provide a value option to our guests, which in turn creates a guest commitment predominately prior to the start of the ski season. For the 2011/2012 ski season pass revenue represented approximately 40% of total lift revenue for the entire ski season. Through December 2, 2012 our season pass sales for the 2012/2013 ski season were up approximately 8% in sales dollars and 5% in units as compared to season pass sales through the similar period of the 2011/2012 ski season (including Kirkwood for both the current and prior year which prior year includes pass sales that occurred prior to our acquisition of Kirkwood). We cannot predict the ultimate impact that season pass sales will have on total lift revenue or effective ticket price for the 2012/2013 ski season.

- Weak economic conditions currently present or recently present in the United States, Europe and parts of the rest of the world, including uncertainties surrounding the United States pending "fiscal cliff", high unemployment, erosion of consumer confidence, European debt crisis, and financial instability in the global markets, may potentially have negative effects on the travel and leisure industry and on our results of operations. Given the current uncertainties around global economic trends, we cannot predict what impact this will have on overall travel and leisure or more specifically, on our guest visitation, guest spending or other related trends for the upcoming 2012/2013 ski season.

- Real Estate Reported EBITDA is highly dependent on, among other things, the timing of closings on condominium units available for sale, which determines when revenue and associated cost of sales is recognized. Changes to the anticipated timing or mix of closing on one or more real estate projects, or unit closings within a real estate project, could materially impact Real Estate Reported EBITDA for a particular quarter or fiscal year. We currently have 28 units at The Ritz-Carlton Residences, Vail and 41 units at One Ski Hill Place in Breckenridge available for sale. We cannot predict the ultimate number of units that we will sell, the ultimate price we will receive, or when the units will sell, although we currently believe the selling process will take multiple years. Additionally, if a prolonged weakness in the real estate market or general economic conditions were to occur we may have to adjust our selling prices more than currently anticipated in an effort to sell and close on units available for sale. However, our risk associated with adjusting selling prices to levels that may not be acceptable to us is partially mitigated by the fact that we do generate cash flow from placing unsold units into our rental program until such time selling prices are at acceptable levels to us.

Furthermore, if the current weakness in the real estate market were to persist for multiple years thus requiring us to sell remaining units below recent pricing levels (including any sales concessions and discounts) for the remaining inventory of units at The Ritz-Carlton Residences, Vail or One Ski Hill Place in Breckenridge, it may result in an impairment charge on one or both projects.

- We had $44.0 million in cash and cash equivalents as of October 31, 2012 as well as $332.7 million available under the revolver component of our senior credit facility ("Credit Agreement") (which represents the total commitment of $400.0 million less certain letters of credit outstanding of $67.3 million). Additionally, we believe that the terms of our 6.50% Senior Subordinated Notes due 2019 ("6.50% Notes") and our Credit Agreement allow for sufficient flexibility in our ability to make future acquisitions, investments, distributions to stockholders and incur additional debt. This, combined with the completion of our real estate projects where the proceeds from future real estate closings on The Ritz-Carlton Residences, Vail, and One Ski Hill Place in Breckenridge are expected to significantly exceed future carrying costs, and the continued positive cash flow from operating activities less capital expenditures has and is anticipated to continue to provide us with significant liquidity which we believe will allow us to consider strategic investments and other forms of providing return to our stockholders including the continued payment of a quarterly cash dividend. We cannot predict that any strategic initiatives undertaken will achieve the anticipated results.

- Under GAAP we test goodwill and indefinite lived intangible assets for impairment annually as well as on an interim basis to the extent factors or indicators become apparent that could reduce the fair value of our goodwill or indefinite-lived intangible assets below book value and we evaluate long-lived assets for potential impairment whenever events or change in circumstances indicate that the carrying amount of an asset may not be recoverable. We evaluate the recoverability of our goodwill by estimating the future discounted cash flows of our reporting units and terminal values of the businesses using projected future levels of income as well as business trends, prospects and market and economic conditions. We evaluate the recoverability of indefinite-lived intangible assets using the income approach based upon estimated future revenue streams, and we evaluate long-lived assets based upon estimated undiscounted future cash flows. Our fiscal 2012 annual impairment test did not result in a goodwill or indefinite-lived intangible asset impairment. However, if lower than projected levels of cash flows were to occur due to prolonged abnormal weather conditions or a prolonged weakness in general economic conditions, among other risks, it could cause less than expected growth and/or a reduction in terminal values and cash flows and could result in an impairment charge attributable to certain goodwill, indefinite-lived intangible assets and/or long-lived assets (particularly related to our Lodging operations), negatively impacting our results of operations and stockholders' equity.

RESULTS OF OPERATIONS

Summary

Due to the seasonality of our Resort operations, we normally incur net losses during the first fiscal quarter, as shown in the summary of operating results below for the three months ended October 31, 2012, compared to the three months ended October 31, 2011 (in thousands):

	Three Months Ended October 31,	
	2012	2011
Mountain Reported EBITDA	$(55,202)	$(48,455)
Lodging Reported EBITDA	702	(1,707)
Resort Reported EBITDA	(54,500)	(50,162)
Real Estate Reported EBITDA	(3,684)	(4,738)
Loss before benefit from income taxes	(98,186)	(92,121)
Net loss attributable to Vail Resorts, Inc.	$(60,580)	$(55,709)

A discussion of the segment results and other items can be found below.

Mountain Segment

Three months ended October 31, 2012 compared to the three months ended October 31, 2011

Mountain segment operating results for the three months ended October 31, 2012 and 2011 are presented by category as follows (in thousands):

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	Three Months Ended October 31, 2012	2011	Percentage Increase (Decrease)
Net Mountain revenue:			
Lift tickets	$—	$—	— %
Ski school	—	—	— %
Dining	6,373	5,647	12.9 %
Retail/rental	26,725	26,964	(0.9)%
Other	18,814	17,059	10.3 %
Total Mountain net revenue	$51,912	$49,670	4.5 %
Mountain operating expense:			
Labor and labor-related benefits	$34,294	$30,093	14.0 %
Retail cost of sales	16,191	15,530	4.3 %
General and administrative	27,304	25,706	6.2 %
Other	29,759	27,226	9.3 %
Total Mountain operating expense	$107,548	$98,555	9.1 %
Mountain equity investment income, net	434	430	0.9 %
Mountain Reported EBITDA	$(55,202)	$(48,455)	(13.9)%

Certain Mountain segment operating expenses presented above for the three months ended October 31, 2011 have been reclassified to conform to the current fiscal quarter presentation.

Mountain Reported EBITDA includes $2.7 million and $2.6 million of stock-based compensation expense for the three months ended October 31, 2012 and 2011, respectively.

Our first fiscal quarter historically results in negative Mountain Reported EBITDA, as our ski resorts generally do not open for ski operations until our second fiscal quarter. The first fiscal quarter consists primarily of operating and administrative expense plus summer and retail operations. Mountain Reported EBITDA for the three months ended October 31, 2012 was unfavorably impacted as compared to the three months ended October 31, 2011 due to the inclusion of first quarter operating results of Kirkwood (acquired on April 12, 2012) which generated $1.8 million of negative EBITDA due to no ski operations and due to the timing of the acquisition of Skiinfo (acquired on February 1, 2012) which generated $0.5 million of negative EBITDA.

Dining revenue increased $0.7 million, or 12.9%, for the three months ended October 31, 2012 compared to the same period in the prior year, primarily due to the addition of Kirkwood, which contributed $0.4 million. Additionally, dining revenue was also favorably impacted by improved summer visitation to our Colorado mountain resorts.

Retail/rental revenue decreased $0.2 million, or 0.9%, for the three months ended October 31, 2012 compared to the same period in the prior year, which was primarily due to lower retail sales at our Colorado front range and Any Mountain bay area
stores due to lower sales at pre-ski season sales events compared to prior year record sales from our pre-ski season sales events, partially offset by an increase in retail sales generated by our on-line retailer and improved retail sales at our mountain resort stores.

Other revenue mainly consists of private club revenue (which includes both club dues and amortization of initiation fees), summer visitation and other mountain activities revenue, marketing and internet advertising revenue, commercial leasing revenue, employee housing revenue, municipal services revenue and other recreation activity revenue. For the three months ended October 31, 2012, other revenue increased $1.8 million, or 10.3%, compared to the three months ended October 31, 2011, primarily due to internet advertising revenue from Skiinfo (acquired in February 2012) of $0.6 million, an increase in cooperative marketing revenue largely due to timing of marketing campaigns, higher strategic alliance marketing revenue, an increase in summer activities revenue and increased municipal services revenue (primarily transportation services provided on behalf of certain municipalities).

Operating expense increased $9.0 million, or 9.1%, for the three months ended October 31, 2012 compared to the three months ended October 31, 2011. Labor and labor-related benefits increased $4.2 million, or 14.0%, partly due to incremental labor from the acquisitions of Kirkwood and Skiinfo. Excluding Kirkwood and Skiinfo, labor and labor-related benefits increased $2.7 million, or 8.8%, primarily due to normal wage adjustments, increased staffing levels to support higher volumes in summer operations and increased retail labor primarily due to new stores. Other expense increased $2.5 million, or 9.3%, primarily due to Kirkwood and Skiinfo. Excluding Kirkwood and Skiinfo, other expense increased $1.3 million, or 4.7%, which was driven by increased supplies expense and professional services. General and administrative expense increased $1.6

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million, or 6.2%, partially due to the acquisition of Kirkwood and Skiinfo. Excluding Kirkwood and Skiinfo, general and administrative expense increased $1.1 million, or 4.2%, due to increased sales and marketing expense due to the timing of our marketing campaigns and a shift in allocated corporate expenses from the Real Estate segment to the Mountain segment, partially offset by lower employee medical costs. Retail cost of sales increased $0.7 million, or 4.3%, primarily due to a higher mix of on-line sales and sales of hard goods which both produce lower margins. Mountain equity investment income primarily includes our share of income from the operations of a real estate brokerage joint venture.

Lodging Segment

Three months ended October 31, 2012 compared to the three months ended October 31, 2011

Lodging segment operating results for the three months ended October 31, 2012 and 2011 are presented by category as follows (in thousands, except average daily rates ("ADR") and revenue per available room ("RevPAR")):

	Three Months Ended October 31, 2012	2011	Percentage Increase (Decrease)
Lodging net revenue:			
Owned hotel rooms	$13,694	$12,032	13.8 %
Managed condominium rooms	5,814	5,546	4.8 %
Dining	10,610	9,557	11.0 %
Transportation	1,691	1,702	(0.6)%
Golf	7,536	7,445	1.2 %
Other	9,983	9,577	4.2 %
	49,328	45,859	7.6 %
Payroll cost reimbursements	3,180	7,735	(58.9)%
Total Lodging net revenue	$52,508	$53,594	(2.0)%
Lodging operating expense:			
Labor and labor-related benefits	$23,450	$22,569	3.9 %
General and administrative	7,024	7,528	(6.7)%
Other	18,152	17,469	3.9 %
	48,626	47,566	2.2 %
Reimbursed payroll costs	3,180	7,735	(58.9)%
Total Lodging operating expense	$51,806	$55,301	(6.3)%
Lodging Reported EBITDA	$702	$(1,707)	141.1 %
Owned hotel statistics:			
ADR	$180.70	$188.98	(4.4)%
RevPar	$113.32	$102.50	10.6 %
Managed condominium statistics:			
ADR	$194.26	$191.48	1.5 %
RevPar	$30.75	$29.11	5.6 %
Owned hotel and managed condominium statistics (combined):			
ADR	$184.89	$189.79	(2.6)%
RevPar	$60.54	$56.15	7.8 %

Lodging Reported EBITDA includes $0.4 million and $0.6 million of stock-based compensation expense for the three months ended October 31, 2012 and 2011, respectively.

Total Lodging net revenue (excluding payroll cost reimbursements) for the three months ended October 31, 2012 increased $3.5 million, or 7.6%, as compared to the three months ended October 31, 2011, which increase includes

$1.9 million of revenue from Flagg Ranch (NPS concessionaire contract was awarded in November 2011). Additionally, Flagg Ranch contributed $0.6 million of EBITDA for the three months ended October 31, 2012. Excluding the impact of Flagg Ranch, total

Lodging net revenue (before payroll cost reimbursements) increased $1.5 million, or 3.4%, which is largely attributable to an increase in revenue at our mountain properties from improved summer visitation and an increase in group business, especially at Keystone, partially offset by a decline in revenue at GTLC primarily due to adverse conditions from wild fires in the region.

Revenue from owned hotel rooms increased $1.7 million, or 13.8%, for the three months ended October 31, 2012 compared to the three months ended October 31, 2011, primarily driven by $1.0 million of incremental room revenue from Flagg Ranch partially offset by a decrease in transient revenue of $0.3 million from GTLC due to the adverse conditions caused by wild fires. Owned room revenue was also positively impacted by our Colorado lodging properties, which revenue increased $1.0 million, resulting from improved summer visitation to our Colorado mountain resorts and an increase in group business primarily at our Keystone resort. Revenue from managed condominium rooms increased $0.3 million, or 4.8%, for the three months ended October 31, 2012 compared to the three months ended October 31, 2011, primarily driven by additional managed condominium units at One Ski Hill Place in Breckenridge, The Ritz-Carlton Residences, Vail and Kirkwood.

Dining revenue for the three months ended October 31, 2012 increased $1.1 million, or 11.0%, as compared to the three months ended October 31, 2011, primarily due to an increase in group business at our Keystone resort resulting in a $0.6 million increase in revenue and incremental dining revenue from Flagg Ranch. Golf revenue increased $0.1 million, or 1.2%, for the three months ended October 31, 2012 compared to the three months ended October 31, 2012, primarily due to an increase in the number of paid golf rounds played at our Red Sky Ranch courses. Other revenue increased $0.4 million, or 4.2%, in the three months ended October 31, 2012 compared to the three months ended October 31, 2011, primarily due to an increase in conference services provided to our group business at our Keystone resort and an increase in retail and ancillary revenue resulting from the addition of Flagg Ranch.

Operating expense (excluding reimbursed payroll costs) increased $1.1 million, or 2.2%, for the three months ended October 31, 2012 compared to the three months ended October 31, 2011. Labor and labor-related benefits increased $0.9 million, or 3.9%, resulting from normal wage adjustments, higher staffing levels associated with increased occupancy at our Colorado lodging properties, increased conference services provided to our group business and incremental labor costs associated with Flagg Ranch of $0.4 million. These labor increases were partially offset by lower overhead labor costs associated with the previously announced RockResorts reorganization plan. General and administrative expense decreased $0.5 million, or 6.7%, primarily due the RockResorts reorganization plan. Other expense increased $0.7 million, or 3.9%, primarily due to the addition of Flagg Ranch, partially offset by a decrease in reimbursable costs (other than payroll) from managed hotel properties due to the RockResorts reorganization plan.

Revenue from payroll cost reimbursements and the corresponding reimbursed payroll costs relates to payroll costs at managed hotel properties where we are the employer and all payroll costs are reimbursed by the owners of the properties under contractual arrangements. Since the reimbursements are made based upon the costs incurred with no added margin, the revenue and corresponding expense have no effect on our Lodging Reported EBITDA. The decrease in revenue from payroll cost reimbursements and the corresponding reimbursed payroll costs for the three months ended October 31, 2012 compared to the three months ended October 31, 2011 was due to a reduction in the number of managed hotel properties as previously announced under the RockResorts reorganization plan.

Real Estate Segment

Three months ended October 31, 2012 compared to the three months ended October 31, 2011

Real Estate segment operating results for the three months ended October 31, 2012 and 2011 are presented by category as follows (in thousands):

	Three Months Ended October 31,		Percentage Increase	
	2012	2011	(Decrease)	
Total Real Estate net revenue	$11,930	$13,109	(9.0	)%
Real Estate operating expense:				
Cost of sales (including sales commission)	10,435	11,686	(10.7	)%
Other	5,179	6,161	(15.9	)%

Total Real Estate operating expense	15,614	17,847	(12.5)%
Real Estate Reported EBITDA	$(3,684)	$(4,738)	22.2%

Real Estate Reported EBITDA includes $0.4 million and $0.9 million of stock-based compensation expense for the three months ended October 31, 2012 and 2011, respectively.

Our Real Estate net revenue is primarily determined by the timing of closings and the mix of real estate sold in any given

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period. Different types of projects have different revenue and profit margins; therefore, as the real estate inventory mix changes it can greatly impact Real Estate segment net revenue, operating expense and Real Estate Reported EBITDA.

Three months ended October 31, 2012

Real Estate segment net revenue for the three months ended October 31, 2012 was driven by the closing of four condominium units at The Ritz-Carlton Residences, Vail ($11.6 million of revenue with an average selling price per unit of $2.9 million and an average price per square foot of $1,165). The average price per square foot for this project is driven by its premier location and the comprehensive and exclusive amenities related to this project.

Operating expense for the three months ended October 31, 2012 included cost of sales of $9.6 million primarily resulting from the closing of four condominium units at The Ritz-Carlton Residences, Vail (average cost per square foot of $969). The cost per square foot for this project is reflective of the high-end features and amenities and high construction costs associated with mountain resort development. Additionally, sales commissions of approximately $0.7 million were incurred commensurate with revenue recognized. Other operating expense of $5.2 million (including $0.4 million of stock-based compensation expense) was primarily comprised of general and administrative costs which includes marketing expense for the real estate available for sale (including those units that have not yet closed), carrying costs for units available for sale and overhead costs, such as labor and labor-related benefits and allocated corporate costs which were favorably impacted by a shift in allocated corporate costs to the Mountain and Lodging segments.

Three months ended October 31, 2011

Real Estate segment net revenue for the three months ended October 31, 2011 was driven by the closing of four condominium units at The Ritz-Carlton Residences, Vail ($9.2 million of revenue with an average selling price per unit of $2.3 million and an average price per square foot of $1,118) and two condominium units at One Ski Hill Place ($3.3 million of revenue with an average selling price per unit of $1.6 million and an average price per square foot of $1,046). The average price per square foot of both these projects is driven by their premier locations and the comprehensive and exclusive amenities related to these projects.

Operating expense for the three months ended October 31, 2011 included cost of sales of $10.9 million resulting from the closing of four condominium units at The Ritz-Carlton Residences, Vail (average cost per square foot of $988) and from the closing of two condominium units at One Ski Hill Place (average cost per square foot of $867). The cost per square foot for both these projects is reflective of the high-end features and amenities and high construction costs associated with mountain resort development. Additionally, sales commissions of approximately $0.7 million were incurred commensurate with revenue recognized. Other operating expense of $6.2 million (including $0.9 million of stock-based compensation expense) was primarily comprised of general and administrative costs which includes marketing expense for the real estate available for sale (including those units that have not yet closed), carrying costs for units available for sale and overhead costs, such as labor and labor-related benefits and allocated corporate costs.

Other Items

In addition to segment operating results, the following material items contributed to our overall financial position.

Depreciation and amortization. Depreciation and amortization expense for the three months ended October 31, 2012 increased $2.7 million compared to the same period in the prior year, primarily due to an increase in the fixed asset base due to incremental capital expenditures and assets acquired at Kirkwood and Skiinfo.

Income taxes. The effective tax rate for the three months ended October 31, 2012 and 2011 was 38.3% and 39.5%, respectively. The interim period effective tax rate is primarily driven by the amount of anticipated pre-tax book income for the full fiscal year adjusted for items that are deductible/non-deductible for tax purposes only (i.e. permanent items).

In 2005, we amended previously filed tax returns (for the tax years from 1997 through 2002) in an effort to remove restrictions under Section 382 of the Internal Revenue Code on approximately $73.8 million of NOLs relating to fresh start accounting from our reorganization in 1992. As a result, we requested a refund related to the amended returns in the amount of $6.2 million and have reduced our Federal tax liability in the amount of $19.6 million in subsequent tax returns. In 2006, the IRS completed its examination of our filing position in our amended returns and disallowed our request for refund and our position to remove the restriction on the NOLs. We appealed the examiner's disallowance of the NOLs to the Office of Appeals. In December 2008, the Office of Appeals denied our appeal, as well as a request for mediation. We disagreed with the IRS interpretation disallowing the utilization of the NOLs and in August 2009, filed a complaint in the United States District Court for the District of Colorado seeking recovery of $6.2 million in over payments that were previously denied by the IRS, plus interest. On July 1, 2011, the District Court granted us summary judgment, concluding that the IRS's decision disallowing the utilization of the NOLs was inappropriate. The IRS is entitled to appeal the decision of the District Court to grant the motion for summary judgment and we do not know whether the IRS will do so or, if it does appeal, whether the appeal would be successful. However, at this point, the District Court proceedings have been stayed pending on-going settlement discussions between the parties. We are also a party to two related tax proceedings in the United States Tax Court regarding calculation of NOL carryover deductions for tax years 2006, 2007 and 2008. The two proceedings involve substantially the same issues as the litigation in the District Court wherein we disagree with the IRS as to the utilization of NOLs. At this time, however, it is uncertain whether or how the potential resolution of the District Court case may affect these Tax Court proceedings. The trial date for the Tax Court proceedings has been continued pending on-going settlement discussions between the parties.

Since the legal proceeding surrounding the utilization of the NOLs have not been fully resolved, including a determination of the amount of refund and the possibility that the District Court's ruling may be appealed by the IRS, there remains considerable uncertainty of what portion, if any, of the NOLs will be realized, and as such, we have not reflected any of the benefits of the utilization of the NOLs within our financial statements. However, the range of potential reversal of other long-term liabilities and accrued interest and penalties that would be recorded as a benefit to the Company's income tax provision is between zero and $27.6 million.

Reconciliation of Non-GAAP Measures

The following table reconciles from segment Reported EBITDA to net loss attributable to Vail Resorts, Inc. (in thousands):

	Three Months Ended October 31,			
	2012		2011	
Mountain Reported EBITDA	$(55,202	)	$(48,455	)
Lodging Reported EBITDA	702		(1,707	)
Resort Reported EBITDA	(54,500	)	(50,162	)
Real Estate Reported EBITDA	(3,684	)	(4,738	)
Total Reported EBITDA	(58,184	)	(54,900	)
Depreciation and amortization	(31,679	)	(28,930	)
Loss on disposal of fixed assets, net	(2	)	(114	)
Investment income, net	54		64	
Interest expense, net	(8,375	)	(8,241	)
Loss before benefit from income taxes	(98,186	)	(92,121	)
Benefit from income taxes	37,583		36,387	
Net loss	(60,603	)	(55,734	)
Net loss attributable to noncontrolling interests	23		25	
Net loss attributable to Vail Resorts, Inc.	$(60,580	)	$(55,709	)

The following table reconciles Net Debt to long-term debt (in thousands):

	October 31,	
	2012	2011
Long-term debt	$489,525	$490,377
Long-term debt due within one year	848	1,063
Total debt	490,373	491,440
Less: cash and cash equivalents	43,985	44,738
Net Debt	$446,388	$446,702

LIQUIDITY AND CAPITAL RESOURCES

Significant Sources of Cash

Historically, we have seasonally low cash and cash equivalents on hand in the first fiscal quarter given that the first and the prior year's fourth fiscal quarters have essentially no ski operations. Additionally, cash provided by or used in operating activities can be significantly impacted by the timing or mix of closings on and investment in real estate development projects.

We had $44.0 million of cash and cash equivalents as of October 31, 2012, compared to $44.7 million as of October 31, 2011. In total, we used $2.1 million of cash in the three months ended October 31, 2012 and used $25.4 million of cash in the three months ended October 31, 2011. We currently anticipate that Resort Reported EBITDA will continue to provide a significant source of future operating cash flows (primarily generated during our second and third fiscal quarters) combined with proceeds from the remaining inventory of real estate available for sale from the completed Ritz-Carlton Residences, Vail and One Ski Hill Place at Breckenridge projects.

In addition to our $44.0 million of cash and cash equivalents at October 31, 2012, we had available $332.7 million under our Credit Agreement (which represents the total commitment of $400.0 million less certain letters of credit outstanding of $67.3 million). We expect that our liquidity needs in the near term will be met by continued utilization of operating cash flows (primarily those generated in our second and third fiscal year quarters), borrowings under the Credit Agreement, if needed, and proceeds from future real estate closings. We believe the Credit Agreement, which matures in 2016, provides adequate flexibility and is priced favorably with any new borrowings currently being priced at LIBOR plus 1.50%.

Three months ended October 31, 2012 compared to the three months ended October 31, 2011

We generated $34.6 million of cash from operating activities during the three months ended October 31, 2012, a decrease of $3.8 million compared to $38.3 million of cash generated during the three months ended October 31, 2011. The decrease in operating cash flows was primarily a result of the lower Resort Reported EBITDA for the three months ended October 31, 2012 compared to the three months ended October 31, 2011 and an increase in prepaid expenses, partially offset by an increase in accounts receivable collections due to an increase in season pass sales as compared to the prior year. Additionally, we generated $10.8 million and $11.5 million in proceeds from real estate sales (net of sales commissions and deposits previously received) in the three months ended October 31, 2012 and 2011, respectively.

Cash used in investing activities for the three months ended October 31, 2012 decreased by $15.5 million compared to the three months ended October 31, 2011, primarily due to a decrease in resort capital expenditures of $15.1 million.

Cash used in financing activities decreased $11.6 million during the three months ended October 31, 2012, compared to the three months ended October 31, 2011, primarily due to the repurchase of common stock for $7.9 million during the three months ended October 31, 2011, $5.0 million of proceeds from the exercise of stock options and tax benefits recognized on the exercise and vesting of stock awards during the three months ended October 31, 2012 compared to the three months ended October 31, 2011, partially offset by an increase in the payment of cash dividends on common stock of $1.3 million during the three months ended October 31, 2012 compared to the three months ended October 31, 2011.

Significant Uses of Cash

Our cash uses currently include providing for operating expenditures and capital expenditures for assets to be used in resort operations and to a substantially lesser degree future real estate development projects.

We have historically invested significant cash in capital expenditures for our resort operations, and we expect to continue to make significant investments in the future subject to operating performance particularly as it relates to discretionary projects. Current capital expenditure levels will primarily include investments that allow us to maintain our high quality standards, as well as certain incremental discretionary improvements at our ski resorts and throughout our owned hotels. We evaluate additional discretionary capital improvements based on an expected level of return on investment. We currently anticipate we will spend approximately $85 million to $95 million of resort capital expenditures for calendar year 2012 which includes incremental capital related to Kirkwood and initial estimated summer-related activities capital. Included in these capital expenditures are approximately $43 million to $47 million (including Kirkwood), which are necessary to maintain appearance and level of service appropriate to our resort operations, including routine replacement of snow grooming equipment and rental fleet equipment. Approximately $72 million was spent for capital expenditure in calendar year 2012 as of October 31, 2012, leaving approximately $13 million to $23 million to spend in the remainder of calendar year 2012. Discretionary expenditures for calendar year 2012 include replacement of an existing chairlift with a new state-of-the-art 10-passenger gondola at Vail mountain; replacement and enhancement of retail/rental point of sales system; development of new functionality for

EpicMix including EpicMix Racing; investment in energy efficient snowmaking equipment and technology; continued renovations at the DoubleTree by Hilton owned lodging property (formerly the Great Divide Lodge); and upgrades and integration to our marketing database and IT infrastructure, among other projects. Additionally, our resort capital expenditures beyond calendar year 2012 could increase as a result of our anticipated new summer activities plan, Epic Discovery, among other initiatives. We currently plan to utilize cash on hand, borrowings available under our Credit Agreement and/or cash flow generated from future operations to provide the cash necessary to execute our capital plans.

Principal payments on the vast majority of our long-term debt ($487.9 million of the total $490.4 million debt outstanding as of October 31, 2012) are not due until fiscal 2019 and beyond. As of October 31, 2012 and 2011, total long-term debt (including long-term debt due within one year) was $490.4 million and $491.4 million, respectively. Net Debt (defined as long-term debt plus long-term debt due within one year less cash and cash equivalents) decreased from $446.7 million as of October 31, 2011 to $446.4 million as of October 31, 2012.

Our debt service requirements can be impacted by changing interest rates as we had $52.6 million of variable-rate debt outstanding as of October 31, 2012. A 100-basis point change in LIBOR would cause our annual interest payments to change by approximately $0.5 million. The fluctuation in our debt service requirements, in addition to interest rate changes, may be impacted by future borrowings under our Credit Agreement or other alternative financing arrangements we may enter into. Our long term liquidity needs are dependent upon operating results that impact the borrowing capacity under the Credit Agreement, which can be mitigated by adjustments to capital expenditures, flexibility of investment activities and the ability to obtain favorable future financing. We can respond to liquidity impacts of changes in the business and economic environment by managing our capital expenditures and the timing of new real estate development activity.

Our share repurchase program is conducted under authorizations made from time to time by our Board of Directors. Our Board of Directors initially authorized the repurchase of up to 3,000,000 shares of common stock (March 9, 2006) and later authorized additional repurchases of up to 3,000,000 additional shares (July 16, 2008). During the three months ended October 31, 2012 we did not repurchase any shares of common stock. Since inception of this stock repurchase program through October 31, 2012, we have repurchased 4,949,111 shares at a cost of approximately $193.2 million. As of October 31, 2012, 1,050,889 shares remained available to repurchase under the existing repurchase authorization. Shares of common stock purchased pursuant to the repurchase program will be held as treasury shares and may be used for the issuance of shares under the Company's employee share award plan. Repurchases under these authorizations may be made from time to time at prevailing prices as permitted by applicable laws, and subject to market conditions and other factors. The timing as well as the number of shares that may be repurchased under the program will depend on a number of factors, including our future financial performance, our available cash resources and competing uses for cash that may arise in the future, the restrictions in our Credit Agreement and the Indenture governing the 6.50% Notes ("Indenture"), prevailing prices of our common stock and the number of shares that become available for sale at prices that we believe are attractive. These authorizations have no expiration date.

On June 7, 2011, our Board of Directors approved the commencement of a regular quarterly cash dividend on our common stock at an annual rate of $0.60 per share, subject to quarterly declaration. On March 5, 2012 our Board of Directors approved a 25% increase to our annual cash dividend to an annual rate of $0.75 per share (or $26.9 million annually based upon shares outstanding as of October 31, 2012), subject to quarterly declaration. During the three months ended October 31, 2012, the Company paid a cash dividend of $0.1875 per share ($6.7 million in the aggregate). This dividend was funded through available cash on hand. Subject to the discretion of our Board of Directors, applicable law and contractual restrictions, we anticipate paying regular quarterly cash dividends on our common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend upon our available cash on hand, anticipated cash needs, overall financial condition, restrictions contained in our Credit Agreement and the Indenture, future prospects for earnings and cash flows, as well as other factors considered relevant by our Board of Directors.

Covenants and Limitations

We must abide by certain restrictive financial covenants under our Credit Agreement and the Indenture. The most restrictive of those covenants include the following Credit Agreement covenants: Net Funded Debt to Adjusted EBITDA ratio and the Interest Coverage ratio (each as defined in the Credit Agreement). In addition, our financing arrangements, including the Indenture, limit our ability to make certain restricted payments, pay dividends on or redeem or repurchase stock, enter into certain investments, make certain affiliate transfers and may limit our ability to enter into certain mergers, consolidations or sales of assets and incur certain indebtedness. Our borrowing availability under the Credit Agreement is primarily determined by the Net Funded Debt to Adjusted EBITDA ratio, which is

based on our segment operating performance, as defined in the Credit Agreement.
We were in compliance with all restrictive financial covenants in our debt instruments as of October 31, 2012. We expect that we will meet all applicable financial maintenance covenants in our Credit Agreement, including the Net Funded Debt to Adjusted EBITDA ratio throughout the year ending July 31, 2013. However, there can be no assurance that we will meet such financial covenants. If such covenants are not met, we would be required to seek a waiver or amendment from the banks participating in the Credit Agreement. There can be no assurance that such waiver or amendment would be granted, which could have a material adverse impact on our liquidity.
OFF BALANCE SHEET ARRANGEMENTS
We do not have off balance sheet transactions that are expected to have a material effect on our financial condition, revenue, expenses, results of operations, liquidity, capital expenditures or capital resources.

FORWARD-LOOKING STATEMENTS

Except for any historical information contained herein, the matters discussed in this Form 10-Q contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information available as of the date hereof, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our contemplated future prospects, developments and business strategies.

These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and similar terms and phrases, including references t assumptions. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from our forward-looking statements include, but are not limited to:

- prolonged weakness in general economic conditions, including adverse effects on the overall travel and leisure related industries;
- unfavorable weather conditions or natural disasters;
- adverse events that occur during our peak operating periods combined with the seasonality of our business;
- competition in our mountain and lodging businesses;
- our ability to grow our resort and real estate operations;
- our ability to successfully initiate, complete and sell our real estate development projects and achieve the anticipated financial benefits from such projects;
- further adverse changes in real estate markets;
- continued volatility in credit markets;
- our ability to obtain financing on terms acceptable to us to finance our future real estate development, capital expenditures and growth strategy;
- our reliance on government permits or approvals for our use of Federal land or to make operational and capital improvements;
- demand for planned summer activities and our ability to successfully obtain necessary approvals and construct the planned improvements;
- adverse consequences of current or future legal claims;
- our ability to hire and retain a sufficient seasonal workforce;
- willingness of our guests to travel due to terrorism, the uncertainty of military conflicts or outbreaks of contagious diseases, and the cost and availability of travel options;
- negative publicity which diminishes the value of our brands;
- our ability to integrate and successfully realize anticipated benefits of acquisitions and future acquisitions; and
- implications arising from new Financial Accounting Standards Board ("FASB")/governmental legislation, rulings or interpretations.

All forward-looking statements attributable to us or any persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Given these uncertainties, users of the information included in this Form 10-Q, including investors and prospective investors, are cautioned not to place undue reliance on such forward-looking statements. Actual results may differ materially from those suggested by the forward-looking statements that we make for a number of reasons including those described in this Form 10-Q and in Part I, Item 1A "Risk Factors" of the Form 10-K. All forward-looking statements are made only as of the date hereof. Except as may be required by law, we do not intend to update these forward-looking statements, even if new information, future events or other circumstances have made them incorrect or misleading.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk. Our exposure to market risk is limited primarily to the fluctuating interest rates associated with variable rate indebtedness. At October 31, 2012, we had $52.6 million of variable rate indebtedness, representing approximately 11.0% of our total debt outstanding, at an average interest rate during the three months ended October 31, 2012 of 0.3%. Based on variable-rate borrowings outstanding as of October 31, 2012, a 100-basis point (or 1.0%) change in LIBOR would result in our annual interest payments changing by $0.5 million. Our market risk exposure fluctuates based on changes in underlying interest rates.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Management of the Company, under the supervision and with participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), have evaluated the effectiveness of the Company's disclosure controls and procedures as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Act") as of the end of the period covered by this report on Form 10-Q.

Based upon their evaluation of the Company's disclosure controls and procedures, the CEO and the CFO concluded that the disclosure controls are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

The Company, including its CEO and CFO, does not expect that the Company's controls and procedures will prevent or detect all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Internal Revenue Service Litigation

On August 24, 2009, we filed a complaint in the United States District Court for the District of Colorado against the United States of America seeking a refund of approximately $6.2 million in Federal income taxes paid for the tax years ended December 31, 2000 and December 31, 2001. Our amended tax returns for those years included calculations of NOLs carried forward from prior years to reduce our tax years 2000 and 2001 tax liabilities. The IRS disallowed refunds associated with those NOL carry forwards and we disagreed with the IRS action disallowing the utilization of the NOLs. On July 1, 2011, the District Court granted us summary judgment, concluding that the IRS's decision disallowing the utilization of the NOLs was inappropriate. The IRS is entitled to appeal the decision of the District Court to grant the motion for summary judgment and we do not know whether the IRS will do so or, if it does appeal, whether the appeal would be successful. However, at this point, the District Court proceedings have been stayed pending on-going settlement discussions between the parties.

We are also a party to two related tax proceedings in the United States Tax Court regarding calculation of NOL carryover deductions for tax years 2006, 2007, and 2008. The two proceedings involve substantially the same issues as the litigation in the District Court for tax years 2000 and 2001 wherein we disagreed with the IRS as to the utilization of NOLs. At this time, however, it is uncertain whether or how the potential resolution of the District Court case may affect these Tax Court proceedings. The trial date for the Tax Court proceedings has been continued pending on-going settlement discussions between the parties.

ITEM 1A. RISK FACTORS.

There have been no material changes from risk factors previously disclosed in Item 1A to Part I of our Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

The following exhibits are either filed herewith or, if so indicated, incorporated by reference to the documents indicated in parentheses, which have previously been filed with the Securities and Exchange Commission.

Exhibit Number	Description	Sequentially Numbered Page
3.1	Amended and Restated Certificate of Incorporation of Vail Resorts, Inc., dated January 5, 2005 (Incorporated by reference to Exhibit 3.1 on Form 10-Q of Vail Resorts, Inc. for the quarter ended January 31, 2005)(File No. 001-09614).	
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Vail Resorts, Inc., dated December 7, 2011. (Incorporated by reference to Exhibit 3.1 on Form 8-K of Vail Resorts, Inc. filed on December 8, 2011)(File No. 001-09614).	
3.3	Amended and Restated Bylaws of Vail Resorts, Inc., dated December 7, 2011. (Incorporated by reference to Exhibit 3.2 on Form 8-K of Vail Resorts, Inc. filed on December 8, 2011)(File No. 001-09614).	
31.1	Certifications of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	15
31.2	Certifications of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	16
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	17
101	The following information from the Company’s Quarterly Report on Form 10-Q for the three months ended October 31, 2012 formatted in eXtensible Business Reporting Language: (i) Consolidated Condensed Balance Sheets as of October 31, 2012 (unaudited), July 31, 2012, and October 31, 2011 (unaudited); (ii) Unaudited Consolidated Condensed Statements of Operations for the three months ended October 31, 2012 and October 31, 2011; (iii) Unaudited Consolidated Condensed Statements of Comprehensive Income (Loss) for the three months ended October 31, 2012 and October 31, 2011; (iv) Unaudited Consolidated Condensed Statements of Cash Flows for the three months ended October 31, 2012 and October 31, 2011; and (v) Notes to the Consolidated Condensed Financial Statements.	

SIGNATURES

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

Date: December 4, 2012		Vail Resorts, Inc.
	By:	/s/ Jeffrey W. Jones Jeffrey W. Jones Chief Financial Officer and President - Lodging, Retail, Real Estate (Duly Authorized Officer)
Date: December 4, 2012		Vail Resorts, Inc.
	By:	/s/ Mark L. Schoppet Mark L. Schoppet Senior Vice President, Controller and Chief Accounting Officer

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