Green Plains Inc.
Form 10-Q
November 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2018

Commission File Number 001-32924

Green Plains Inc.

(Exact name of registrant as specified in its charter)

Iowa (State or other jurisdiction of incorporation or organization)	84-1652107 (I.R.S. Employer Identification No.)
1811 Aksarben Drive, Omaha, NE 68106 (Address of principal executive offices, including zip code)	(402) 884-8700 (Registrant’s telephone number, including area code)

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

Yes No

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

Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The number of shares of common stock, par value $0.001 per share, outstanding as of November 5, 2018, was 41,414,396 shares.

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Commonly Used Defined Terms

The abbreviations, acronyms and industry terminology used in this quarterly report are defined as follows:

Green Plains Inc., Subsidiaries, and Partners:

Green Plains; the company	Green Plains Inc. and its subsidiaries
BioProcess Algae	BioProcess Algae LLC
DKGP	DKGP Energy Terminals LLC
Fleischmann’s Vinegar	Fleischmann’s Vinegar Company, Inc.
Green Plains Cattle	Green Plains Cattle Company LLC
Green Plains Grain	Green Plains Grain Company LLC
Green Plains Partners; the partnership	Green Plains Partners LP
Green Plains Processing	Green Plains Processing LLC and its subsidiaries
Green Plains Trade	Green Plains Trade Group LLC
Green Plains Commodity Management	Green Plains Commodity Management LLC

Accounting Defined Terms:

AMT	Alternative minimum tax
ASC	Accounting Standards Codification
EBITDA	Earnings before interest, income taxes, depreciation and amortization
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
GAAP	U.S. Generally Accepted Accounting Principles
LIBOR	London Interbank Offered Rate
LTIP	Long-Term Incentive Plan
R&D Credits	Research and development tax credits
SEC	Securities and Exchange Commission

Other Defined Terms:

CAFE	Corporate Average Fuel Economy
D.C.	District of Columbia
E10	Gasoline blended with up to 10% ethanol by volume
E15	Gasoline blended with up to 15% ethanol by volume
E85	Gasoline blended with up to 85% ethanol by volume
EIA	U.S. Energy Information Administration
EISA	Energy Independence and Security Act of 2017, as amended
EPA	U.S. Environmental Protection Agency
MmBtu	Million British Thermal Units
Mmg	Million gallons
MTBE	Methyl tertiary-butyl ether
RBOB	Reformulated blendstock for oxygenate blending
RFS II	Renewable Fuels Standard II
RIN	Renewable identification number
RVO	Renewable volume obligation
U.S.	United States
USDA	U.S. Department of Agriculture

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 171,674	$ 266,651
Restricted cash	62,797	45,709
Accounts receivable, net of allowances of $206 and $217, respectively	134,950	151,122
Income taxes receivable	13,211	6,413
Inventories	765,198	711,878
Prepaid expenses and other	15,529	17,808
Derivative financial instruments	24,254	6,890
Total current assets	1,187,613	1,206,471
Property and equipment, net of accumulated depreciation and amortization of $588,336 and $514,585, respectively	1,143,551	1,176,707
Goodwill	182,879	182,879
Other assets	170,791	218,593
Total assets	$ 2,684,834	$ 2,784,650
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 155,663	$ 205,479
Accrued and other liabilities	47,955	63,886
Derivative financial instruments	41,725	12,884
Income taxes payable	-	9,909

Short-term notes payable and other borrowings	556,566	526,180
Current maturities of long-term debt	65,614	67,923
Total current liabilities	867,523	886,261
Long-term debt	767,177	767,396
Deferred income taxes	21,764	56,801
Other liabilities	14,235	15,056
Total liabilities	1,670,699	1,725,514
Commitments and contingencies (Note 14)		
Stockholders' equity		
Common stock, $0.001 par value; 75,000,000 shares authorized; 46,746,346 and 46,410,405 shares issued, and 41,420,454 and 41,084,463 shares outstanding, respectively	47	46
Additional paid-in capital	695,143	685,019
Retained earnings	276,082	325,411
Accumulated other comprehensive loss	(17,176)	(13,110)
Treasury stock, 5,325,892 and 5,325,942 shares, respectively	(55,183)	(55,184)
Total Green Plains stockholders' equity	898,913	942,182
Noncontrolling interests	115,222	116,954
Total stockholders' equity	1,014,135	1,059,136
Total liabilities and stockholders' equity	$ 2,684,834	$ 2,784,650

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Product revenues	$ 998,802	$ 899,534	$ 3,027,678	$ 2,670,458
Service revenues	1,298	1,701	4,546	4,724
Total revenues	1,000,100	901,235	3,032,224	2,675,182
Costs and expenses				
Cost of goods sold (excluding depreciation and amortization expenses reflected below)	936,384	815,787	2,835,344	2,457,702
Operations and maintenance expenses	7,271	8,309	23,564	25,107
Selling, general and administrative expenses	25,083	28,589	80,817	77,946
Depreciation and amortization expenses	30,713	27,834	84,010	80,105
Total costs and expenses	999,451	880,519	3,023,735	2,640,860
Operating income	649	20,716	8,489	34,322
Other income (expense)				
Interest income	790	383	2,136	1,061
Interest expense	(23,399)	(31,889)	(67,548)	(69,815)
Other, net	(117)	1,444	2,362	2,811
Total other expense	(22,726)	(30,062)	(63,050)	(65,943)
Loss before income taxes	(22,077)	(9,346)	(54,561)	(31,621)
Income tax benefit	14,658	48,775	31,438	60,905
Net income (loss)	(7,419)	39,429	(23,123)	29,284
Net income attributable to noncontrolling interests	5,050	5,035	14,457	14,853
Net income (loss) attributable to Green Plains	$ (12,469)	$ 34,394	$ (37,580)	$ 14,431
Earnings per share:				
Net income (loss) attributable to Green Plains - basic	$ (0.31)	$ 0.83	$ (0.94)	$ 0.36
Net income (loss) attributable to Green Plains - diluted	$ (0.31)	$ 0.74	$ (0.94)	$ 0.48
Weighted average shares outstanding:				

Basic	40,229	41,348	40,189	40,008
Diluted	40,229	50,647	40,189	50,693
Cash dividend declared per share	$ 0.12	$ 0.12	$ 0.36	$ 0.36

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$ (7,419)	$ 39,429	$ (23,123)	$ 29,284
Other comprehensive income (loss), net of tax:				
Unrealized losses on derivatives arising during the period, net of tax benefit of $4,314, $4,575, $343 and $5,633, respectively	(14,395)	(7,660)	(1,522)	(9,436)
Reclassification of realized losses (gains) on derivatives, net of tax expense (benefit) of ($420), ($2,650), ($55) and $21, respectively	1,427	4,453	243	(34)
Total other comprehensive loss, net of tax	(12,968)	(3,207)	(1,279)	(9,470)
Comprehensive income (loss)	(20,387)	36,222	(24,402)	19,814
Comprehensive income attributable to noncontrolling interests	5,050	5,035	14,457	14,853
Comprehensive income (loss) attributable to Green Plains	$ (25,437)	$ 31,187	$ (38,859)	$ 4,961

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$ (23,123)	$ 29,284
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	84,010	80,105
Amortization of debt issuance costs and debt discount	11,343	11,222
Loss on exchange of 3.25% convertible notes due 2018	-	1,291
Gain on disposal of assets	(2,743)	(2,439)
Write-off of deferred financing fees related to extinguishment of debt	-	9,460
Deferred income taxes	(37,980)	(88,565)
Other noncurrent assets and liabilities	-	18,062
Stock-based compensation	8,726	8,761
Undistributed equity loss of affiliates	489	120
Changes in operating assets and liabilities before effects of business combinations:		
Accounts receivable	18,069	32,267
Inventories	53,363	(168,788)
Derivative financial instruments	9,843	(12,738)
Prepaid expenses and other assets	2,184	2,180
Accounts payable and accrued liabilities	(68,520)	(34,278)
Current income taxes	31,220	(1,540)
Other	(2,493)	1,361
Net cash provided by (used in) operating activities	84,388	(114,235)
Cash flows from investing activities:		
Purchases of property and equipment, net	(31,114)	(36,475)
Acquisition of businesses, net of cash acquired	(124,407)	(61,727)
Investments in unconsolidated subsidiaries	(2,446)	(12,033)
Other investing activities	7,500	-
Net cash used in investing activities	(150,467)	(110,235)
Cash flows from financing activities:		

Proceeds from the issuance of long-term debt	58,700	551,500
Payments of principal on long-term debt	(62,537)	(487,450)
Proceeds from short-term borrowings	3,095,927	3,301,630
Payments on short-term borrowings	(3,065,953)	(3,135,347)
Cash payment for exchange of 3.25% convertible notes due 2018	-	(8,523)
Payments for repurchase of common stock	-	(5,733)
Payments of cash dividends and distributions	(30,921)	(29,267)
Payment penalty on early extinguishment of debt	-	(2,881)
Payments of loan fees	(3,961)	(15,541)
Payments related to tax withholdings for stock-based compensation	(3,215)	(4,105)
Proceeds from exercise of stock options	150	50
Net cash provided by (used in) financing activities	(11,810)	164,333
Net change in cash, cash equivalents and restricted cash	(77,889)	(60,137)
Cash, cash equivalents and restricted cash, beginning of period	312,360	406,791
Cash, cash equivalents and restricted cash, end of period	$ 234,471	$ 346,654

Continued on the following page

GREEN PLAINS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

Continued from the previous page

	Nine Months Ended September 30,	
	2018	2017
Reconciliation of total cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 171,674	$ 261,588
Restricted cash	62,797	85,066
Total cash, cash equivalents and restricted cash	$ 234,471	$ 346,654
Non-cash financing activity:		
Modification of 3.25% convertible notes due 2019	$ 4,660	$ -
Exchange of 3.25% convertible notes due 2018 for shares of common stock	$ -	$ 47,743
Exchange of common stock held in treasury stock for 3.25% convertible notes due 2018	$ 1	$ 27,356
Supplemental investing and financing activities:		
Assets acquired in acquisitions, net of cash	$ 124,525	$ 62,209
Less: liabilities assumed	(118)	(482)
Net assets acquired	$ 124,407	$ 61,727
Supplemental disclosures of cash flow:		
Cash paid (received) for income taxes	$ (23,568)	$ 2,062
Cash paid for interest	$ 58,297	$ 39,984

See accompanying notes to the consolidated financial statements.

GREEN PLAINS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

References to the Company

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

Consolidated Financial Statements

The consolidated financial statements include the company’s accounts and all significant intercompany balances and transactions are eliminated. Unconsolidated entities are included in the financial statements on an equity basis. As of September 30, 2018, the company owns a 62.4% limited partner interest and a 2.0% general partner interest in Green Plains Partners LP. Public investors own the remaining 35.6% limited partner interest in the partnership. The company determined that the limited partners in the partnership with equity at risk lack the power, through voting rights or similar rights, to direct the activities that most significantly impact partnership’s economic performance; therefore, the partnership is considered a variable interest entity. The company, through its ownership of the general partner interest in the partnership, has the power to direct the activities that most significantly affect economic performance and is obligated to absorb losses and has the right to receive benefits that could be significant to the partnership. Therefore, the company is considered the primary beneficiary and consolidates the partnership in the company’s financial statements. The assets of the partnership cannot be used by the company for general corporate purposes. The partnership’s consolidated total assets as of September 30, 2018, and December 31, 2017, excluding intercompany balances, were $71.5 million and $74.9 million, respectively, and primarily consisted of property and equipment and goodwill. The partnership’s consolidated total liabilities as of September 30, 2018, and December 31, 2017, excluding intercompany balances, were $152.7 million and $153.0 million, respectively, which primarily consisted of long-term debt as discussed in Note 9 – Debt. The liabilities recognized as a result of consolidating the partnership do not represent additional claims on our general assets. The company also owns a 90.0% interest in BioProcess Algae, a joint venture formed in 2008, and consolidates their results in its consolidated financial statements.

The accompanying unaudited consolidated financial statements are prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Because they do not include all of the information and notes required by GAAP, the consolidated financial statements should be read in conjunction with the company's annual report on Form 10-K for the year ended December 31, 2017.

The unaudited financial information reflects adjustments which are, in the opinion of management, necessary for a fair presentation of results of operations, financial position and cash flows for the periods presented. The adjustments are normal and recurring in nature, unless otherwise noted. Interim period results are not necessarily indicative of the results to be expected for the entire year.

Reclassifications

Certain prior year amounts were reclassified to conform to the current year presentation. These reclassifications did not affect total revenues, costs and expenses, net income (loss) or stockholders' equity.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The company bases its estimates on historical experience and assumptions it believes are proper and reasonable under the circumstances and regularly evaluates the appropriateness of its estimates and assumptions. Actual results could differ from those estimates. Key accounting policies, including but not limited to those relating to revenue recognition, depreciation of property and equipment, carrying value of intangible assets, impairment of long-lived assets and goodwill, derivative financial instruments, accounting for income taxes and assets acquired and liabilities assumed in acquisitions, are impacted significantly by judgments, assumptions and estimates used in the preparation of the consolidated financial statements.

Description of Business

The company operates within four business segments: (1) ethanol production, which includes the production of ethanol and distillers grains, and recovery of corn oil, (2) agribusiness and energy services, which includes grain handling and storage, commodity marketing and merchant trading for company-produced and third-party ethanol, distillers grains, corn oil, natural gas and other commodities, (3) food and ingredients, which includes cattle feeding, vinegar production and food-grade corn oil operations and (4) partnership, which includes fuel storage and transportation services.

Cash and Cash Equivalents

Cash and cash equivalents includes bank deposits as well as short-term, highly liquid investments with original maturities of three months or less.

Restricted Cash

The company has restricted cash, which can only be used for funding letters of credit or for payment towards a revolving credit agreement. Restricted cash also includes cash margins and securities pledged to commodity exchange clearinghouses. To the degree these segregated balances are cash and cash equivalents, they are considered restricted cash on the consolidated statements of cash flows.

Revenue Recognition

The company recognizes revenue at the point in time when the product or service is transferred to the customer.

Sales of ethanol, distillers grains, corn oil, natural gas and other commodities by the company's marketing business are recognized when obligations under the terms of a contract with a customer are satisfied. Generally, this occurs with the transfer of control of products or services. Revenues related to marketing for third parties are presented on a gross basis as the company controls the product prior to the sale to the end customer, takes title of the product and has inventory risk. Unearned revenue is recorded for goods in transit when the company has received payment but control has not yet been transferred to the customer. Revenues for receiving, storing, transferring and transporting ethanol and other fuels are recognized when the product is delivered to the customer.

The company routinely enters into physical-delivery energy commodity purchase and sale agreements. At times, the company settles these transactions by transferring its obligations to other counterparties rather than delivering the physical commodity. Energy trading transactions are reported net as a component of revenue. All other transactions are reported net as either a component of revenue or cost of goods sold, depending on their position as a gain or loss. Revenues also include realized gains and losses on related derivative financial instruments and reclassifications of realized gains and losses on cash flow hedges from accumulated other comprehensive income or loss.

Sales of products, including agricultural commodities, cattle and vinegar, are recognized when control of the product is transferred to the customer, which depends on the agreed upon shipment or delivery terms. Revenues related to grain merchandising are presented gross and include shipping and handling, which is also a component of cost of goods sold. Revenues from grain storage are recognized when services are rendered.

A substantial portion of the partnership revenues are derived from fixed-fee commercial agreements for storage, terminal or transportation services. The partnership recognizes revenue upon transfer of control of product from its storage tanks and fuel terminals, when railcar volumetric capacity is provided, and as truck transportation services are performed.

Shipping and Handling Costs

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products. Accordingly, we record customer payments associated with shipping and handling costs as a component of revenue, and classify such costs as a component of cost of goods sold.

Cost of Goods Sold

Cost of goods sold includes direct labor, materials, shipping and plant overhead costs. Direct labor includes all compensation and related benefits of non-management personnel involved in ethanol and vinegar production, and cattle feeding operations. Grain purchasing and receiving costs, excluding labor costs for grain buyers and scale operators, are also included in cost of goods sold. Materials include the cost of corn feedstock, denaturant, process chemicals, cattle and veterinary supplies. Corn feedstock costs include gains and losses on related derivative financial instruments not designated as cash flow hedges, inbound freight charges, inspection costs and transfer costs, as well as reclassifications of gains and losses on cash flow hedges from accumulated other comprehensive income or loss. Plant overhead consists primarily of plant and feedlot utilities, repairs and maintenance, feedlot expenses and outbound freight charges. Shipping costs incurred by the company, including railcar costs, are also reflected in cost of goods sold.

The company uses exchange-traded futures and options contracts and forward purchase and sales contracts to attempt to minimize the effect of price changes on ethanol, grain, natural gas and cattle inventories. Exchange-traded futures and options contracts are valued at quoted market prices and settled predominantly in cash. The company is exposed to loss when counterparties default on forward purchase and sale contracts. Grain inventories held for sale and forward purchase and sale contracts are valued at market prices when available or other market quotes adjusted for differences, primarily in transportation, between the exchange-traded market and local market where the terms of the contract is based. Changes in forward purchase contracts and exchange-traded futures and options contracts are recognized as a component of cost of goods sold.

Operations and Maintenance Expenses

In the partnership segment, transportation expenses represent the primary component of operations and maintenance expenses. Transportation expenses include railcar leases, freight and shipping of the company’s ethanol and co-products, as well as costs incurred storing ethanol at destination terminals.

Derivative Financial Instruments

The company uses various derivative financial instruments, including exchange-traded futures and exchange-traded and over-the-counter options contracts, to attempt to minimize risk and the effect of commodity price changes including but not limited to, corn, ethanol, cattle, natural gas and crude oil. The company monitors and manages this exposure as part of its overall risk management policy to reduce the adverse effect market volatility may have on its operating results. The company may hedge these commodities as one way to mitigate risk; however, there may be situations when these hedging activities themselves result in losses.

By using derivatives to hedge exposures to changes in commodity prices, the company is exposed to credit and market risk. The company’s exposure to credit risk includes the counterparty’s failure to fulfill its performance obligations under the terms of the derivative contract. The company minimizes its credit risk by entering into transactions with high quality counterparties, limiting the amount of financial exposure it has with each counterparty and monitoring their financial condition. Market risk is the risk that the value of the financial instrument might be adversely affected by a change in commodity prices or interest rates. The company manages market risk by incorporating parameters to monitor exposure within its risk management strategy, which limits the types of derivative instruments and strategies the company can use and the degree of market risk it can take using derivative instruments.

The company evaluates its physical delivery contracts to determine if they qualify for normal purchase or sale exemptions which are expected to be used or sold over a reasonable period in the normal course of business. Contracts that do not meet the normal purchase or sale criteria are recorded at fair value. Changes in fair value are recorded in operating income unless the contracts qualify for, and the company elects, cash flow hedge accounting treatment.

Certain qualifying derivatives related to ethanol production, agribusiness and energy services, and food and ingredients segments are designated as cash flow hedges. The company evaluates the derivative instrument to ascertain its effectiveness prior to entering into cash flow hedges. Unrealized gains and losses are reflected in accumulated other comprehensive income or loss until the gain or loss from the underlying hedged transaction is realized. When it becomes probable a forecasted transaction will not occur, the cash flow hedge treatment is discontinued, which affects earnings. These derivative financial instruments are recognized in current assets or other current liabilities at fair value.

At times, the company hedges its exposure to changes in inventory values and designates qualifying derivatives as fair value hedges. The carrying amount of the hedged inventory is adjusted in the current period for changes in fair value. Ineffectiveness of the hedges is recognized in the current period to the extent the change in fair value of the inventory is not offset by the change in fair value of the derivative.

Recent Accounting Pronouncements

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 606, Revenue from Contracts with Customers. Please refer to Note 2 – Revenue for further details.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 230, Statement of Cash Flows: Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amended guidance was applied retrospectively. As a result, net cash used in operating activities for the nine months ended September 30, 2017, was adjusted to exclude the change in restricted cash and decreased the previously reported balance by $8.0 million. Net cash provided by financing activities for the nine months ended September 30, 2017, was adjusted to exclude the change in restricted cash and decreased the previously reported balance by $25.5 million.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 740, Income Taxes: Intra-Entity Transfers of Assets other than Inventory, which requires the recognition of current and deferred income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amended guidance is required on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The adoption of the guidance did not have an impact to the financial statements.

Effective January 1, 2018, the company adopted the amended guidance in ASC Topic 805, Business Combinations: Clarifying the Definition of a Business, which clarifies the definition of a business and provides guidance to assist companies and other reporting organizations evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amended guidance will be applied prospectively.

Effective January 1, 2018, the company early adopted the amended guidance in ASC Topic 350, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual goodwill impairment test will be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge equal to the amount by which the carrying amount exceeds the reporting unit’s fair value, not to exceed the total amount of goodwill allocated to that reporting unit, would be recognized. The amended guidance will be applied prospectively, and used when the annual impairment test is performed in the current year. The company does not believe the new guidance will have a material impact on the consolidated financial statements.

Effective January 1, 2018, the company early adopted the amended guidance in ASC Topic 220, Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendment eliminates the stranded tax effects resulting from the Tax Cuts and Jobs Act and is intended to improve the usefulness of information reported. As a result, the company recorded a $2.8 million reclassification from accumulated other comprehensive income to retained earnings during the first quarter of 2018. It is the company's policy to release income tax effects from accumulated other comprehensive income using the portfolio approach.

Effective January 1, 2019, the company will adopt the amended guidance in ASC Topic 842, Leases, which aims to make leasing activities more transparent and comparable, requiring substantially all leases to be recognized by lessees on the balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The new standard is effective for fiscal years and interim periods within those years, beginning after December 15, 2018. The standard requires a modified retrospective transition approach and allows for early adoption. In July 2018, the FASB issued Accounting Standards Update, Leases (Topic 842): Targeted Improvements, which provides an option to apply the transition provisions of the new standard at adoption date instead of the earliest comparative period presented in the financial statements. The company will elect to use this optional transition method.

The company has established an implementation team which continues to review current accounting policies, internal controls, processes, and disclosures that will change as a result of adopting the new standard. The company has gathered information on existing leases to obtain a complete population of leases upon adoption, and has implemented a lease accounting system, which will assist in delivering the required accounting changes and disclosures. The new standard will significantly increase right-of-use assets and lease liabilities on the company's consolidated balance sheet, primarily due to operating leases that are currently not recognized on the balance sheet. In addition, it will also require expanded disclosures in the company's consolidated financial statements. The company will complete its assessment of the impact of the new guidance on its consolidated financial statements during the fourth quarter of 2018.

2. REVENUE

Adoption of ASC Topic 606

On January 1, 2018, the company adopted the amended guidance in ASC Topic 606, Revenue from Contracts with Customers, and all related amendments ("new revenue standard") and applied it to all contracts using the modified retrospective transition method. There were no adjustments to the consolidated January 1, 2018 balance sheet for the adoption of the new revenue standard. As such, comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. In addition, there was no impact of adoption on the consolidated statements of operations or balance sheets for the nine months ended September 30, 2018.

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied. Generally this occurs with the transfer of control of products or services. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing services. Sales, value add, and other taxes the company collects concurrent with revenue-producing activities are excluded from revenue.

Revenue by Source

The following table disaggregates revenue by major source for the three and nine months ended September 30, 2018 (in thousands):

	Three Months Ended September 30, 2018					
	Ethanol Production	Agribusiness & Energy Services	Food & Ingredients	Partnership	Eliminations	Total
Revenues:						
Revenues from contracts with customers under ASC Topic 606:						
Ethanol	$ 291	$ -	$ -	$ -	$ -	$ 291

Distillers grains	54,687	-	-	-	-	54,687
Cattle and vinegar	-	-	259,224	-	-	259,224
Service revenues	-	-	-	983	-	983
Other	238	680	-	-	-	918
Intersegment revenues	721	23	38	2,597	(3,379)	-
Total revenues from contracts with customers	55,937	703	259,262	3,580	(3,379)	316,103
Revenues from contracts accounted for as derivatives under ASC Topic 815 (1):						
Ethanol	440,333	93,166	-	-	-	533,499
Distillers grains	56,802	44,142	-	-	-	100,944
Corn oil	17,088	10,275	4,411	-	-	31,774
Grain	30	21,972	-	-	-	22,002
Cattle and vinegar	-	-	(12,522)	-	-	(12,522)
Other	3,930	4,055	-	-	-	7,985
Intersegment revenues	2,392	12,669	-	-	(15,061)	-
Total revenues from contracts accounted for as derivatives	520,575	186,279	(8,111)	-	(15,061)	683,682
Leasing revenues under ASC Topic 840 (2)	-	-	-	22,190	(21,875)	315
Total Revenues	$ 576,512	$ 186,982	$ 251,151	$ 25,770	$ (40,315)	$ 1,000,100

	Nine Months Ended September 30, 2018					
	Ethanol Production	Agribusiness & Energy Services	Food & Ingredients	Partnership	Eliminations	Total
Revenues:						
Revenues from contracts with customers under ASC 606:						
Ethanol	$ 3,391	$ -	$ -	$ -	$ -	$ 3,391
Distillers grains	174,589	-	-	-	-	174,589
Cattle and vinegar	-	-	748,699	-	-	748,699
Service revenues	-	-	-	3,430	-	3,430
Other	1,570	2,012	-	-	-	3,582
Intersegment revenues	2,258	23	118	7,286	(9,685)	-
Total revenues from contracts with customers	181,808	2,035	748,817	10,716	(9,685)	933,691
Revenues from contracts accounted for as derivatives under ASC Topic 815 (1):						
Ethanol	1,333,989	321,824	-	-	-	1,655,813
Distillers grains	147,203	98,060	-	-	-	245,263
Corn oil	52,690	22,433	12,048	-	-	87,171
Grain	500	59,101	-	-	-	59,601
Cattle and vinegar	-	-	(5,638)	-	-	(5,638)
Other	12,486	42,721	-	-	-	55,207
Intersegment revenues	7,027	38,226	-	-	(45,253)	-
Total revenues from contracts accounted for as derivatives	1,553,895	582,365	6,410	-	(45,253)	2,097,417
Leasing revenues under ASC 840 (2)	-	-	-	66,779	(65,663)	1,116
Total Revenues	$ 1,735,703	$ 584,400	$ 755,227	$ 77,495	$ (120,601)	$ 3,032,224

(1) Revenues from contracts accounted for as derivatives represent physically settled derivative sales that are outside the scope of ASC Topic 606, Revenue from Contracts with Customers (ASC Topic 606), where the company recognizes revenue when control of the inventory is transferred within the meaning of ASC Topic 606 as required by ASC Topic 610-20, Gains and Losses from the Derecognition of Nonfinancial Assets.

(2) Leasing revenues do not represent revenues recognized from contracts with customers under ASC Topic 606, and continue to be accounted for under ASC Topic 840, Leases.

Payment Terms

The company has standard payment terms, which vary depending upon the nature of the services provided, with the majority falling within 10 to 30 days after transfer of control or completion of services. In instances where the timing of revenue recognition differs from the timing of invoicing, the company has determined that contracts generally do not include a significant financing component.

Contract Liabilities

The company records unearned revenue when consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of service and lease agreements. Unearned revenue from service agreements, which represents a contract liability, is recorded for fees that have been charged to the customer prior to the completion of performance obligations, and is generally recognized in the subsequent quarter. The company expects to recognize all of the unearned revenue associated with service agreements as of September 30, 2018, in the subsequent quarter when the inventory is withdrawn from the partnership's tank storage.

Practical Expedients

Under the new revenue standard, companies may elect various practical expedients upon adoption. As a result, the company elected to recognize the cost for shipping and handling activities that occur after the customer obtains control of the promised goods as fulfillment activities and not when performance obligations are met. The company also elected to exclude sales taxes from transaction prices.

3. ACQUISITIONS

Acquisition of Cattle Feeding Operations – Bartlett Cattle Company, L.P.

On August 1, 2018, the company acquired two cattle-feeding operations from Bartlett Cattle Company, L.P. for $16.2 million, plus working capital of approximately $106.6 million primarily consisting of work-in-process inventory. The transaction included the feed yards located in Sublette, Kansas and Tulia, Texas, which added combined feedlot capacity of 97,000 head of cattle to the company's operations. The transaction was financed using cash on hand and proceeds from the Green Plains Cattle senior secured asset-based revolving credit facility. There were no material acquisition costs recorded for the acquisition.

The following is a summary of the preliminary purchase price of assets acquired and liabilities assumed (in thousands):

Amounts of Identifiable Assets Acquired and Liabilities Assumed		
Accounts receivable	$	1,897
Inventory		104,809
Property and equipment, net		16,190
Current liabilities		(118)
Total identifiable net assets	$	122,778

The amounts above reflect a working capital payment by the company of $0.9 million made during the third quarter of 2018.

Acquisition of Cattle Feeding Operations – Cargill Cattle Feeders, LLC

On May 16, 2017, the company acquired two cattle-feeding operations from Cargill Cattle Feeders, LLC for $59.3 million, including certain working capital adjustments. The transaction included the feed yards located in Leoti, Kansas and Eckley, Colorado, which added combined feedlot capacity of 155,000 head of cattle to the company's operations. The transaction was financed using cash on hand. There were no material acquisition costs recorded for the acquisition.

As part of the transaction, the company also entered into a long-term cattle supply agreement with Cargill Meat Solutions Corporation. Under the cattle supply agreement, all cattle placed in the Leoti and Eckley feedlots are sold exclusively to Cargill Meat Solutions under an agreed upon pricing arrangement.

The following is a summary of the assets acquired and liabilities assumed (in thousands):

	Amounts of Identifiable Assets Acquired and Liabilities Assumed	
Inventory	$	22,450
Prepaid expenses and other		52
Property and equipment, net		36,960
Current liabilities		(180)
Total identifiable net assets	$	59,282

The amounts above reflect the final purchase price allocation, which included working capital true-up payments by the company of $1.6 million made during the first half of 2018.

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4. FAIR VALUE DISCLOSURES

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

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities the company can access at the measurement date.

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

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

Derivative contracts include exchange-traded commodity futures and options contracts and forward commodity purchase and sale contracts. Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified in Level 1. The majority of the company's exchange-traded futures and options contracts are cash-settled on a daily basis.

There have been no changes in valuation techniques and inputs used in measuring fair value. The company's assets and liabilities by level are as follows (in thousands):

	Fair Value Measurements at September 30, 2018	
	Quoted Prices in	Significant Other Observable Inputs

	Active Markets for Identical Assets (Level 1)	(Level 2)	Total
Assets:			
Cash and cash equivalents	$ 171,674	$ -	$ 171,674
Restricted cash	62,797	-	62,797
Inventories carried at market	-	81,141	81,141
Unrealized gains on derivatives	-	12,878	12,878
Other assets	114	1	115
Total assets measured at fair value	$ 234,585	$ 94,020	$ 328,605
Liabilities:			
Accounts payable (1)	$ -	$ 15,602	$ 15,602
Unrealized losses on derivatives	-	18,472	18,472
Other	-	25	25
Total liabilities measured at fair value	$ -	$ 34,099	$ 34,099

	Fair Value Measurements at December 31, 2017		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Assets:			
Cash and cash equivalents	$ 266,651	$ -	$ 266,651
Restricted cash	45,709	-	45,709
Inventories carried at market	-	26,834	26,834
Unrealized gains on derivatives	-	12,045	12,045
Other assets	115	-	115
Total assets measured at fair value	$ 312,475	$ 38,879	$ 351,354
Liabilities:			
Accounts payable (1)	$ -	$ 37,401	$ 37,401
Unrealized losses on derivatives	-	12,884	12,884
Other liabilities	-	92	92
Total liabilities measured at fair value	$ -	$ 50,377	$ 50,377

(1) Accounts payable is generally stated at historical amounts with the exception of $15.6 million and $37.4 million at September 30, 2018, and December 31, 2017, respectively, related to certain delivered inventory for which the payable fluctuates based on changes in commodity prices. These payables are hybrid financial instruments for which the company has elected the fair value option.

The company believes the fair value of its debt approximated book value, which was $1.4 billion at September 30, 2018. The company estimated the fair value of its outstanding debt using Level 2 inputs. The company believes the fair value of its accounts receivable approximated book value, which was $135.0 million and $151.1 million at September 30, 2018, and December 31, 2017, respectively.

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

5. SEGMENT INFORMATION

The company reports the financial and operating performance for the following four operating segments: (1) ethanol production, which includes the production of ethanol and distillers grains, and recovery of corn oil, (2) agribusiness and energy services, which includes grain handling and storage, commodity marketing and merchant trading for company-produced and third-party ethanol, distillers grains, corn oil, natural gas and other commodities, (3) food and ingredients, which includes cattle feeding, vinegar production and food-grade corn oil operations and (4) partnership, which includes fuel storage and transportation services.

Corporate activities include selling, general and administrative expenses, consisting primarily of compensation, professional fees and overhead costs not directly related to a specific operating segment.

During the normal course of business, the operating segments conduct business with each other. For example, the agribusiness and energy services segment procures grain and natural gas and sells products, including ethanol, distillers grains and corn oil for the ethanol production segment. The partnership segment provides fuel storage and transportation services for the ethanol production segment. These intersegment activities are treated like third-party transactions with origination, marketing and storage fees charged at estimated market values. Consequently, these transactions affect segment performance; however, they do not impact the company’s consolidated results since the revenues and corresponding costs are eliminated.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Ethanol production:				
Revenues from external customers	$ 573,399	$ 620,180	$ 1,726,418	$ 1,857,356
Intersegment revenues	3,113	3,579	9,285	6,624
Total segment revenues	576,512	623,759	1,735,703	1,863,980
Agribusiness and energy services:				
Revenues from external customers	174,290	164,604	546,151	483,670
Intersegment revenues	12,692	14,406	38,249	33,679
Total segment revenues	186,982	179,010	584,400	517,349
Food and ingredients:				
Revenues from external customers	251,113	114,750	755,109	329,432
Intersegment revenues	38	38	118	113
Total segment revenues	251,151	114,788	755,227	329,545
Partnership:				
Revenues from external customers	1,298	1,701	4,546	4,724
Intersegment revenues	24,472	24,748	72,949	74,019
Total segment revenues	25,770	26,449	77,495	78,743
Revenues including intersegment activity	1,040,415	944,006	3,152,825	2,789,617
Intersegment eliminations	(40,315)	(42,771)	(120,601)	(114,435)
Revenues as reported	$ 1,000,100	$ 901,235	$ 3,032,224	$ 2,675,182

Refer to Note 2 - Revenue, for further disaggregation of revenue by operating segment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cost of goods sold:				
Ethanol production	$ 560,719	$ 590,904	$ 1,706,891	$ 1,802,688
Agribusiness and energy services	179,432	168,735	546,318	487,239
Food and ingredients	236,150	98,854	702,355	281,898
Partnership	-	-	-	-
Intersegment eliminations	(39,917)	(42,706)	(120,220)	(114,123)
	$ 936,384	$ 815,787	$ 2,835,344	$ 2,457,702

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating income (loss):				
Ethanol production	$ (15,961)	$ 3,107	$ (60,704)	$ (25,950)
Agribusiness and energy services	2,851	3,686	22,081	13,138
Food and ingredients	8,324	10,132	33,890	30,472
Partnership	16,725	16,290	48,214	47,707
Intersegment eliminations	(325)	8	(113)	(147)
Corporate activities	(10,965)	(12,507)	(34,879)	(30,898)
	$ 649	$ 20,716	$ 8,489	$ 34,322

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
EBITDA:				
Ethanol production	$ 8,475	$ 25,570	$ 4,742	$ 38,521
Agribusiness and energy services	3,537	5,150	24,035	15,910
Food and ingredients	12,151	13,272	47,192	39,741
Partnership	17,913	17,589	51,674	51,549
Intersegment eliminations	(325)	8	(113)	(147)
Corporate activities	(9,716)	(11,212)	(30,533)	(27,275)
	$ 32,035	$ 50,377	$ 96,997	$ 118,299

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Depreciation and amortization:				
Ethanol production	$ 24,289	$ 20,959	$ 65,284	$ 61,443
Agribusiness and energy services	675	1,457	1,923	2,776
Food and ingredients	3,780	3,139	10,628	9,259
Partnership	1,120	1,280	3,406	3,781
Corporate activities	849	999	2,769	2,846
	$ 30,713	$ 27,834	$ 84,010	$ 80,105

The following table reconciles net income (loss) to EBITDA (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	$ (7,419)	$ 39,429	$ (23,123)	$ 29,284
Interest expense	23,399	31,889	67,548	69,815
Income tax benefit	(14,658)	(48,775)	(31,438)	(60,905)
Depreciation and amortization	30,713	27,834	84,010	80,105
EBITDA	$ 32,035	$ 50,377	$ 96,997	$ 118,299

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

	September 30, 2018		December 31, 2017	
Total assets (1):				
Ethanol production	$	1,075,469	$	1,144,459
Agribusiness and energy services		404,903		554,981
Food and ingredients		884,205		725,232
Partnership		71,511		74,935
Corporate assets		252,554		295,217
Intersegment eliminations		(3,808)		(10,174)
	$	2,684,834	$	2,784,650

(1) Asset balances by segment exclude intercompany balances.

6. INVENTORIES

Inventories are carried at the lower of cost or net realizable value, except grain held for sale and fair-value hedged inventories. Commodities held for sale are reported at market value.

The components of inventories are as follows (in thousands):

	September 30, 2018	December 31, 2017
Finished goods	$ 133,116	$ 146,269
Commodities held for sale	43,328	65,693
Raw materials	126,231	144,520
Work-in-process	426,321	320,664
Supplies and parts	36,202	34,732
	$ 765,198	$ 711,878

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The company did not have any changes in the carrying amount of goodwill, which was $182.9 million at September 30, 2018, and December 31, 2017. Goodwill of $30.3 million, $142.0 million and $10.6 million are attributable to the ethanol production segment, food and ingredients segment and the partnership segment, respectively.

Intangible Assets

As of September 30, 2018, the company’s customer relationship intangible asset recognized in connection with the Fleischmann Vinegar’s acquisition is $69.3 million, net of $10.7 million of accumulated amortization, and has a remaining 13.0-year weighted-average amortization period. As of September 30, 2018, the company also has an indefinite-lived trade name intangible asset of $10.5 million. The company recognized $1.3 million and $4.0 million of amortization expense associated with the amortizing customer relationship intangible asset during the three and nine months ended September 30, 2018, respectively, and $1.1 million and $3.9 million during the three and nine months ended September 30, 2017, respectively, and expects estimated amortization expense for the next five years of $5.3 million per annum. The company’s intangible assets are recorded within other assets on the consolidated balance sheets.

8. DERIVATIVE FINANCIAL INSTRUMENTS

At September 30, 2018, the company's consolidated balance sheet reflected unrealized losses of $17.2 million, net of tax, in accumulated other comprehensive income. The company expects these losses will be reclassified to operating income over the next 12 months as a result of hedged transactions that are forecasted to occur. The amount realized in operating income will differ as commodity prices change.

Fair Values of Derivative Instruments

The fair values of the company's derivative financial instruments and the line items on the consolidated balance sheets where they are reported are as follows (in thousands):

	Asset Derivatives' Fair Value		Liability Derivatives' Fair Value	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Derivative financial instruments (1)	$ 12,878	$ 12,045	$ 18,472	$ 12,884
Other assets	1	-	-	-
Other liabilities	-	-	25	92
Total	$ 12,879	$ 12,045	$ 18,497	$ 12,976

(1) At September 30, 2018, derivative financial instruments, as reflected on the balance sheet, include net unrealized gains on exchange traded futures and options contracts of $11.4 million, which included $1.2 million of net unrealized gains on derivative financial instruments designated as cash flow hedging instruments. At September 30, 2018, derivative financial instruments, as reflected on the balance sheet, include net unrealized losses on exchange traded futures and options contracts of $23.3 million, which included $22.5 million of net unrealized losses on derivative financial instruments designated as cash flow hedging instruments. At December 31, 2017, derivative financial instruments, as reflected on the balance sheet, includes net unrealized gains on exchange traded futures and options contracts of $8.5 million, which included $0.3 million of net unrealized gains on derivative financial instruments designated as cash flow hedging instruments.

Refer to Note 4 - Fair Value Disclosures, which contains fair value information related to derivative financial instruments.

Effect of Derivative Instruments on Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

The gains or losses recognized in income and other comprehensive income related to the company's derivative financial instruments and the line items on the consolidated financial statements where they are reported are as follows (in thousands):

Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income — Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Revenues	$ (3,197)	$ (5,242)	$ (1,749)	$ 1,734
Cost of goods sold	1,350	(1,861)	1,451	(1,679)
Net gain (loss) recognized in earnings before tax	$ (1,847)	$ (7,103)	$ (298)	$ 55

Loss Recognized in Other Comprehensive Income on Derivatives	Loss Recognized in Other Comprehensive Income on Derivatives — Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Commodity contracts	$ (18,709)	$ (12,235)	$ (1,865)	$ (15,069)

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Commodity contracts	Revenues	$ (2,069)	$ 2,863	$ 5,894	$ (7,400)
Commodity contracts	Costs of goods sold	10,952	2,036	11,075	17,256
Net gain recognized in loss before tax		$ 8,883	$ 4,899	$ 16,969	$ 9,856

As of September 30, 2018, the following amounts were recorded on the consolidated balance sheets related to cumulative basis adjustments for the fair value hedged items (in thousands):

Line Item in the Consolidated Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets
Inventories	$ 76,099	$ 6,826

As of December 31, 2017, no amounts were recorded on the consolidated balance sheets related to cumulative basis adjustments for the fair value hedged items.

Effect of Cash Flow and Fair Value Hedge Accounting on the Statement of Operations

The effect of cash flow and fair value hedges and the line items on the consolidated statements of operations where they are reported are as follows (in thousands):

	Location and Amount of Gain or (Loss) Recognized in Income on Cash Flow and Fair Value Hedging Relationships for the Three Months Ended September 30,			
	2018		2017	
	Revenue	Cost of Goods Sold	Revenue	Cost of Goods Sold
Gain (loss) on cash flow hedging relationships:				
Commodity contracts:				
Amount of gain (loss) reclassified from accumulated other comprehensive income into income	$ (3,197)	$ 1,350	$ (5,242)	$ (1,861)
Gain (loss) on fair value hedging relationships:				
Commodity contracts:				
Hedged item	-	(346)	61	(1,775)
Derivatives designated as hedging instruments	-	(186)	(61)	3,085
Total amounts of income and expense line items presented in the statement of operations in which the effects of cash flow or fair value hedges are recorded	$ (3,197)	$ 818	$ (5,242)	$ (551)

	Location and Amount of Gain or (Loss) Recognized in Income on Cash Flow and Fair Value Hedging Relationships for the Nine Months Ended September 30,			
	2018		2017	
	Revenue	Cost of Goods Sold	Revenue	Cost of Goods Sold
Gain on cash flow hedging relationships:				
Commodity contracts:				