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VeraSun Seeks Bankruptcy Protection

By JEFFREY MCCRACKEN, JESSICA RESNICK-AULT and LAUREN ETTER

VeraSun Energy Corp., one of the nation's largest ethanol producers, announced late Friday that it is filing for Chapter 11 bankruptcy protection.

VeraSun, which is based in Sioux Falls, S.D., avidly rode investor enthusiasm for ethanol, a corn-based product typically mixed with gasoline. But from an initial public offering in 2006, company shares have generally pushed downward, changing hands at 48 cents a share in 4 p.m. composite trading Friday on the New York Stock Exchange, well off the stock's 52-week-high of \$17.75.

The company says it expects to continue normal operations and pay its workers regular salaries while it reorganizes. According to a company news release "the filing was precipitated by a series of events that led to a contraction in VeraSun's liquidity, impairing its ability to operate its business and invest in production facilities."

"Worsening capital market conditions and a tightening of trade credit resulted in severe constraints on the Company's liquidity position," the company said. It intends to work with lenders to secure "additional committed financing to provide adequate liquidity to fund operations in the normal course."

VeraSun also says it expects to continue purchasing raw materials, like corn, and continue to pay suppliers.

"Today's filing allows VeraSun to address its short-term liquidity constraints as we navigate historically challenging market conditions while we focus on restructuring to address the company's long-term future," said company Chief Executive Don Endres. "We appreciate the loyalty of our employees, customers and suppliers during this challenging time."

Ethanol production has more than doubled since 2005, spurred largely by the federal Energy Policy Act, which requires oil companies to use billions of gallons of renewable fuels every year. Import tariffs have also kept cheaper foreign ethanol at bay.

This package of incentives created instant demand for ethanol, as Wall Street poured money into the Corn Belt to finance plant construction.

But VeraSun has been unable to withstand moves in the wider commodity markets. In recent months ethanol prices have dropped along with oil prices. That has cut into profit margins, which have been a constant source of pressure for the industry.

Farming has been a bright spot for the economy over the past 24 months, partly because increased demand for ethanol pushed up corn prices. But as grain prices have increased, so have the costs to raise a crop.

This summer, record-high corn prices sent VeraSun and other ethanol producers into panic mode. In an effort to protect itself

from rising corn prices, VeraSun locked in agreements to purchase corn at \$6.75 to \$7.00 a bushel, while the price on corn futures sank to \$4 a bushel.

"There had been a de-linking of corn and ethanol where the price of corn shot way up but ethanol did not," said Chris DiMauro, managing director with the investment-banking firm of Houlihan Lokey Howard & Zukin.

In September, VeraSun said it had lost \$63 million to \$103 million due to bets on the price of corn that ended up working against it. VeraSun's current liabilities totaled \$312 million at the end of the second quarter, and it had \$1.4 billion in long-term debt.

As the global credit crunch intensified in September, VeraSun was unable to secure the funding it needed to pay interest on its debt, which is due in December.

Pinched to pay its debts, VeraSun recently hired Skadden, Arps, Slate, Meagher & Flom LLC as bankruptcy counsel, and financial adviser Rothschild Inc. to help craft a reorganization plan, people familiar with the matter said. It has also secured \$250 million in debtor-in-possession financing from Ableco, an arm of New York-based hedge fund Cerberus Capital Management LP, at a high interest rate of about 14% to 15%, people familiar with the terms said.

Company creditors already have convened a committee to hammer out a potential restructuring, according to one VeraSun bondholder. A majority of creditors have to approve a restructuring deal for VeraSun to receive court approval for a prepackaged bankruptcy.

So far, investor interest in VeraSun has been limited. One reason for that is that financial backing for mergers and acquisitions is limited as a result of the credit crisis.

"You would expect there would be capital available to create concentration" in the ethanol industry, said Todd Alexander, a partner at New York law firm Chadbourne & Parke LLP. "But that's just not happening."

—Mara Lemos Stein contributed to this article.

Write to Jeffrey McCracken at jeff.mccracken@wsj.com, Jessica Resnick-Ault at jessica.resnick-ault@dowjones.com and Lauren Etter at lauren.etter@wsj.com

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