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Q3 2013 Earnings Conference Call and Business Update - 11/12/13 – 11:00AM

Chris Irons, IR Manager

Good morning, it is my pleasure to welcome shareholders, potential investors and analysts today and start our 2013 Third Quarter Financials call and operations update.

My name is Chris Irons and I am the Corporate Communications and Investor Relations Manager for JBI, Inc. We've spent the last couple of weeks going through your questions that were submitted via e-mail and would like to thank you for reaching out to us with your questions, as they help us with our continued goal of transparency.

Today you'll be hearing from our CEO, Rick Heddle, our CFO, Nick Terranova, as well as our company founder and Chief of Technology, John Bordynuik. Before I turn the call over to Rick, let me take a moment to review the regulatory context for understanding this call.

The information presented in this presentation contains "forward-looking statements", within the meaning of the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. Such forward-looking statements include, but are not limited to, statements with respect to management's current beliefs, plans, strategies, objectives, goals and expectations, including expectations about the future financial or operating performance of our Company and its projects, capital expenditures, capital needs, government regulation of the industry, environmental risks, limitations of insurance coverage, and the timing and possible outcome of regulatory matters, including the granting of patents and permits. Words such as "expect", "anticipate", "intend", "attempt", "may", "will", "plan", "believe", "seek", "estimate", and variations of such words and similar expressions are intended to identify such forward-looking statements.

The potential risks and uncertainties that could cause actual results to differ materially from those expressed, implied or forecasted herein may include, without limitation, risks associated with general business, economic, competitive, political and social uncertainties; risks associated with changes in project parameters as plans continue to be refined; risks associated with failure of plant, equipment or processes to operate as anticipated; risks associated with accidents or labor disputes; risks associated in delays in obtaining governmental approvals or financing, or in the completion of development or construction activities; risks associated with financial leverage and the availability of capital; risks associated with the price of commodities and the inability of our Company to control commodity prices; risks associated with the regulatory environment within which our Company operates; risks associated with litigation including the availability of insurance; and risks posed by competition.

Further information on the factors that could affect the Company's financial results can be found in the Company's filings with the Securities and Exchange Commission, including the Company's Annual Report on Form 10-K, which was filed on March 15, 2013 and amended on April 30, 2013.

At this point, I'd like to turn the call over to our President and CEO, Rick Heddle.

Rick Heddle, CEO

Thanks, Chris.

It's great to be able to speak with everyone again, and to update shareholders about our recent quarter of record production, changes we've made to the company's business plan, and what our plans are to conclude 2013 and move JBI into 2014.

Additionally, Nick will offer an update of our third quarter financials, and John will offer an update surrounding the technology and how we've operated since bringing Processor 3 online.

When I started as CEO just months ago, we put a major focus on aggressively managing our costs and striving to add value behind our company, its technology, and our stock. On our end, we feel we are doing everything necessary to move JBI in the direction of bringing value behind our company and its shareholders.

We've set out with the intentions of getting JBI to a point where it can stand on its own, and it is our belief that we have taken a big step in the right direction over the last three months. There is plenty more at hand that needs to be done, but importantly, we feel we are in the midst of executing.

We talked about cost cutting; so now let's talk about how we've tangibly put that idea into action. As we reported in August, we eliminated the costs associated with our Recycling Center in Ontario in addition to continuing to make general cost reductions and efficiency changes at the plant. We had estimated annualized cost savings from these cuts, combined with cuts made earlier in July, to be approximately $2 million. Those costs are starting to be reflected in our reduced quarterly cash burn, a metric that we anticipate being able to curb further as we move forward into 2014 and costs associated with these cuts dissipate.

In addition to working together on site to manufacture our highest fuel production quarter in the company's history, we also transitioned in a new executive team, worked our first full quarter together, and dug our heels in as a cohesive unit to make sure everyone at JBI is on the same page going forward. Make no mistake about it; everyone here is focused on the path to profitability.

Inclusive of all of the items that come with transition, we've also made a change to our business model. When JBI was founded, the original idea behind the company was to take our machines and vertically integrate them at high plastic waste generation sites. Over the last year a half, our primary focus was both on fuel sales and the third evolution of our machine. Now that Processor 3 has shown us that it has what it takes to be our flagship Processor, our business plan has shifted once again with a focus back on joint ventures and machine sales.

So, as far as revenue, the last time we spoke, I had addressed that machine sales, as well as fuel sales, would be considered for sources of revenue. We can now say firmly that we are striving for machine sales and joint ventures to make up a majority of our revenues going forward, supplemented by continued sale of fuel on site; which acts to both continually validate our process and to prove to potential partnership candidates and the market that the process is extremely viable and should continue to be attractive to potential buyers. Based on feedback from potential buyers, engineering groups and companies that have toured Processor 3, we are confident that the demand to sell machines exists.

It's important not to forget the strides we've made up until this point. This company has, in four years, gone from a tabletop lab unit for testing viability to a commercial sized facility that has produced, to date, a total of over 700,000 gallons of in-spec end-user fuels from waste.

So, let's talk about fuel sales for a second.

In 2012 we produced approximately 317,000 gallons of fuel. Up through the end of Q3, we had produced 290,599 gallons for 2013. Even after our slow start to 2013 and our then record quarter in Q4 2012, we have, as of today, surpassed all of 2012's fuel production with nearly 7 weeks of production left in the year. As a company, we're fast approaching three quarters of a million gallons of fuel produced.

We continue to focus our fuel sales on our in-spec diesel fuel. Our diesel remains a "ready to use" fuel that is sold directly out of the back end of our processor. As we've noted in the past, we also make a small naphtha fraction alongside of our diesel. We make a high quality, high flashpoint diesel with favorable margins. Our diesel is sold primarily for off-road use, and our naphtha has been sold to companies who are capable of blending it to make gasoline.

We continue to have buyers in place to be able to handle fuel when we are producing in significant volumes. In moving from lower production to more consistent fuel production, we've also scaled our quality control, lab and plant infrastructure to be able to facilitate several loads per week when necessary.

We've had some really great challenges in the third quarter that we've never had in the past; increased tanker traffic on site and fuel tanks pushed to capacity, to name a few. In response to that, we've permanently shifted our ingress and egress to the plant to have a dedicated entrance for tankers, have installed our high speed loading arm which we've had on site since last year, but hadn't needed up until now. We have about 45,000 gallons of storage capacity on site, and with tankers ranging between 6500 to 9000 gallons each, we need to be ready to both sell and transport our fuels to customers the moment we have enough in our tanks.

So, as I stated earlier, when I first invested, the business plan was focused on joint ventures and machine sales. Now that we've proven that Processor 3 is capable of significant fuel production, we're going to continue down that road.

Currently, we're in entry level discussions with various companies with regards to potential machine sales.

We still have a lot of work to do as a company, but there is no doubt this team is working together and moving forward in unison.

We know there were considerable questions throughout the last 40 days as to how we finished our third quarter, so I'd like to take a moment and thank those who reached out to us for their patience in waiting for us, so that we could ensure an accurate and proper disclosure.

As some of you already know, the company has filed its quarterly results on Form 10-Q this morning, and with that I'm going to turn over the call to our Chief Financial Officer, Nick Terranova.

Nick Terranova, CFO

Good afternoon, everyone. It's great to be here and cover my first quarter with the company as CFO, so let's talk about the direction we've headed in the 3rd quarter of 2013, and a bit of what we're looking for heading into 2014.

Financing for operations during the quarter was attributable directly to the Company's President, CEO and Director, Rick Heddle, who contributed $3 million in capital, per the Company's previously disclosed Term Sheet Agreement with Mr. Heddle on August 15th.

On August 29th, the Company sold to Mr. Heddle a $1 million 12% secured promissory note, together with a five-year warrant to purchase up to one million shares of the Company's common stock at an exercise price of $0.54 per share. Gross proceeds to the company were $1 million.

On September 30, 2013, the Company sold to Mr. Heddle in the second closing of the Company's private placement, a $2 million 12% secured promissory note, together with a five-year warrant to purchase up to two million shares of the Company's common stock at an exercise price of $0.54 per share. The gross proceeds to the Company were $2 million.

In terms of both fuel production and financial metrics, quarter three was one that can hopefully show some of the picture in terms of the direction we are hoping to move the company.

The company has filed its Quarterly Report on Form 10-Q for the third quarter 2013. As reported on Form 10-Q, the Company reported $302,275 in total revenues, a 59.5% increase from the third quarter of 2012. The Company reported $277,276 in fuel revenues, a 132.7% increase from the third quarter of 2012 and costs of goods sold related to fuel revenues of $263,590, a 76.9% increase from the third quarter of 2012.

The Company produced 170,725 total gallons of fuel in the third quarter of 2013, compared to 69,708 gallons produced in third quarter 2012, a 144.9% increase. Average cost per gallon was $2.03 per gallon, compared to $2.32 per gallon for the third quarter 2012, representing a 12.5% decrease in cost per gallon.

For the quarter ended September 30, 2013, JBI recorded a positive gross profit of $29,476 as compared to a negative gross profit of $10,669 for the quarter ended September 30, 2012.

The gross profit related to fuel sales, $13,686, for the three months ended September 30, 2013 was positively impacted by our decision during the third quarter of 2013 to secure optimal feedstock that is processor-ready and without further need of pre-processing, as compared to the same period of 2012.

The Company finished the third quarter with $144,044 in finished goods inventory.

Net losses for the quarter were $4,052,930, compared to $2,996,415 in third quarter of 2012. These losses consisted of losses from continuing operations of $3,100,873 and $2,763,118 for the quarters ended September 30, 2013 and 2012, respectively, and losses from discontinued operations of $952,057 and $233,297 for the quarters ended September 30, 2013 and 2012, respectively. The increase in net loss for the three months ended September 30, 2013 was driven mainly by the discontinuation of operations at the Company's Regional Recycling Operation ("RRON").

Upon the closure of RRON, the Company identified a number of significant sources of optimal feedstock which can be delivered directly to our Niagara Falls plant, without the need for pre-processing. The Company is receiving this product at a lesser price than the cost of the plastic that needed significant pre-processing. As we continue to receive this product and turn our inventory, we expect these costs to decrease in future periods.

The focus of the third quarter was, again, to begin initial runs with Processor 3 and have all machines operational on-site during the quarter. We found considerable success focusing our efforts mainly on production for the quarter, as demonstrated in both gallons produced and revenue from fuel sales for Q3.

Moving into Q4 and 2014, we're going to remain extremely focused on aggressively managing our costs and continuing our production momentum moving forward. In addition, we will continue to work on both the financial components and the financial projections of potential joint ventures, which are both items we began to explore and model in the third quarter as a team.

For more information on our financials, please refer to the Form 10-Q, filed this morning with the Securities and Exchange commission, located at www.sec.gov or available in the "Investor Relations" section of our website located at www.plastic2oil.com.

With that, I'd like to turn the call over to John, our Chief of Technology and company founder, who's going to go over the technology changes in Q3 and the significant strides we've made since then.

John Bordynuik, Chief of Technology

Thanks Nick.

First and foremost, I'd like to take a second and recognize the hard work of our plant staff and everyone here at the company for being able to deliver a production quarter that was over 40% greater than our previous record production quarter. We like this momentum here on site, we're motivated by it, and we're focused on continuing to move in the right direction.

As Rick said earlier, we've been able to produce fuel at a rate that this company hasn't been able to in the past, and it's been a direct result of our ability to run multiple processors, mixed with our new strategy of combining plastics with heat transfer fluid.

With this past quarters' production, we've never been more confident that we have our "flagship" processor in Processor 3.

Just to reiterate, we have now produced over 700,000 gallons of in-spec, end user ready fuels since our company's inception. We continue to believe that we are spearheading the emerging plastic-to-oil niche of the waste-to energy market.

To add to Rick's comments regarding our business plan, I wanted to offer a little insight as to what Processor 3's purpose is going to be moving forward, and how our technology fits into our company's overall business model. Our two processors that are currently in fabrication are identical to processor 3, so it's important for us to be able to showcase the machine, and what it's capable of, to potential buyers on site. In addition to producing fuel, Niagara Falls will continue to serve as a demonstration facility for those that could potentially want to purchase a machine – an important reason that we make sure Processor 3 continues making fuel consistently, as it has been over the past quarter.

We anticipate that Processor 3's role in total fuel production will increase as we continue to increase our feed rates slowly. Ideally, we're looking to consistently run at a total of roughly 3,000 lbs an hour on Processor 3 and each future machine, using a proprietary combination of plastic and heat transfer fluid that adheres strictly to our permitting.

Another metric we've been able to curb is our cost of plastic going into the machine. Crayola's corporate overruns have acted as a significant plastic source for us over the past couple of quarters, and we estimate that Crayola plastic is costing the company about $0.03/lb to run – a very favorable price for us. In addition to that, the Company has other significant plastic resources and does not foresee feedstock becoming a bottleneck moving through the end of 2013.

So, as we covered in our quarterly filing, we've logged significant data and runtimes for Processor 3 throughout the third quarter and are very pleased with the performance of the machine. As we had already talked about, we made a very small adjustment to the machine's flue gas piping during its first downtime to help achieve better heat profiling in the kilns. In addition, we made one small piping change on the machine's second downtime that has worked in our favor as well. Since then, the kilns have demonstrated uniform heat profiling and heat transfer into waste plastic consistently.

During our recent maintenance shutdown, after two cycles during the third quarter (one a total of 30 days, and the other a total of approximately 42 days), the kilns were both found to be in excellent condition, without noticeable wear or damage.

As we've stated, we started off Q4 with $144,044 in finished goods inventory and with Processor 3 down for routine cycle maintenance. At a time when both processors were being cycled, we had received a load of heat transfer fluid that, while meeting NY state specifications, was not the correct type of fluid for use in our process. We later found that this was through fault of the distributor and we essentially just shipped the fluid back to the distributor.

In addition to alerting the company at fault of the error, we put further quality control measures in place on site to make sure this problem does not occur again. With regard to feedstock issues, we've yet to make the same mistake twice, and we pride ourselves on that.

We do not anticipate this cleanout having a pronounced effect on fuel production from a quarterly standpoint, as we were able to turn our machines back around and continue to put Processor 3 to work.

In addition to that, we have recently completed a thorough heat and mass balance of our process, which serves to continue to validate our viability from a scientific standpoint. We'll be making that available on our website within the coming days.

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Now, I'll turn things over to Rick, who'll touch on a couple more things before we wrap up.

Rick Heddle, CEO

Thanks, John.

It's been great to update everyone on our quarter and growing fuel production momentum. We continue to feel that our fuel momentum, coupled with aggressively managing our costs is what is going to lead JBI and our shareholders in the right direction.

We also know that although Q3 was a record quarter for us in fuel production, we need to continue that momentum going forward. We're focused on producing a Q4 that is going to continue to validate our process and provide favorable metrics for potential buyers.

Aside from executing our business plan, we have two other major items we continue to work on: financing and our Board of Directors.

In terms of the Board of Directors, let's talk briefly about the side letter that was included in our May 2012 financing between John Bordynuik and our investors. Through the side letter waivers that we disclosed in our recently filed proxy and temporary waivers by additional parties to the side letter, we have been able to expand the scope of our search for Board of Directors candidates and have been allocated additional time for our search. We continue to remain focused on seating a Board of Directors for JBI that will not only continue to validate and complement our technology; but one that will have a continued focus on transparency, building shareholder value, and ethics. The search and due diligence process on both ends is very dynamic and can be lengthy, but we are currently in talks with several individuals. I assure you that it is a significant focus of ours, and I look forward to updating you when material changes have occurred.

With regard to financing, we are actively considering several options and are being as proactive as possibly to try and ensure the company's working capital improves. Again, we feel we're in a substantial position to continue to reduce our spending before the end of the year and into 2014.

To reemphasize, as we stated, we are in preliminary talks with several companies with regards to potential machine sales and joint ventures. Our agreement with Rock Tenn remains in place, but they will be part of a field of candidates that we will consider moving forward with in the future. Ultimately, we're striving to go down the path that is going to draw the straightest line between JBI and creating shareholder value.

We are confident in our ability to sell a machine or enter into a joint venture that will move this company to its next stage, and aside from being a shareholder, I'm holding myself, as well as my team accountable to make 2014 a successful year for JBI.

I look forward to updating you in the future, and thank you for your time today.