

Form 10QSB for INTREPID TECHNOLOGY & RESOURCES, INC.

14-Feb-2008

Quarterly Report

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

The following discussion contains forward-looking statements that involve known and unknown risks and uncertainties which may cause actual results in future periods to differ materially from those indicated herein as a result of a number of factors, including, but not limited to, those set forth under Legal Proceedings, and the discussion below. When the Company uses words like "may," "believes," "expects," "anticipates," "should," "estimate," "project," "plan," their opposites and similar expressions, the Company is making forward-looking statements. These expressions are most often used in statements relating to business plans, strategies, anticipated benefits or projections about the anticipated revenues, earnings or other aspects of our operating results. We make these statements in an effort to keep stockholders and the public informed about our business and have based them on our current expectations about future events. Such statements should be viewed with caution. These statements are not guarantees of future performance or events. As noted elsewhere in this report, all phases of our business are subject to uncertainties, risks and other influences, many of which the Company has no control over. Additionally, any of these factors, either alone or taken together, could have a material adverse effect on the Company and could change whether any forward-looking statement ultimately turns out to be true. The Company undertakes no obligation to publicly release updates or revisions to these statements. The following discussion should be read in conjunction with audited consolidated financial statements and the notes filed thereto on Form 10-KSB with the U.S. Securities and Exchange Commission for the year ending June 30, 2007.

RESULTS OF OPERATIONS

Revenue

Revenue for the quarter ended December 31, 2007, decreased 52% to \$22,843 compared to \$47,310 for the same period in 2006. Revenue for the six months ended December 31, 2007 decreased 75% to \$48,819 from \$196,563 for the same six months ended December 31, 2006. This decrease was mainly the result of decreased sales of contracted "work for others" over the corresponding periods of one year ago. The quarter ending September 30, 2006 also included a \$50,000 grant from the Idaho Department of Water Resources.

The Company's first biogas plant in Rupert, Idaho, is producing 99+% purity natural gas on a consistent basis; and the independent, third party gas sample testing phase was completed in December. The second plant in Wendell, Idaho, is in the start-up phase and will produce gas of the same quality and approximately 30% more volume than the Rupert facility. The Company has a 15-year Supply and Purchase Agreement in place with the local gas utility for the balance of gas being produced at the plants. The utility is currently making necessary arrangements to receive this gas into their distribution system for commercial sale.

Direct Operating Costs

Direct operating costs for the three months ending December 31, 2007 and 2006, were \$453,077 and \$28,113, respectively. For the six months ended December 31, 2007, direct operating costs increased to \$878,405 from \$89,396 for the same period in 2006. The direct operating costs increased due to costs for operating the Company-owned plants. Revenue and operating costs will both increase (though operating costs will decrease as a percentage of revenue) once the Company is able to start consistent delivery of gas, horticultural fiber, and carbon offset credits to the marketplace. Gas sales revenues should start in the 3rd fiscal quarter of FYE 2008, and should significantly increase during the 4th quarter as the second production plant achieves full production capacity.

Gross Profit

The Company had a gross profit (loss) of (\$430,234) for the quarter ended December 31, 2007, compared to a gain of \$19,197 the prior year. For the six months ended December 31, 2007, the Company had a gross profit (loss) of (\$829,586) compared to a gain of \$107,167 for the same period in 2006. The decrease in gross profit resulted from the direct operating costs associated with start-up of Company-owned production plants without corresponding revenues.

General and Administrative and Research and Development Expenses

For the three months ended December 31, 2007, General & Administrative and Research & Development expenses were \$247,545 compared to \$568,015 for the same period ending December 31, 2006. For the six months ended December 31, General & Administrative and Research & Development expenses were \$446,932 and \$955,885 for 2007 and 2006, respectively.

Over the last two fiscal years, the Company incurred large costs for the construction, start-up, and operations of the Company's Whitesides Biogas Plant; and over the last fiscal year for the design, permitting, and construction of the new WestPoint Biogas Plant. Only those costs allowed by generally accepted accounting principles have been capitalized in that effort. All other costs have been expensed for establishing the biogas business operating plan, including research in the biofuels markets, development of operations, maintenance procedures, process improvement measures, and seeking investment capital and source financing. Research and development costs have reduced significantly as we have shifted from R&D and construction to plant operations.

Interest Income

For the three and six months ended December 31, 2007, the Company received interest income of \$11,555 and \$32,670, respectively. For the three and six months ended December 31, 2006, the Company received interest income of \$3,568 and \$7,578, respectively. Most of the 2007 interest income was on restricted cash bond funds.

Interest Expense

For the three months ended December 31, 2007, the Company had interest expense of \$559,822 compared to \$12,997 for the same period ending December 31, 2006.

For the six months ended December 31, 2007, the Company had interest expense of \$1,088,098 compared to \$13,001 for the same period in 2006. Of the expense for the six months ended December 31, 2007, \$682,191 is amortization of historical costs and will not involve future cash outlays. The 2007 expense was for interest accrued on the bonds and the YA Global debenture.

Gain on Embedded Derivative Liability

For the three and six months ended December 31, 2007, the Company recognized gains on the YA Global Embedded Derivative Liability of \$494,618 and \$904,824, respectively. The Company recognized no gains or losses for the same periods in 2006.

Net Loss

For the three months ended December 31, 2007, the Company had a net loss of \$731,178 compared to a net loss of \$558,247 for the same period in 2006. For the six months ended December 31, 2007, the Company had a net loss of \$1,426,872 compared to a net loss of \$854,141 for the same period in 2006. The change is due to start-up plant operating costs without corresponding revenue and increased interest expense.

MANAGEMENT'S PLAN OF OPERATION

In the past, providing engineering and technical services has been the primary source of revenue. The Company expects to continue providing such services in the future, but with a shift in emphasis toward

providing consulting services to 3rd party developers of biofuels projects. In FYE 2008, the Company will expand its efforts to become a significant producer and distributor of biogas products and a facilities service provider. The following discussion provides an overview of our progress in making the transition.

The fundamental aspects of the Company's business model are:

- † Utilize cutting edge, but established, technology for the production of biogas from large animal operations;
- † Maintain equity positions in biogas projects; †
- † Begin operations in known territory (Idaho), and expand into other western states as resources permit;
- † Maximize the utilization of our public company status in the financing of our projects;
- † Market biogas products to local gas utilities, industrial users, and transportation users;
- † Team with experienced companies for the marketing and distribution of biogas products.

DEVELOPMENT PLAN

The Company will design, construct, own (and in select situations, co-own), and operate production facilities consistent with the business model described above.

The centerpiece of this development plan is digestion technology that produces biogas with a higher concentration of methane than competing processes. This technology has a successful 7-year operational history and has been demonstrated with both cow and swine waste.

Our goal is to become the premier biogas company in the United States. Our approach is to use superior technology and know-how to convert manure waste from dairy and feedlot operations into high BTU biogas and high quality horticultural-grade fiber. The biogas is further processed to produce (1) pipeline quality gas for sale to a gas utility, marketing and distribution company, or industrial end user; (2) combustion gas to fuel boilers for processing materials; (3) liquid natural gas for transportation fuel, peaking, and/or remote community service; and, eventually, (4) hydrogen to energize fuel cells for transportation and distributed or non-distributed energy sources. Our range of services include:

- † designing, building, and operating biofuels facilities;
- † performing value-added processing of raw biogas and residual products of digestion for various applications;
- † marketing, transportation and sales of those co-products.

The Rupert plant recently underwent a 5-fold expansion to accommodate a corresponding expansion of the dairy upon which it is located and has been designed with special features that allow it to serve as a test platform for the Company to continue its research and development activities. The gas from both plants is under contract for sale to the local gas utility via a 15-year Supply and Purchase Agreement. A small portion of the gas is used on-site for plant process heating and for heating water for dairy operations.

The Development Plan involves discrete projects that will ultimately bring 250,000 Magic Valley dairy cows under production to create the "Magic Valley Biogas Field" in the Magic Valley area of south-central Idaho. The first project is essentially complete with the two plants described above. The total combined capital investment for this first phase of the project was \$11.5 million and was financed via a combination of 50% debt (tax-exempt municipal revenue bond) and 50% equity (public shareholder). The second phase of the project will be phased and ultimately involve 60,000 cows.

Future projects will be financed through a combination of debt and equity. As with our first project, we anticipate that the debt portion will be financed through the sale of bonds. The equity will come from equity partners that will include dairymen, equity capital group(s), or other private investors and from retained earnings generated through building biogas plants for third parties.

These funds will provide for anaerobic digester plants constructed at participating dairies, gas conditioning clean-up equipment for processing the raw biogas to pipeline quality standards, and a supporting gas line

gathering system to transport the clean gas to the gas utility distribution system. A majority of the costs (approximately 70%) is for construction of the digesters.

Additional Information

The Company plans to increase sales and expand its engineering and scientific services into the biofuels area. Revenue generated will be used to meet cash flow requirements with any excess being used to support and develop the Company's biofuels production initiatives.

At the present time the Company does not anticipate paying dividends, cash or otherwise, on its Common Stock in the foreseeable future. Future dividends will depend on earnings, if any, of the Company, its financial requirements and other factors. The Company believes that the terms of the Settlement Agreement relative to divestiture of its mining and mineral rights of the Garnett mine in Montana have the potential to provide moderate future working capital. The Company was able to successfully obtain bond financing under a State of Idaho approved bond inducement resolution during the past eighteen months; conclusively demonstrating its ability to attract outside investment capital.

The Company continues to seek other investment capital to support future projects and the existing and ongoing Company operations.

CAPITAL RESOURCES AND LIQUIDITY

As the Company expands into the biofuels business, it will face continuing challenges to finance growth. This is particularly true of further development of the Magic Valley bio-gas field. In addition to capital expenditures for the first two digester facilities, financing resources are needed to support operations. The Company has made reasonable efforts to meet cash flow demands from ongoing operations but the Company may not always be able to obtain sufficient funds to satisfy the Company's working capital or other capital needs. The Company finished the six months ended December 31, 2007 with available cash of \$275,754 and restricted cash of \$779,319 compared to available cash of \$1,414,831 and restricted cash of \$1,767,290 at June 30, 2007. The Company believes that it will be necessary to continue to supplement the cash flow from operations with the use of outside resources such as investment capital by issuance of debenture notes and stock. The Company plans to use any additional funding to cover operating and developments costs.

As of December 31, 2007, the Company had negative working capital of (\$2,516,959) and a current ratio of 0.13:1 compared to a deficit of (\$11,269) and a current ratio of 0.99:1 as of June 30, 2007.

During the six months ended December 31, 2007, the Company used net cash of \$1,046,162 for operating activities compared to \$616,619 of net cash used in operating activities for the 2006 period.

During the six months ended December 31, 2007, the Company used \$974,236 in investing activities, primarily in biogas generating facility construction costs, compared to \$1,779,130 used in the prior year period.

During the six months ended December 31, 2007, financing activities used \$106,650 in net cash compared to \$5,885,799 provided during the six months ended December 31, 2006.

Seasonal Changes.

The Company's operating revenue is generally not affected by seasonal changes.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. Under FIN 48, the tax effects of a position should be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. FIN 48 also requires significant new annual disclosures in the notes to the financial statements. The effect of adjustments at adoption should be

recorded directly to beginning retained earnings in the period of adoption and reported as a change in accounting principle. Retroactive application is prohibited under FIN 48. We adopted FIN48 as of July 1, 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosure regarding fair value measurements. SFAS No. 157 does not require new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, on a prospective basis. The Company does not expect the adoption of SFAS No. 157 to have a material effect on our financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108, Financial Statements - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both the income statement and balance sheet approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for years ending after November 15, 2006, and the impact of adoption had no effect on the Company's consolidated financial statements.

RISK FACTORS

The Company's current and primary focus is obtaining permits and developing favorable properties for alternative and renewable energy production, and providing the associated engineering design and construction management services required to support the construction and operation of related facilities, and cannot provide any guarantees of profitability at this time. The Company will continue to expand its engineering services base, "work for others" to generate additional revenue to augment working capital requirements in support of its alternative and renewable energy efforts. The realization of profits is dependent upon successful execution of new business opportunities and the development of prototype digester models and implementation of the digester project for renewable energy. The Company is dependent upon inducing larger companies or private investors to purchase these "turn-key" alternative renewable energy generation and production facilities. These projects when developed and depending on their success will be the future of the Company. The Company may not be successful in these efforts.

Our operating results are difficult to predict in advance and may fluctuate significantly, and a failure to meet the expectations of analysts or our stockholders would likely result in a substantial decline in our stock price.

Factors that are likely to cause our results to fluctuate include the following:

- † the gain or loss of significant customers or significant changes in engineering services market;
- † the amount and timing of our operating expenses and capital expenditures;
- † the success or failure of the biofuels projects currently underway;
- † the timing, rescheduling or cancellation of engineering customer's work orders;
- † our ability to develop, complete, introduce and market biofuels and bring them to volume production in a timely manner;
- † the rate of adoption and acceptance of new industry standards in our target markets;
- † any other unforeseen activities or issues.

There is a limited public market for our common stock. Our common stock is listed on the OTC Bulletin Board, and there is a limited volume of sales, thus providing a limited liquidity into the market for our shares. As a result of the foregoing, stockholders may be unable to liquidate their shares.

We are subject to various risks associated with the development of the biofuels and alternative energy market place and if we do not succeed our business will be adversely affected.

Our success will largely depend on our ability to develop and implement the anaerobic digester biogas projects and generate energy and gas for sale. We will respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. However, we cannot predict if we will be effective or succeed in the development of the biofuels and renewable energy markets. If we are unable for technical, legal, financial, or other reasons, to adapt in a timely manner to develop and operate in the biofuels market, our business, results of operations and financial condition could be materially adversely affected.

If needed, we may not be able to raise further financing, or it may only be available on terms unfavorable to us or to our stockholders.

Available cash resources may not be sufficient to meet our anticipated working capital and capital expenditure requirements if the biogas facilities do not produce sufficient revenues for at least 12 months. It may become necessary to raise additional funds to respond to business contingencies, which could include the need to:

- † fund additional project expansion for the biofuels production;
- † fund additional marketing expenditures;
- † develop additional biofuels projects;
- † enhance our operating infrastructure;
- † hire additional personnel;
- † acquire other complementary businesses or technologies.

If we raise additional funds through the issuance of equity or convertible debt securities, the ownership of our current stockholders would be diluted, and these newly issued securities might have rights, preferences or privileges senior to those of existing stockholders. Additional financing might not be available on terms favorable to us, or at all. If adequate funds were not available or were not available on acceptable terms, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products or otherwise respond to competitive pressures would be significantly limited.