

MGP INGREDIENTS INC  
Form 10-Q  
August 06, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-17196

MGP INGREDIENTS, INC.  
(Exact name of registrant as specified in its charter)

KANSAS  
(State or other jurisdiction of incorporation or organization)

45-4082531  
(I.R.S. Employer Identification No.)

100 Commercial Street, Atchison, Kansas  
(Address of principal executive offices)

66002  
(Zip Code)

(913) 367-1480  
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller Reporting Company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

17,673,856 shares of Common Stock, no par value as of July 31, 2015

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## FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as well as historical information. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q regarding the prospects of our industry and our prospects, plans, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements are usually identified by or are associated with such words as "intend," "plan," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may," "will," "could," "encouraged," "opportunities," "potential" and/or the negatives or variations of these terms or similar terminology. They reflect management's current beliefs and estimates of future economic circumstances, industry conditions, Company performance, and Company financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) disruptions in operations at our Atchison facility, Indiana facility, or at the Illinois Corn Processing, LLC ("ICP") facility, (ii) the availability and cost of grain, flour, and barrels, and fluctuations in energy costs, (iii) the effectiveness of our corn purchasing program to mitigate our exposure to commodity price fluctuations, (iv) the effectiveness or execution of our five-year strategic plan, (v) potential adverse effects to operations and our system of internal controls related to the loss of key management personnel, (vi) the competitive environment and related market conditions, (vii) the ability to effectively pass raw material price increases on to customers, (viii) the positive or adverse impact to our earnings as a result of the high volatility in our equity method investment's, ICP's, operating results, (ix) ICP's access to capital, (x) our limited influence over the ICP joint venture operating decisions, strategies or financial decisions (including investments, capital spending and distributions), (xi) our ability to source product from the ICP joint venture or unaffiliated third parties, (xii) our ability to maintain compliance with all applicable loan agreement covenants, (xiii) our ability to realize operating efficiencies, (xiv) actions of governments, (xv) consumer tastes and preferences, and (xvi) the volatility in our earnings resulting from the timing differences between a business interruption and a potential insurance recovery. For further information on these and other risks and uncertainties that may affect our business, including risks specific to our Distillery and Ingredient segments, see Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.

## METHOD OF PRESENTATION

Throughout this Report, when we refer to "the Company," "we," "us," "our," and words of similar import in reference to activities prior to January 3, 2012, the date a reorganization occurred ("the Reorganization"), we are referring to the combined business of MGPI Processing, Inc. (formerly MGP Ingredients, Inc.) and its consolidated subsidiaries, and when we refer to "the Company," "we," "us," "our," and words of similar import in reference to activities occurring after the Reorganization, we are referring to the combined business of MGP Ingredients, Inc. (formerly named MGPI Holdings, Inc.) and its consolidated subsidiaries, except to the extent that the context otherwise indicates.

All amounts in this report, except for share, par values, bushels, gallons, pounds, mmbtu, proof gallons, per share, per bushel, per gallon, per proof gallon and percentage amounts, are shown in thousands unless otherwise noted.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## MGP INGREDIENTS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

	Quarter Ended		Year to Date Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Sales	\$92,071	\$85,903	\$176,935	\$170,485
Less: excise taxes	6,717	5,336	11,168	10,922
Net sales	85,354	80,567	165,767	159,563
Cost of sales <sup>(a)</sup>	67,826	72,259	134,851	144,454
Gross profit	17,528	8,308	30,916	15,109
Selling, general and administrative expenses	8,025	5,166	14,505	10,238
Loss on insurance recoveries	—	70	—	70
Income from operations	9,503	3,072	16,411	4,801
Interest expense, net	(129	) (218	) (260	) (416
Equity method investment earnings	3,096	2,331	4,448	5,666
Income before income taxes	12,470	5,185	20,599	10,051
Provision for income taxes	4,599	86	7,658	167
Net income	7,871	5,099	12,941	9,884
Other comprehensive income, net of tax	330	500	258	325
Comprehensive income	\$8,201	\$5,599	\$13,199	\$10,209
Basic and diluted earnings per share	\$0.44	\$0.28	\$0.72	\$0.55
Dividends and dividend equivalents per common share	\$—	\$—	\$0.06	\$0.05

Includes related party purchases of \$10,145 and \$9,008 for the quarters ended June 30, 2015 and 2014, <sup>(a)</sup> respectively. Includes related party purchases of \$19,437 and \$16,140 for the year to date periods ended June 30, 2015 and 2014. See Note 2. Equity Method Investments.

See accompanying notes to unaudited condensed consolidated financial statements

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MGP INGREDIENTS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(Dollars in thousands)

	June 30, 2015	December 31, 2014
Current Assets		
Cash and cash equivalents	\$4,361	\$5,641
Receivables (less allowance for doubtful accounts: June 30, 2015 - \$6; December 31, 2014 - \$12)	36,753	32,672
Inventory	45,017	34,441
Prepaid expenses	1,842	1,179
Deferred income taxes	6,093	7,924
Refundable income taxes	—	388