

MGP INGREDIENTS INC
Form 10-Q
August 03, 2017

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, 2017
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 45-4082531
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

100 Commercial Street, Atchison, Kansas 66002
(Address of principal executive offices) (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, a smaller reporting company, or an "emerging growth 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
 Non-accelerated filer (Do not check if smaller reporting company) Smaller Reporting Company
 Emerging growth company

Edgar Filing: MGP INGREDIENTS INC - Form 10-Q

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

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

16,715,939 shares of Common Stock, no par value as of July 27, 2017

INDEX

| <u>PART I. FINANCIAL INFORMATION</u> | Page |
|--|-----------|
| <u>Item 1. Condensed Consolidated Financial Statements</u> | |
| <u>Condensed Consolidated Statements of Income</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income</u> | <u>4</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>5</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>6</u> |
| <u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u> | <u>7</u> |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | <u>8</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>18</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>29</u> |
| <u>Item 4. Controls and Procedures</u> | <u>29</u> |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>30</u> |
| <u>Item 1A. Risk Factors</u> | <u>30</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>30</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>31</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>31</u> |
| <u>Item 5. Other Information</u> | <u>31</u> |
| <u>Item 6. Exhibits</u> | <u>32</u> |

METHOD OF PRESENTATION

Throughout this Report, when we refer to "the Company," "MGP," "we," "us," "our," and words of similar import, we are referring to the combined business of MGP Ingredients, Inc. and its consolidated subsidiaries, except to the extent that the context otherwise indicates. In this document, for any references to Note 1 through Note 10, refer to the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1.

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 INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

| | Quarter Ended | | Year to Date Ended | |
|---|------------------|------------------|--------------------|------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Sales | \$87,892 | \$ 82,174 | \$179,237 | \$159,365 |
| Less: excise taxes | 2,139 | 1,782 | 6,315 | 2,138 |
| Net sales | 85,753 | 80,392 | 172,922 | 157,227 |
| Cost of sales ^(a) | 66,928 | 64,861 | 135,056 | 124,650 |
| Gross profit | 18,825 | 15,531 | 37,866 | 32,577 |
| Selling, general and administrative expenses | 8,311 | 6,404 | 15,960 | 12,725 |
| Operating income | 10,514 | 9,127 | 21,906 | 19,852 |
| Equity method investment earnings (loss) (Note 2) | (819) | 1,079 | (348) | 1,596 |
| Interest expense, net | (379) | (328) | (710) | (639) |
| Income before income taxes | 9,316 | 9,878 | 20,848 | 20,809 |
| Income tax expense (Note 4) | 2,947 | 3,570 | 5,801 | 7,442 |
| Net income | \$6,369 | \$ 6,308 | \$15,047 | \$13,367 |
| Income attributable to participating securities | 183 | 240 | 433 | 506 |
| Net income attributable to common shareholders and used in EPS calculation (Note 5) | \$6,186 | \$ 6,068 | \$14,614 | \$12,861 |
| Share information: | | | | |
| Diluted weighted average common shares | 16,745,679 | 16,617,857 | 16,727,305 | 16,612,416 |
| Basic and diluted earnings per common share | \$0.37 | \$ 0.37 | \$0.87 | \$0.77 |
| Dividends and dividend equivalents per common share | \$0.04 | \$ — | \$0.08 | \$0.08 |

Includes related party purchases of \$9,180 and \$6,698 for the quarters ended June 30, 2017 and 2016, respectively.

^(a) Includes related party purchases of \$18,425 and \$12,939 for the year to date periods ended June 30, 2017 and 2016, respectively.

See accompanying notes to unaudited condensed consolidated financial statements

3

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, | June 30, | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$6,369 | \$6,308 | \$15,047 | \$13,367 |
| Other comprehensive loss, net of tax: | | | | |
| Change in post-employment benefits | (38) | (18) | (77) | (35) |
| Change in equity method investments | (2) | (3) | (4) | \$(3) |
| Other comprehensive loss | (40) | (21) | (81) | (38) |
| Comprehensive income | \$6,329 | \$6,287 | \$14,966 | \$13,329 |

See accompanying notes to unaudited condensed consolidated financial statements

4

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

| | June 30, 2017 | December 31, 2016 |
|--|------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$7,911 | \$ 1,569 |
| Receivables (less allowance for doubtful accounts: June 30, 2017 - \$24; December 31, 2016 - \$24) | 34,930 | 26,085 |
| Inventory | 85,551 | 78,858 |
| Prepaid expenses | 2,832 | 1,684 |
| Refundable income taxes | 3,131 | 2,705 |
| Total current assets | 134,355 | 110,901 |
| Property and equipment | 252,586 | 246,219 |
| Less accumulated depreciation and amortization | (158,812) | (153,428) |
| Property and equipment, net | 93,774 | 92,791 |
| Equity method investments (Note 2) | 11,152 | 18,934 |
| Other assets | 2,665 | 2,710 |
| Total assets | \$241,946 | \$ 225,336 |
| Current Liabilities | | |
| Current maturities of long-term debt | \$4,366 | \$ 4,359 |
| Accounts payable | 16,140 | 20,342 |
| Accounts payable to affiliate, net | 3,181 | 3,349 |
| Accrued expenses | 8,009 | 8,945 |
| Total current liabilities | 31,696 | 36,995 |
| Long-term debt, less current maturities | 14,034 | 16,218 |
| Revolving credit facility | 25,332 | 15,424 |
| Deferred credits | 2,568 | 2,978 |
| Accrued retirement, health and life insurance benefits | 3,415 | 3,604 |
| Deferred income taxes | 4,009 | 3,432 |
| Other noncurrent liabilities | 402 | 393 |
| Total liabilities | 81,456 | 79,044 |
| Commitments and Contingencies (Note 6) | | |
| Stockholders' Equity | | |
| Capital stock | | |
| Preferred, 5% non-cumulative; \$10 par value; authorized 1,000 shares; issued and outstanding 437 shares | 4 | 4 |
| Common stock | | |
| No par value; authorized 40,000,000 shares; issued 18,115,965 shares at June 30, 2017 and December 31, 2016, and 16,715,939 and 16,658,765 shares outstanding at June 30, 2017 and December 31, 2016, respectively | 6,715 | 6,715 |
| Additional paid-in capital | 14,723 | 14,279 |
| Retained earnings | 156,325 | 142,652 |
| Accumulated other comprehensive loss, net of tax | (454) | (373) |
| Treasury stock, at cost | | |
| Shares of 1,400,026 at June 30, 2017 and 1,457,200 at December 31, 2016 | (16,823) | (16,985) |
| Total stockholders' equity | 160,490 | 146,292 |
| Total liabilities and stockholders' equity | \$241,946 | \$ 225,336 |

See accompanying notes to unaudited condensed consolidated financial statements

5

MGP INGREDIENTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

| | Year to Date Ended | |
|---|--------------------|------------------|
| | June 30, 2017 | June 30, 2016 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 15,047 | \$ 13,367 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and amortization | 5,554 | 5,983 |
| Distribution received from equity method investee | 7,131 | 3,300 |
| Deferred income taxes, including change in valuation allowance | 577 | (749) |
| Share-based compensation | 1,737 | 1,234 |
| Equity method investment earnings | 348 | (1,596) |
| Other, net | — | (230) |
| Changes in Operating Assets and Liabilities: | | |
| Receivables, net | (8,845) | (3,328) |
| Inventory | (6,693) | (12,894) |
| Prepaid expenses | (1,148) | 270 |
| Accounts payable | (671) | (2,106) |
| Accounts payable to affiliate, net | (168) | 196 |
| Accrued expenses | (934) | (2,814) |
| Income taxes payable | (426) | 57 |
| Deferred credit | (410) | (348) |
| Accrued retirement health and life insurance benefits | (256) | (124) |
| Net cash provided by operating activities | 10,843 | 218 |
| Cash Flows from Investing Activities | | |
| Additions to plant, property and equipment | (9,933) | (6,088) |
| Return of equity method investment | 299 | — |
| Other, net | — | 230 |
| Net cash used in investing activities | (9,634) | (5,858) |
| Cash Flows from Financing Activities | | |
| Stock shares repurchased | (1,131) | — |
| Payment of dividends | (1,376) | (1,378) |
| Principal payments on long-term debt | (177) | (2,173) |
| Proceeds from credit facility | 12,467 | 17,064 |
| Payments on credit facility | (4,650) | (6,952) |
| Loan fees incurred with borrowings | — | (114) |
| Net cash provided by financing activities | 5,133 | 6,447 |
| Increase in cash and cash equivalents | 6,342 | 807 |
| Cash and cash equivalents, beginning of year | 1,569 | 747 |
| Cash and cash equivalents, end of period | \$ 7,911 | \$ 1,554 |

See accompanying notes to unaudited condensed consolidated financial statements

MGP INGREDIENTS, INC.
 CONDENSED CONSOLIDATED STATEMENT OF
 CHANGES IN STOCKHOLDERS' EQUITY
 (Unaudited)
 (Dollars in thousands)

| | Capital Stock Preferred | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total |
|---|-------------------------------|-----------------|----------------------------------|----------------------|---|-------------------|------------|
| Balance, December 31, 2016 | \$ 4 | \$ 6,715 | \$ 14,279 | \$ 142,652 | \$ (373) | \$(16,985) | \$ 146,292 |
| Comprehensive income: | | | | | | | |
| Net income | — | — | — | 15,047 | — | — | 15,047 |
| Other Comprehensive loss | — | — | — | — | (81) | — | (81) |
| Dividends and dividend equivalents, net of estimated forfeitures | — | — | — | (1,374) | — | — | (1,374) |
| Share-based compensation | — | — | 1,304 | — | — | — | 1,304 |
| Stock shares awarded, forfeited, and/or vested | — | — | (860) | — | — | 1,293 | 433 |
| Stock shares repurchased | — | — | — | — | — | (1,131) | (1,131) |
| Balance, June 30, 2017 | \$ 4 | \$ 6,715 | \$ 14,723 | \$ 156,325 | \$ (454) | \$(16,823) | \$ 160,490 |

See accompanying notes to unaudited condensed consolidated financial statements

7

MGP INGREDIENTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, unless otherwise noted)

Note 1. Accounting Policies and Basis of Presentation.

The Company. MGP Ingredients, Inc. ("Company") is a Kansas corporation headquartered in Atchison, Kansas. It was incorporated in 2011 and is a holding company with no operations of its own. Its principal directly-owned operating subsidiaries are MGPI Processing, Inc. ("Processing") and MGPI of Indiana, LLC ("MGPI-I"). Processing was incorporated in Kansas in 1957 and is the successor to a business founded in 1941 by Cloud L. Cray, Sr. On January 3, 2012, MGP Ingredients, Inc. reorganized into a holding company structure (the "Reorganization") through a series of steps involving various legal entities. Prior to the Reorganization, Processing was named MGP Ingredients, Inc.

Basis of Presentation and Principles of Consolidation. The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements as of and for the quarter ended June 30, 2017 should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission ("SEC"). The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal and recurring adjustments) necessary to fairly present the results for interim periods in accordance with U.S. generally accepted accounting principles ("GAAP"). Pursuant to the rules and regulations of the SEC, certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted.

Use of Estimates. The financial reporting policies of the Company conform to GAAP. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The application of certain of these policies places significant demands on management's judgment, with financial reporting results relying on estimation about the effects of matters that are inherently uncertain. For all of these policies, management cautions that future events rarely develop as forecast, and estimates routinely require adjustment and may require material adjustment.

Inventory. Inventory includes finished goods, raw materials in the form of agricultural commodities used in the production process and certain maintenance and repair items. Bourbon and whiskeys are normally aged in barrels for several years, following industry practice; all barreled bourbon and whiskey is classified as a current asset. The Company includes warehousing, insurance, and other carrying charges applicable to barreled whiskey in inventory costs.

Inventories are stated at lower of cost or net realizable value on the first-in, first-out, or FIFO, method. Inventory valuations are impacted by constantly changing prices paid for key materials, primarily corn. Inventory consists of the following:

Edgar Filing: MGP INGREDIENTS INC - Form 10-Q

| | June 30, December 31, | |
|---|-----------------------|-----------|
| | 2017 | 2016 |
| Finished goods | \$14,474 | \$ 14,002 |
| Barreled distillate (bourbon and whiskey) | 56,383 | 50,941 |
| Work in process | 2,141 | 1,933 |
| Raw materials | 4,271 | 4,274 |
| Maintenance materials | 6,693 | 6,231 |
| Other | 1,589 | 1,477 |
| Total | \$85,551 | \$ 78,858 |

8

Equity Method Investments. The Company accounts for its investment in non-consolidated subsidiaries under the equity method of accounting when the Company has significant influence, but does not have more than 50 percent voting control, and is not considered the primary beneficiary. Under the equity method of accounting, the Company reflects its investment in non-consolidated subsidiaries within the Company's Condensed Consolidated Balance Sheets as Equity method investments; the Company's share of the earnings or losses of the non-consolidated subsidiaries is reflected as Equity method investment earnings in the Condensed Consolidated Statements of Income.

The Company reviews its investments in non-consolidated subsidiaries for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary include, but are not limited to, the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment.

Revenue Recognition. Except as discussed below, revenue from the sale of the Company's products is recognized as products are delivered to customers according to shipping terms and when title and risk of loss have transferred. Income from various government incentive grant programs is recognized as it is earned.

The Company's Distillery segment routinely produces unaged distillate, and this product is frequently barreled and warehoused at a Company location for an extended period of time in accordance with directions received from the Company's customers. This product must meet customer acceptance specifications, the risks of ownership and title to the goods must be passed to the customer, and requirements for bill and hold revenue recognition must be met prior to the Company recognizing revenue from the sale of the product. Separate warehousing agreements are maintained for customers who store their product with the Company and warehouse services revenues are recognized as the services are provided.

Sales include customer paid freight costs billed to customers for the quarters ended June 30, 2017 and 2016 of \$3,463 and \$3,939, respectively and \$7,078 and \$8,076 for the year to date periods ended June 30, 2017 and 2016, respectively.

Income Taxes. The Company accounts for income taxes using an asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Evaluating the need for, and amount of a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all available evidence on a jurisdiction-by-jurisdiction basis. Such judgments require the Company to interpret existing tax law and other published guidance as applied to the Company's circumstances. As part of this assessment, the Company considers both positive and negative evidence about its profitability and tax situation. A valuation allowance is recognized if it is more likely than not that at least some portion of the deferred tax asset will not be realized.

Accounting for uncertainty in income tax positions requires management judgment and the use of estimates in determining whether the impact of a tax position is "more likely than not" of being sustained. The Company considers many factors when evaluating and estimating its tax positions, which may require periodic adjustment and which may not accurately anticipate actual outcomes. It is possible that amounts reserved for potential exposure could change as a result of the conclusion of tax examinations and, accordingly, materially affect the Company's reported net income after tax.

Earnings per Share. Basic and diluted earnings per share are computed using the two-class method, which is an earnings allocation formula that determines net income per share for each class of Common Stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income attributable to common shareholders by the weighted average shares outstanding during the period.

Long-Lived Assets and Loss on Impairment of Assets. Management reviews long-lived assets, mainly property and equipment assets, whenever events or circumstances indicate that usage may be limited and carrying values may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are determined to be impaired, the impairment is measured by the amount by which the asset carrying value exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No events or conditions occurred during the quarter ended June 30, 2017 that required the Company to test its long-lived assets for impairment.

Fair Value of Financial Instruments. The Company determines the fair values of its financial instruments based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy is broken down into three levels based upon the observability of inputs. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability.

The Company's short term financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The carrying value of the short term financial instruments approximates the fair value due to their short term nature. These financial instruments have no stated maturities or the financial instruments have short term maturities that approximate market.

The fair value of the Company's debt is estimated based on current market interest rates for debt with similar maturities and credit quality. The fair value of the Company's debt was \$44,372 and \$37,412 at June 30, 2017 and December 31, 2016, respectively. The financial statement carrying value of total debt was \$43,732 (including unamortized loan fees of \$485) and \$36,001 (including unamortized loan fees of \$576) at June 30, 2017 and December 31, 2016, respectively. These fair values are considered Level 2 under the fair value hierarchy.

Recent Accounting Pronouncements.

In May 2017, the FASB issued Accounting Standards Update ("ASU") 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies what constitutes a modification of a share-based payment award. This ASU is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is evaluating the effect that ASU 2017-09 will have on its consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires companies to present the service cost component of net benefit cost in the same line items in which they report compensation cost. Companies will present all other components of net benefit cost outside operating income, if this subtotal is presented.

This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is evaluating the effect that ASU 2017-07 will have on its consolidated financial statements and related disclosures.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the guidance in Subtopic 610-20 on accounting for derecognition of a nonfinancial asset. The ASU also defines in-substance nonfinancial assets and includes guidance on partial sales of nonfinancial assets.

An entity is required to apply the amendments in this ASU at the same time that it applies ASU 2014-09 (see below). The Company is evaluating the effect that ASU 2017-05 will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The changes are effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. All entities may early adopt the standard for goodwill impairment tests with measurement dates after January 1, 2017. The Company is evaluating the effect that ASU 2017-04 will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update), which incorporates into the FASB Accounting Standards Codification® recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The SEC staff had previously announced that registrants should include the disclosures starting with their December 2017 financial statements. The Company is evaluating the effect that ASU 2017-03 will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Entities may early adopt the ASU and apply it to transactions that have not been reported in financial statements that have been issued or made available for issuance. The Company is evaluating the effect that ASU 2017-01 will have on its consolidated financial statements and related disclosures.

ASU Transition Updates.

In February 2016, the FASB issued ASU 2016-02, Leases, which aims to make leasing activities more transparent and comparable and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. This ASU is effective for all interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements and related disclosures. At June 30, 2017, the Company had various machinery and equipment operating leases, as well as operating leases for 224 rail cars and one office space.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in GAAP, including industry specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. The FASB will permit companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016.

In 2016, the Company established an implementation team consisting of internal and external representatives. The implementation team is in the process of assessing the impact the new standard will have on the consolidated financial statements and assessing the impact on individual contracts in the Company's revenue streams. The scoping for the assessment is complete and the testing of individual contracts is substantially complete, with a review and compilation of findings to follow. In addition, the implementation team is in the process of identifying, and will then implement, appropriate changes to business processes, systems and controls to support recognition and disclosure under the new standard. The implementation team will report findings and progress of the project to management and the Audit Committee on a frequent basis through the effective date. The Company will adopt the requirements of the new standard in the first quarter of 2018 and anticipates using the modified retrospective transition method. The Company has not yet determined the quantitative impact on its consolidated financial statements.

Note 2. Equity Method Investments.

As of June 30, 2017, the Company's investment accounted for using the equity method of accounting was a 30 percent interest in Illinois Corn Processing ("ICP"), which manufactures alcohol for fuel, industrial and beverage applications. Until December 23, 2016, the Company also had a 50 percent interest in D.M. Ingredients, GmbH, ("DMI"), which produced certain specialty starch and protein ingredients.

On December 29, 2014, the Company gave notice to DMI and to the Company's partner in DMI, Crespel and Dieters GmbH & Co. KG ("C&D"), to terminate the joint venture effective June 30, 2015. On June 22, 2015, a termination agreement was executed by and between the Company, DMI, and C&D to dissolve DMI effective June 30, 2015. Additionally, on June 22, 2015 a termination agreement was executed by and between the Company and DMI to terminate their distribution agreement effective June 29, 2015. On December 23, 2016, the Company received its portion of the remaining DMI liquidation proceeds, which totaled \$351, as a return of its investment.

Refer to Note 10 for events occurring subsequent to the financial statement date for the quarter and year to date periods ended June 30, 2017 related to the Company's equity method investment in ICP.

Summary Financial Information (unaudited). Condensed financial information related to the Company's non-consolidated equity method investment in ICP is shown below.

| | Quarter Ended | | Year to Date Ended | |
|---|---------------|---------------|--------------------|---------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| ICP's Operating results: | | | | |
| Net sales ^(a) | \$39,677 | \$40,576 | \$78,062 | \$90,185 |
| Cost of sales and expenses ^(b) | 42,410 | 36,980 | 79,224 | 84,866 |
| Net income | \$(2,733) | \$3,596 | \$(1,162) | \$5,319 |

Includes related party sales to MGPI of \$9,015 and \$6,698 for the quarters ended June 30, 2017 and 2016, ^(a) respectively. Includes related party sales to MGPI of \$17,672 and \$12,939 for the year to date periods ended June 30, 2017 and 2016, respectively.

Includes depreciation and amortization of \$862 and \$747 for the quarters ended June 30, 2017 and 2016, ^(b) respectively. Includes depreciation and amortization of \$1,720 and \$1,482 for the year to date periods ended June 30, 2017 and 2016, respectively.

The Company's equity method investment earnings (loss) from joint ventures, based on unaudited financial statements, is as follows:

| | Quarter Ended | | Year to Date Ended | |
|-----------------------------------|---------------|---------------|--------------------|---------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| ICP (30% interest) | \$(819) | \$1,079 | \$(348) | \$1,596 |
| DMI (50% interest) ^(a) | — | — | — | — |
| | \$(819) | \$1,079 | \$(348) | \$1,596 |

^(a) The Company's equity method investment in DMI ended on December 23, 2016, when it received a return of its investment.

The Company's investment in joint ventures is as follows:

| | June 30, 2017 | December 31, 2016 |
|--------------------|--------------------------|--------------------------|
| ICP (30% interest) | \$ 11,152 ^(a) | \$ 18,934 ^(a) |

^(a) During the year to date periods ended June 30, 2017 and 2016, the Company received cash distributions from ICP of \$7,430 and \$3,300, respectively. The Company's portions of the cash distributions totaling \$7,430, were recorded in the Condensed Consolidated Balance Sheets as cash and returns on investment. In the Condensed Consolidated Statements of Cash Flows, \$7,131 of the cash distributions received in the year to date period ended June 30, 2017 was recorded as a return on investment. The balance of \$299 was recorded as a return of investment because, since the inception of the investment, total dividends received exceeded total equity earnings by this amount (see Note 10). The cash distribution of \$3,300 received in the year to date period ended June 30, 2016 was a return on investment.

Note 3. Corporate Borrowings.

Indebtedness Outstanding:

| Description ^(a) | June 30, 2017 | December 31, 2016 |
|---|------------------|----------------------|
| Credit Agreement - Revolver, 3.262% (variable rate) due 2020 | \$25,817 | \$16,000 |
| Credit Agreement - Fixed Asset Sub-Line term loan, 3.3005% (variable rate) due 2020 | 4,753 | 5,253 |
| Credit Agreement - Term Loan, 3.3005% (variable rate) due 2020 | 11,500 | 13,000 |
| Secured Promissory Note, 3.71% (variable rate) due 2022 | 2,147 | 2,324 |
| Unamortized loan fees ^(b) | (485) | (576) |
| Total | \$43,732 | \$36,001 |
| Less current maturities of long term debt | (4,366) | (4,359) |
| Long-term debt | \$39,366 | \$31,642 |

^(a) Interest rates are as of June 30, 2017.

^(b) Loan fees are being amortized over the life of the Credit Agreement.

Credit Agreement. On March 21, 2016, the Company entered into a Third Amended and Restated Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association. The Credit Agreement contains customary terms and conditions substantially similar to the Second Amended and Restated Credit Agreement (the "Previous Credit Agreement") and associated schedules with Wells Fargo Bank, National Association. The Credit Agreement is a \$15,000 term loan and \$80,000 revolving facility resulting in a \$95,000 facility. The principal of the term loan can be prepaid at any time without penalty or otherwise will be repaid by the Company in installments of \$250 each month.

The Company was in compliance with the Credit Agreement covenants at June 30, 2017. The Company incurred no new loan fees related to the Credit Agreement during the quarter ended June 30, 2017. The unamortized balance of total loan fees related to the Credit Agreement was \$485 at June 30, 2017 and is included in the carrying value of total debt on the Condensed Consolidated Balance Sheets as described above in the Fair Value of Financial Instruments section. The loan fees are being amortized over the life of the Credit Agreement.

The amount of borrowings which the Company may make is subject to borrowing base limitations adjusted for the Fixed Asset Sub-Line collateral as described in the Credit Agreement. As of June 30, 2017, the Company's total outstanding borrowings under the Credit Agreement were \$42,070, comprised of \$25,817 of revolver borrowing (including unamortized loan fees), \$4,753 of fixed asset sub-line term loan borrowing, and \$11,500 of term loan borrowing, leaving \$49,431 available. The average interest rate for total borrowings of the Credit Agreement at

June 30, 2017 was 3.28 percent.

Note 4. Income Taxes

Income tax expense for the quarter and year to date period ended June 30, 2017 was \$2,947 and \$5,801, for an effective tax rate for the quarter of 31.6 percent and for the year to date period of 27.8 percent. The effective tax rate differs from the 35 percent federal statutory rate on pretax income, primarily due to the impact of income tax benefits related to share-based compensation as accounted for in ASU 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based

13

Payment Accounting, which was adopted by the Company during the quarter ended September 30, 2016, the domestic production activities deduction, and state tax planning, including state income tax credits in Indiana and Kansas. The Company updated its estimated annual effective tax rate to include the anticipated effects of the use of capital loss carryforwards and a release of the related \$716 in valuation allowance for the quarter and year to date period ended June 30, 2017, resulting in a reduction of income tax expense of \$364. This release was based upon the anticipated capital gain related to the Company's sale of its 30 percent ownership interest in ICP (see Note 10). As of June 30, 2017, the Company has a remaining valuation allowance of \$10 related to state net operating loss carry forwards in states in which the Company no longer files tax returns.

Income tax expense for the quarter and year to date period ended June 30, 2016, was \$3,570 and \$7,442, respectively, for an effective tax rate of 36.1 percent for the quarter and 35.8 percent for the year to date period. The primary reasons for the reduction in effective tax rate of 4.5 percentage points in the quarter ended June 30, 2017, are the state tax credits and the release of the valuation allowance. The primary reasons for the reduction in effective tax rate of 8.0 percentage points in the year to date period ended June 30, 2017, are the impact of ASU 2016-09 (see above), the state tax credits, and the release of the valuation allowance.

Note 5. Dividends and Earnings per Share.

Dividend and dividend equivalent information for year to date periods ended June 30, 2017 and 2016 is detailed below:

Dividend and Dividend Equivalent Information (per Share and Unit)

| Declaration date | Payment date | Declared | Paid | Total payment |
|-------------------|----------------|----------|--------|---------------|
| 2017 | | | | |
| February 15, 2017 | March 24, 2017 | \$ 0.04 | \$0.04 | \$ 688 |
| May 2, 2017 | June 9, 2017 | 0.04 | 0.04 | 688 |
| | | \$ 0.08 | \$0.08 | \$ 1,376 |
| 2016 | | | | |
| March 7, 2016 | April 14, 2016 | \$ 0.08 | \$0.08 | \$ 1,378 |

The computations of basic and diluted earnings per share for the quarter and year to date periods ended June 30, 2017 and 2016 are as follows:

| | Quarter Ended | | Year to Date Ended | |
|---|---------------|---------------|--------------------|---------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Operations: | | | | |
| Net income ^(a) | \$6,369 | \$ 6,308 | \$15,047 | \$ 13,367 |
| Income attributable to participating securities ^(b) | 183 | 240 | 433 | 506 |
| Net income attributable to common shareholders | \$6,186 | \$ 6,068 | \$14,614 | \$ 12,861 |
| Share information: | | | | |
| Basic and diluted weighted average common shares ^(c) | 16,745,679 | 16,617,857 | 16,727,305 | 16,612,416 |
| Basic and diluted earnings per share | \$0.37 | \$ 0.37 | \$0.87 | \$ 0.77 |

^(a) Net income attributable to all shareholders.

^(b) At June 30, 2017 and 2016, participating securities included 497,492 and 525,986 nonvested restricted stock units, respectively, and 0 and 128,500 nonvested shares of restricted stock, respectively.

- (c) Under the two-class method, weighted average common shares at June 30, 2017 and 2016, exclude nonvested, participating securities of 497,492 and 654,486, respectively.

Note 6. Commitments and Contingencies.

Commitments. Open purchase order commitments at June 30, 2017 related to raw materials and packaging used in the ordinary course of business were \$60,079 extending out to June 2018. Open purchase order commitments at June 30, 2017 related to the purchase of capital assets were \$3,843.

In 2015 and 2016, our Board of Directors approved a \$29,000 major expansion in warehousing capacity on a 20-acre campus adjoining our current Lawrenceburg facility as part of the implementation of our five-year strategic plan to grow the whiskey category. As of June 30, 2017, we had incurred \$22,725 of this approved investment amount.

Contingencies. There are various legal and regulatory proceedings involving the Company and its subsidiaries. The Company accrues estimated costs for a contingency when management believes that a loss is probable and can be reasonably estimated.

On December 21, 2016, the U.S. Environmental Protection Agency ("EPA") issued a Notice of Violation to the Company alleging the Company commenced construction of new aging warehouses for whiskey at its facility in Lawrenceburg, Indiana, without first applying for or obtaining a Clean Air Act permit and without adequately demonstrating to the EPA that emissions control equipment did not need to be installed to meet applicable air quality standards. The Company notes that neither EPA nor the State of Indiana have required emission control equipment for aging whiskey warehouses and, to our knowledge, no other whiskey distillers in the U.S. have been required to install emissions control equipment in their aging whiskey warehouses. No demand for a penalty has been made in connection with the Notice of Violation, but the Company believes it is probable that a penalty will be assessed. Although it is not possible to reasonably estimate a loss or range of loss at the date of this filing, the Company currently does not expect that the amount of any such penalty or related remedies would have a material adverse effect on the Company's business, financial condition or results of operations.

A chemical release occurred at the Company's Atchison facility on October 21, 2016, which resulted in emissions venting into the air. The Company reported the event to the EPA, the Occupational, Safety, and Health Administration ("OSHA"), and to Kansas and local authorities on that date, and is cooperating fully to investigate and ensure that all appropriate response actions are taken. The Company has also engaged outside experts to assist the investigation and response. The Company believes it is probable that a fine or penalty may be imposed by regulatory authorities, but it is currently unable to reasonably estimate the amount thereof for Kansas and local authorities since some investigations are not complete and could take several months up to a few years to complete. Private plaintiffs have initiated, and additional private plaintiffs may initiate, legal proceedings for damages resulting from the emission, but the Company is currently unable to reasonably estimate the amount of any such damages that might result. The Company's insurance is expected to provide coverage of any damages to private plaintiffs, subject to a deductible of \$250, but certain regulatory fines or penalties may not be covered and there can be no assurance to the amount or timing of possible insurance recoveries if ultimately claimed by the Company. There was no significant damage to the Company's Atchison plant as a result of this incident. No other MGP facilities, including the distillery in Lawrenceburg, Indiana, were affected by this incident.

OSHA completed its investigation and, on April 19, 2017, issued its penalty to the Company in the amount of \$138. Management settled this assessment with OSHA in full for \$75, which was paid on May 16, 2017. A portion, or all, of the penalty amount may be covered by insurance.

The EPA informed the Company on August 1, 2017, that it intends to seek civil penalties of approximately \$250 in connection with its investigation, while offering the Company the opportunity to settle the matter prior to the EPA proceeding with a formal enforcement action. The Company is seeking a negotiated settlement with the EPA. Since negotiations are ongoing and EPA-proposed penalties are not material to the quarter ended June 30, 2017, the Company has not included an accrual in its results. A portion, or all, of the settled penalty amount may be covered by

insurance.

The Alcohol and Tobacco Tax and Trade Bureau ("TTB") performed a federal excise tax audit of the Company's subsidiaries, MGPI of Indiana, LLC and MGPI Processing, Inc., for the periods January 1, 2012 through July 31, 2015 and January 1, 2013 through July 31, 2015, respectively. TTB informed the Company that it would be assessing a penalty as a result of the audit, and the Company offered a settlement for the penalty. The settlement has been accepted in principle by the TTB and the amount expensed in the prior year was insignificant to the Company's 2016 financial results.

Note 7. Employee and Non-Employee Benefit Plans.

Equity-Based Compensation Plans. The Company's equity-based compensation plans provide for the awarding of stock options, stock appreciation rights, shares of restricted stock ("Restricted Stock"), and restricted stock units ("RSUs") for senior executives and salaried employees, as well as non-employee directors. The Company has two active equity-based compensation plans: the Employee Equity Incentive Plan of 2014 (the "2014 Plan") and the Non-Employee Director Equity Incentive Plan (the "Directors' Plan"). The 2014 Plan replaced the inactive Stock Incentive Plan of 2004.

As of June 30, 2017, 280,074 RSUs had been granted under the 2014 Plan, with 14,616 of those forfeited for termination of employment. 62,995 shares had been granted related to the Directors' Plan as of June 30, 2017 and 497,492 shares of unvested RSUs were outstanding under the Company's active and inactive long-term incentive plans.

As of June 30, 2017, the estimated unaccrued amount of liability-classified awards yet to be granted in 2018, net of estimated forfeitures, was \$1,268.

Note 8. Operating Segments.

The Company has two reportable segments: distillery products and ingredient solutions. The distillery products segment consists of food grade alcohol, including premium beverage alcohol and industrial alcohol, and distillery co-products, such as distillers feed (commonly called dried distillers grain in the industry), fuel grade alcohol, and corn oil. The distillery products segment also includes warehouse services, including barrel put away, barrel storage, and barrel retrieval services. Ingredient solutions consists of specialty starches and proteins, commodity starches and commodity proteins.

Operating profit for each segment is based on net sales less identifiable operating expenses. Non-direct selling, general and administrative expenses, interest expense, earnings from our equity method investments, other special charges and other general miscellaneous expenses have been excluded from segment operations and classified as Corporate. Receivables, inventories and equipment have been identified with the segments to which they relate. All other assets are considered as Corporate.

| | Quarter Ended | | Year to Date Ended | |
|-------------------------------|---------------|----------|--------------------|-----------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Net Sales to Customers | | | | |
| Distillery products | \$70,699 | \$66,740 | \$144,648 | \$130,582 |
| Ingredient solutions | 15,054 | 13,652 | 28,274 | 26,645 |
| Total | 85,753 | 80,392 | 172,922 | 157,227 |
| Gross Profit | | | | |
| Distillery products | 15,953 | 13,663 | 32,568 | 28,515 |
| Ingredient solutions | 2,872 | 1,868 | 5,298 | 4,062 |
| Total | 18,825 | 15,531 | 37,866 | 32,577 |
| Depreciation and Amortization | | | | |
| Distillery products | 2,125 | 1,957 | 4,171 | 4,475 |
| Ingredient solutions | 416 | 411 | 824 | 855 |
| Corporate | 275 | 310 | 559 | 653 |
| Total | 2,816 | 2,678 | 5,554 | 5,983 |
| Income before Income Taxes | | | | |
| Distillery products | 14,131 | 12,900 | 29,649 | 27,283 |
| Ingredient solutions | 2,269 | 1,148 | 4,074 | 2,750 |
| Corporate | (7,084) | (4,170) | (12,875) | (9,224) |
| Total | \$9,316 | \$9,878 | \$20,848 | \$20,809 |

The following table allocates assets to each segment:

| | As of | As of |
|--|----------|----------|
| | June 30, | December |
| | 2017 | 31, 2016 |

Identifiable Assets

| | | |
|----------------------|------------|------------|
| Distillery products | \$ 177,718 | \$ 161,059 |
| Ingredient solutions | 26,274 | 27,109 |
| Corporate | 37,954 | 37,168 |
| Total | \$ 241,946 | \$ 225,336 |

Note 9. Derivative Instruments.

Certain commodities the Company uses in its production process are exposed to market price risk due to volatility in the prices for those commodities. The Company's grain supply contract for its Lawrenceburg and Atchison facilities permits the Company to purchase grain for delivery up to 12 months into the future at negotiated prices. The pricing for these contracts is based on a formula using several factors. The Company has determined that the firm commitments to purchase grain under the terms of these contracts meet the normal purchases and sales exception as defined under ASC 815, Derivatives and Hedging, and has excluded the fair value of these commitments from recognition within its consolidated financial statements until the actual contracts are physically settled.

The Company's production process also involves the use of wheat flour and natural gas. The contracts for wheat flour and natural gas range from monthly contracts to multi-year supply arrangements; however, because the quantities involved have always been for amounts to be consumed within the normal expected production process, the Company has determined that these contracts meet the criteria for the normal purchases and sales exception and have excluded the fair value of these commitments from recognition within its consolidated financial statements until the actual contracts are physically settled.

Note 10. Subsequent Events.

On July 3, 2017, the Company completed the sale of its 30 percent equity ownership interest in ICP to Pacific Ethanol Central, LLC ("Pacific Ethanol") consistent with an Agreement and Plan of Merger ("Merger Agreement") entered into on June 26, 2017. Illinois Corn Processing Holdings, Inc., an affiliate of SEACOR Holdings, Inc., held the remaining equity in ICP that was also sold per the Merger Agreement.

The Company received total cash proceeds of \$9,000 (before transaction expenses and taxes), as well as a secured promissory note ("Note") with a principal amount of \$14,008, including the Company's portion of a favorable working capital adjustment. ICP is the obligor on the Note. The Note is secured by, among other things, all of the limited liability company interests issued by ICP, as well as all of the property and assets of ICP following the closing. The Note bears interest at LIBOR plus an applicable margin. The margin is 5% for the first three months the Note is outstanding, 8% for the next three months, and 10% at all times thereafter. The Note matures 18 months from the closing of the merger transaction. The Note may be prepaid without penalty or premium. The Note requires mandatory prepayment in certain circumstances as a result of the receipt of cash proceeds by the maker from the sale or other disposition of the property which is collateral under the Note. The Note includes customary representations and warranties and events of default.

The Merger Agreement also contemplated a special distribution of all of ICP's cash and cash equivalents to equity owners prior to the closing. On June 28, 2017, the Company received \$6,600 representing its 30 percent share of a dividend in the amount of \$22,000 approved on June 26, 2017. The Company also received a smaller distribution of \$830 on June 30, 2017 representing its 30 percent share of an additional distribution in the amount of \$2,765.

On August 1, 2017, the Board of Directors declared a special dividend payable to stockholders of record as of August 18, 2017, of the Company's Common Stock, and a dividend equivalent payable to holders of RSUs as of August 18, 2017, of \$.85 per share and per unit, payable on September 8, 2017. The total special dividend and dividend equivalent payment will be approximately \$14,625.

On August 1, 2017, the Board of Directors declared a quarterly dividend payable to stockholders of record as of August 18, 2017, of the Company's Common Stock, and a dividend equivalent payable to holders of RSUs as of August 18, 2017, of \$.04 per share and per unit, payable on September 11, 2017.

Refer to Note 6. for events occurring subsequent to the financial statement date related to the October 21, 2016, chemical release at the Company's Atchison facility.

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

(Dollar amounts in thousands, unless otherwise noted)

CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS

This Report on Form 10-Q contains forward looking statements as well as historical information. All statements, other than statements of historical facts, regarding the prospects of our industry and our prospects, plans, financial position, and strategic plan 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. Forward looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from those expressed or implied in the forward looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward looking statements is included in the section titled "Risk Factors" (Item 1A) of our Annual Report on Form 10-K for the year ended December 31, 2016. Forward looking statements are made as of the date of this report, and we undertake no obligation to update or revise publicly any forward looking statements, whether because of new information, future events or otherwise.

OVERVIEW

MGP is a leading producer and supplier of premium distilled spirits and specialty wheat proteins and starches. Distilled spirits include premium bourbon and rye whiskeys, and grain neutral spirits, including vodka and gin. We are also a top producer of high quality industrial alcohol for use in both food and non-food applications. Our proteins and starches provide a host of functional, nutritional and sensory benefits for a wide range of food products to serve the packaged goods industry. We have two reportable segments: our distillery products segment and our ingredient solutions segment.

MGP was incorporated in 2011 in Kansas, continuing a business originally founded by Cloud L. Cray, Sr. in Atchison, Kansas over 75 years ago. The Company's ticker symbol is MGPI.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included in this Form 10-Q, as well as our audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations - General, set forth in our Annual Report on Form 10-K for the year ended December 31, 2016.

RESULTS OF OPERATIONS

Consolidated results

The table below details the consolidated results for the quarters ended June 30, 2017 and 2016:

| | Quarter Ended June 30, | | | 2017 v. 2016 | |
|--|---------------------------|----------|----------|-----------------|-------------------|
| | 2017 | 2016 | | | |
| Net sales | \$85,753 | \$80,392 | 6.7 | % | |
| Cost of sales | 66,928 | 64,861 | 3.2 | | |
| Gross profit | 18,825 | 15,531 | 21.2 | | |
| Gross margin % | 22.0 | % 19.3 | % 2.7 | | pp ^(a) |
| SG&A expenses | 8,311 | 6,404 | 29.8 | | |
| Operating income | 10,514 | 9,127 | 15.2 | | |
| Operating margin % | 12.3 | % 11.4 | % 0.9 | | pp |
| Equity method investment earnings (loss) | (819) | 1,079 | (175.9) | | |
| Interest expense | (379) | (328) | 15.5 | | |
| Income before income taxes | 9,316 | 9,878 | (5.7) | | |
| Income tax expense | 2,947 | 3,570 | (17.5) | | |
| Effective tax expense rate % | 31.6 | % 36.1 | % (4.5) | | pp |
| Net income | \$6,369 | \$6,308 | 1.0 | % | |
| Net income margin % | 7.4 | % 7.8 | % (0.4) | | pp |

(a) Percentage points ("pp").

Net sales - Net sales for the quarter ended June 30, 2017 were \$85,753, an increase of 6.7 percent compared to the year ago quarter, which was the result of increased net sales in both segments. Within the distillery segment, net sales were up 5.9 percent. Driven by strong demand, net sales of higher margin premium beverage alcohol products increased 15.2 percent, partially offset by declines in industrial alcohol net sales, which resulted in an increase in total food grade alcohol net sales of 7.0 percent. Warehouse services revenue related to the storage of barreled whiskey also increased, while lower margin distillers feed and related co-products net sales declined. Within the ingredient solutions segment, net sales were up 10.3 percent. Net sales of specialty wheat starches, specialty wheat proteins, and commodity wheat starch increased, while net sales of commodity wheat protein decreased (see Segment Results below).

Gross profit - Gross profit for the quarter ended June 30, 2017 was \$18,825, an increase of 21.2 percent compared to the quarter ended June 30, 2016. The increase was driven by an increase in gross profit in both segments. In the distillery products segment, gross profit grew by \$2,290, or 16.8 percent. In the ingredient solutions segment, gross profit grew by \$1,004, or 53.7 percent (see Segment Results below).

SG&A expenses - SG&A expenses for the quarter ended June 30, 2017 were \$8,311, an increase of 29.8 percent compared to the quarter ended June 30, 2016. The increase in SG&A was primarily due to an increase in professional fees, advertising and promotion, and personnel costs.

Operating income - Operating income for the quarter ended June 30, 2017 increased to \$10,514 from \$9,127 for the quarter ended June 30, 2016, due to gross profit growth in both our distillery products and ingredient solutions segments, partially offset by an increase in SG&A expenses.

| | | |
|---|---------------------|--------|
| Operating income quarter-versus-quarter | Operating Income | Change |
|---|---------------------|--------|

Edgar Filing: MGP INGREDIENTS INC - Form 10-Q

| | | | |
|--|----------|--------|-------------------|
| Operating income for the quarter ended June 30, 2016 | \$9,127 | | |
| Increase in gross profit - distillery products segment ^(a) | 2,290 | 25.1 | pp ^(b) |
| Increase in gross profit - ingredient solutions segment ^(a) | 1,004 | 11.0 | pp |
| Increase in SG&A expenses | (1,907) | (20.9) | pp |
| Operating income for the quarter ended June 30, 2017 | \$10,514 | 15.2 | % |

^(a) See segment discussion.

^(b) Percentage points ("pp").

Equity method investment earnings - Our equity method investment earnings (loss) decreased to a loss of \$819 for the quarter ended June 30, 2017, from earnings of \$1,079 for the quarter ended June 30, 2016 (see Note 2). The decrease in earnings was primarily due to ICP's lower overall sales volume and average selling price, as well as an increase in selling, general, and administrative expenses including legal fees related to the July 3, 2017, sale transaction (see Note 10).

Income tax expense - Income tax expense for the quarter ended June 30, 2017 was \$2,947, for an effective tax rate for the quarter of 31.6 percent. Income tax expense for the quarter ended June 30, 2016 was \$3,570, for an effective tax rate for the quarter of 36.1 percent. The primary reasons for the 4.5 percentage point decrease in our effective tax rate quarter-versus-quarter are higher state tax credits and a release of the valuation allowance related to the effect of the anticipated utilization of capital loss carryforwards on the estimated annual effective tax rate (Note 4).

Earnings per share - Earnings per share was \$0.37 for the quarter ended June 30, 2017 compared to \$0.37 for the quarter ended June 30, 2016. Earnings per share was consistent, primarily due to improved performance from operations and a lower tax rate, offset by a decrease in equity method investment earnings.

| Change in basic and diluted earnings per share quarter-versus-quarter | Basic and Diluted EPS | Change | |
|--|--------------------------------|--------|-------------------|
| Basic and diluted earnings per share for the quarter ended June 30, 2016 | \$ 0.37 | | |
| Change in operations ^(a) | 0.06 | 16.2 | pp ^(b) |
| Change in equity method investments ^(a) | (0.07) | (18.9) | pp |
| Tax: Valuation allowance release | 0.01 | 2.7 | pp |
| Tax: State tax credits | 0.01 | 2.7 | pp |
| Tax: Change in effective tax rate (excluding tax items above) | (0.01) | (2.7) | pp |
| Basic and diluted earnings per share for the quarter ended June 30, 2017 | \$ 0.37 | — | % |

^(a) Changes are net of tax based on the effective tax rate for the base year (2016).

^(b) Percentage points ("pp").

Edgar Filing: MGP INGREDIENTS INC - Form 10-Q

The table below details the consolidated results for the year to date periods ended June 30, 2017 and 2016:

| | Year to date ended June 30, | | | 2017 v. 2016 | |
|--|-----------------------------|-----------|----------|--------------|-------------------|
| | 2017 | 2016 | | | |
| Net sales | \$172,922 | \$157,227 | 10.0 | % | |
| Cost of sales | 135,056 | 124,650 | 8.3 | | |
| Gross profit | 37,866 | 32,577 | 16.2 | | |
| Gross margin % | 21.9 | % 20.7 | % 1.2 | | pp ^(a) |
| SG&A expenses | 15,960 | 12,725 | 25.4 | | |
| Operating income | 21,906 | 19,852 | 10.3 | | |
| Operating margin % | 12.7 | % 12.6 | % 0.1 | | pp |
| Equity method investment earnings (loss) | (348) | 1,596 | (121.8) | | |
| Interest expense | (710) | (639) | 11.1 | | |
| Income before income taxes | 20,848 | 20,809 | 0.2 | | |
| Income tax expense | 5,801 | 7,442 | (22.1) | | |
| Effective tax expense rate % | 27.8 | % 35.8 | % (8.0) | | pp |
| Net income | \$15,047 | \$13,367 | 12.6 | % | |
| Net income margin % | 8.7 | % 8.5 | % 0.2 | | pp |

(a) Percentage points ("pp").

Net sales - Net sales for the year to date period ended June 30, 2017 were \$172,922, an increase of 10.0 percent compared to the year ago period, which was the result of increased net sales in both segments. Within the distillery segment, net sales were up 10.8 percent. Driven by strong demand, net sales of higher margin premium beverage alcohol products increased 22.6 percent, partially offset by declines in industrial alcohol net sales, which resulted in an increase in total food grade alcohol net sales of 13.0 percent. Warehouse services revenue related to the storage of barreled whiskey also increased, while lower margin distillers feed and related co-products net sales declined. Within the ingredient solutions segment, net sales were up 6.1 percent. Specialty wheat starches, commodity wheat starch, and commodity wheat protein increased, while net sales of specialty wheat proteins decreased (see Segment Results below).

Gross profit - Gross profit for the year to date period ended June 30, 2017 was \$37,866, an increase of 16.2 percent compared to the year to date period ended June 30, 2016. The increase was driven by an increase in gross profit in both segments. In the distillery products segment, gross profit grew by \$4,053, or 14.2 percent. In the ingredient solutions segment, gross profit grew by \$1,236, or 30.4 percent (see Segment Results below).

SG&A expenses - SG&A expenses for the year to date period ended June 30, 2017 were \$15,960, an increase of 25.4 percent compared to the year to date period ended June 30, 2016. The increase in SG&A was primarily due to an increase in personnel costs, advertising and promotion, and professional fees.

Operating income - Operating income for the year to date period ended June 30, 2017 increased to \$21,906 from \$19,852 for the year to date period ended June 30, 2016 due to gross profit growth in both our distillery products and ingredient solutions segments, partially offset by an increase in SG&A expenses.

| Operating income year to date-versus-year to date | Operating Income | Change | |
|--|------------------|--------|-------------------|
| Operating income for the year to date period ended June 30, 2016 | \$19,852 | | |
| Increase in gross profit - distillery products segment ^(a) | 4,053 | 20.4 | pp ^(b) |
| Increase in gross profit - ingredient solutions segment ^(a) | 1,236 | 6.2 | pp |
| Increase in SG&A expenses | (3,235) | (16.3) | pp |

Operating income for the year to date period ended June 30, 2017 \$21,906 10.3 %

(a) See segment discussion.

(b) Percentage points ("pp").

Equity method investment earnings - Our equity method investment earnings (loss) decreased to a loss of \$348 for the year to date period ended June 30, 2017, from earnings of \$1,596 for the year to date period ended June 30, 2016 (see Note 2). The decrease in earnings was primarily due to ICP's lower overall sales volume and average selling price, as well as an increase in selling, general, and administrative expenses including legal fees related to the July 3, 2017, sale transaction (see Note 10).

Income tax expense - Income tax expense for the year to date period ended June 30, 2017 was \$5,801, for an effective tax rate for the year to date period of 27.8 percent. Income tax expense for the year to date period ended June 30, 2016 was \$7,442, for an effective tax rate for the year to date period of 35.8 percent. The primary reasons for the 8.0 percentage point decrease in our effective tax rate period-versus-period are the impact of share based compensation as accounted for in ASU 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting, higher state tax credits, and a release of the valuation allowance related to the effect of the anticipated utilization of capital loss carryforwards on the estimated annual effective tax rate (Note 4).

Earnings per share - Earnings per share increased to \$0.87 in the year to date period ended June 30, 2017 from \$0.77 in the year to date period ended June 30, 2016, primarily due to improved performance from operations and a lower tax rate, partially offset by a decrease in equity method investment earnings and an increase in weighted average shares outstanding.

| Change in basic and diluted earnings per share year to date period-versus-year to date period | Basic and Diluted EPS | Change | |
|---|--------------------------------|---------|-------------------|
| Basic and diluted earnings per share for the year to date period ended June 30, 2016 | \$ 0.77 | | |
| Change in operations ^(a) | 0.08 | 10.4 | pp ^(b) |
| Change in equity method investments ^(a) | (0.08) | (10.4) | pp |
| Change in weighted average shares outstanding | (0.01) | (1.3) | pp |
| Tax: Current effect of ASU 2016-09 | 0.07 | 9.1 | pp |
| Tax: Valuation allowance release | 0.02 | 2.6 | pp |
| Tax: State tax credits | 0.02 | 2.6 | pp |
| Basic and diluted earnings per share for the year to date period ended June 30, 2017 | \$ 0.87 | 13.0 | % |

^(a) Changes are net of tax based on the effective tax rate for the base year (2016).

^(b) Percentage points ("pp").

SEGMENT RESULTS

Distillery Products

The following table shows selected financial information for our distillery products segment for the quarters ended June 30, 2017 and 2016.

| | PRODUCT GROUP NET SALES | | | | | Quarter-versus-Quarter Volume Increase / (Decrease) | | |
|---|---------------------------|----------------|--|----------|-----------------------|---|---|-----|
| | Quarter Ended June 30, | | Quarter-versus-Quarter Net Sales Change | | Increase / (Decrease) | | | |
| | 2017 Amount | 2016 Amount | \$ Change | % Change | | % Change | | |
| Premium beverage alcohol | \$42,287 | \$36,710 | \$ 5,577 | 15.2 | % | | | |
| Industrial alcohol | 19,342 | 20,896 | (1,554) | (7.4) | | | | |
| Food grade alcohol ^(a) | \$61,629 | \$57,606 | \$ 4,023 | 7.0 | | | | |
| Fuel grade alcohol ^(a) | 1,767 | 1,713 | 54 | 3.2 | | | | |
| Distillers feed and related co-products | 4,732 | 5,415 | (683) | (12.6) | | | | |
| Warehouse services | 2,571 | 2,006 | 565 | 28.2 | | | | |
| Total distillery products | \$70,699 | \$66,740 | \$ 3,959 | 5.9 | % | 4.1 | % | (a) |

| | Other Financial Information | | | | |
|----------------|-----------------------------|----------|---|----------|-------------------|
| | Quarter Ended June 30, | | Quarter-versus-Quarter Increase / (Decrease) | | |
| | 2017 | 2016 | \$ Change | % Change | |
| Gross profit | \$15,953 | \$13,663 | \$ 2,290 | 16.8 | % |
| Gross margin % | 22.6 | % 20.5 | % | 2.1 | pp ^(b) |

^(a) Volume change for alcohol products.

^(b) Percentage points ("pp").

Driven by strong demand, net sales of higher margin premium beverage alcohol products within food grade alcohol increased 15.2 percent over the year-ago quarter, while lower margin industrial alcohol product net sales decreased 7.4 percent, resulting in an overall food grade alcohol net sales increase of \$4,023, or 7.0 percent. Declines in net sales of distillers feed and related co-products were partially offset by an increase in warehouse services revenue, generated by increased storage of customer barrels of whiskey, and an increase in net sales of fuel grade alcohol products.

Gross profit increased quarter-versus-quarter by \$2,290, or 16.8 percent. Gross margin for the quarter ended June 30, 2017 increased to 22.6 percent from 20.5 percent for the prior year quarter. The improvement in gross profit was primarily due to increased sales of higher margin premium beverage alcohol products, a decline in input costs, and an increase in warehouse services revenue. These gains were partially offset primarily by lower gross profit on distillers feed and related co-products.

Distillery Products

The following table shows selected financial information for our distillery products segment for the year to date periods ended June 30, 2017 and 2016.

| | PRODUCT GROUP NET SALES | | | | | Period-versus-Period | |
|---|-----------------------------|------------|-----------------------|----------|------------------------------|----------------------|----------|
| | Year to date ended June 30, | | Net Sales Change | | Volume Increase / (Decrease) | | |
| | 2017 | 2016 | Increase / (Decrease) | | % | | |
| | Amount | Amount | \$ Change | % Change | | | % Change |
| Premium beverage alcohol | \$87,926 | \$71,703 | \$ 16,223 | 22.6 % | | | |
| Industrial alcohol | 38,465 | 40,109 | (1,644) | (4.1) | | | |
| Food grade alcohol ^(a) | \$ 126,391 | \$ 111,812 | \$ 14,579 | 13.0 | | | |
| Fuel grade alcohol ^(a) | 3,409 | 3,568 | (159) | (4.5) | | | |
| Distillers feed and related co-products | 9,654 | 11,195 | (1,541) | (13.8) | | | |
| Warehouse services | 5,194 | 4,007 | 1,187 | 29.6 | | | |
| Total distillery products | \$ 144,648 | \$ 130,582 | \$ 14,066 | 10.8 % | 10.8 | % | (a) |

| | Other Financial Information | | | | |
|----------------|-----------------------------|----------|-----------------------|----------|-------------------|
| | Year to date ended June 30, | | Period-versus-Period | | |
| | 2017 | 2016 | Increase / (Decrease) | | % |
| | \$ | \$ | \$ Change | % Change | |
| Gross profit | \$32,568 | \$28,515 | \$ 4,053 | 14.2 % | |
| Gross margin % | 22.5 | % 21.8 | % | 0.7 | pp ^(b) |

(a) Volume change for alcohol products.

(b) Percentage points ("pp").

Driven by strong demand, net sales of higher margin premium beverage alcohol products within food grade alcohol increased 22.6 percent over the year-ago period, while lower margin industrial alcohol product net sales decreased 4.1 percent, resulting in an overall food grade alcohol net sales increase of \$14,579, or 13.0 percent. Declines in net sales of distillers feed and related co-products and fuel grade alcohol products were partially offset by an increase in warehouse services revenue, generated by increased storage of customer barrels of whiskey.

Gross profit increased period-versus-period by \$4,053, or 14.2 percent. Gross margin for the year to date period ended June 30, 2017 increased to 22.5 percent from 21.8 percent for the prior year period. The improvement in gross profit was primarily due to increased sales of higher margin premium beverage alcohol products, a decline in input costs, and an increase in warehouse services revenue. These gains were partially offset primarily by lower gross profit on distillers feed and related co-products.

Ingredient Solutions

The following table shows selected financial information for our ingredient solutions segment for the quarters ended June 30, 2017 and 2016.

| | PRODUCT GROUP NET SALES | | | | | | |
|----------------------------|-------------------------|----------------|---|----------|---|--------|--|
| | Quarter Ended June 30, | | Quarter-versus-Quarter Net Sales Change Increase / (Decrease) | | Quarter-versus-Quarter Volume Increase / (Decrease) | | |
| | 2017 Amount | 2016 Amount | \$ Change | % Change | % Change | | |
| Specialty wheat starches | \$7,411 | \$6,750 | \$ 661 | 9.8 | % | | |
| Specialty wheat proteins | 5,224 | 4,782 | 442 | 9.2 | | | |
| Commodity wheat starch | 2,266 | 1,915 | 351 | 18.3 | | | |
| Commodity wheat protein | 153 | 205 | (52) | (25.4) | | | |
| Total ingredient solutions | \$15,054 | \$13,652 | \$ 1,402 | 10.3 | % | 12.5 % | |

| | Other Financial Information | | | | |
|----------------|-----------------------------|---------|--|----------|-------------------|
| | Quarter Ended June 30, | | Quarter-versus-Quarter Increase / (Decrease) | | |
| | 2017 | 2016 | \$ Change | % Change | |
| Gross profit | \$2,872 | \$1,868 | \$ 1,004 | 53.7 | % |
| Gross margin % | 19.1 | % 13.7 | % | 5.4 | pp ^(a) |

^(a) Percentage points ("pp").

Total ingredient solutions net sales for the quarter ended June 30, 2017 increased by \$1,402, or 10.3 percent, compared to the prior year quarter. This increase was primarily driven by increased net sales of specialty wheat starches, specialty wheat proteins, and commodity wheat starch, partially offset by decreased net sales of commodity wheat protein, quarter-versus-quarter.

Gross profit increased quarter-versus-quarter by \$1,004, or 53.7 percent. Gross margin for the quarter ended June 30, 2017 increased to 19.1 percent from 13.7 percent for the prior year quarter. The improvement in gross profit was primarily due to decreased input costs and higher net sales volumes of specialty wheat starches and proteins.

Ingredient Solutions

The following table shows selected financial information for our ingredient solutions segment for the year to date periods ended June 30, 2017 and 2016.

| | PRODUCT GROUP NET SALES | | | | | Period-versus-Period | |
|----------------------------|-------------------------|----------|-----------------------|----------|-------------------|----------------------|--|
| | Year to date ended | | Period-versus-Period | | Volume Increase / | | |
| | June 30, | | Net Sales Change | | (Decrease) | | |
| | 2017 | 2016 | Increase / (Decrease) | | | | |
| | Amount | Amount | \$ Change | % Change | % Change | | |
| Specialty wheat starches | \$13,818 | \$12,926 | \$ 892 | 6.9 % | | | |
| Specialty wheat proteins | 9,603 | 9,772 | (169) | (1.7) | | | |
| Commodity wheat starch | 4,354 | 3,527 | 827 | 23.4 | | | |
| Commodity wheat protein | 499 | 420 | 79 | 18.8 | | | |
| Total ingredient solutions | \$28,274 | \$26,645 | \$ 1,629 | 6.1 | 14.1 | % | |

| | Other Financial Information | | | | |
|----------------|-----------------------------|---------|-----------------------|----------|-------------------|
| | Year to date ended | | Period-versus-Period | | |
| | June 30, | | Increase / (Decrease) | | |
| | 2017 | 2016 | \$ Change | % Change | |
| Gross profit | \$5,298 | \$4,062 | \$ 1,236 | 30.4 % | |
| Gross margin % | 18.7 % | 15.2 % | | 3.5 | pp ^(a) |

^(a) Percentage points ("pp").

Total ingredient solutions net sales for the year to date period ended June 30, 2017 increased by \$1,629, or 6.1 percent, compared to the prior year period. This increase was primarily driven by increased net sales of specialty wheat starches, commodity wheat starch and commodity wheat protein, partially offset by decreased net sales of specialty wheat proteins, period-versus-period.

Gross profit increased period-versus-period by \$1,236, or 30.4 percent. Gross margin for the period ended June 30, 2017 increased to 18.7 percent from 15.2 percent for the prior year period. The improvement in gross profit was primarily due to decreased input costs, partially offset by a lower average selling price.

CASH FLOW, FINANCIAL CONDITION AND LIQUIDITY

We believe our financial condition continues to be of high quality, as evidenced by our ability to generate cash from operations while having ready access to capital at competitive rates.

In periods when operating cash flow deficits, debt through our Credit Agreement (see Note 3) provides the primary source of cash to fund operating needs and capital expenditures. The same source of cash is used to fund shareholder dividends and other discretionary uses such as share repurchases. Going forward, we expect to use cash to implement our invest to grow strategy, particularly in the distillery products segment. The overall liquidity of the Company reflects our strong business results and an effective cash management strategy that takes into account liquidity management, economic factors, and tax considerations. We expect our sources of cash, including our credit facility, to be adequate to provide for budgeted capital expenditures and anticipated operating requirements.

Operating Cash Flow

Cash provided by operations increased \$10,625 to \$10,843 for the year to date period ended June 30, 2017, from \$218 for the year to date period ended June 30, 2016. This improvement in operating cash flow was primarily the result of net cash inflows related to net income, after giving effect to adjustments to reconcile net income to net cash provided by operating activities (depreciation and amortization, distribution received from equity method investee, deferred income taxes, including change in valuation allowance, share-based compensation, and equity method investment earnings), the changes in inventory, accounts payable, and accrued expenses, partially offset by cash outflows related to the changes in receivables, net, and prepaid expenses.

Increases to Operating Cash Flow. Net income, after giving effect to adjustments to reconcile net income to net cash provided by operating activities, increased by \$9,085, to \$30,394 for the year to date period ended June 30, 2017 from \$21,309 for the year to date period ended June 30, 2016. This increase over the prior year to date period was primarily due to a net income increase of \$1,680, an increase in distribution received from equity method investee of \$3,831, and increase in deferred income taxes, including change in valuation allowance of \$1,326, and a decrease in equity method investment earnings of \$1,944. Inventory increased \$6,693 for the year to date period ended June 30, 2017, compared to an increase of \$12,894 for the year to date period ended June 30, 2016. The \$6,201 change was primarily due to a lower increase of barreled distillate inventory period-versus-period. The change in barreled distillate inventories for the year to date period ended June 30, 2017, was \$5,442 compared to \$12,012 for the year to date period ended June 30, 2016. Accounts payable decreased \$671 for the year to date period ended June 30, 2017, compared to a decrease of \$2,106 for the year to date period ended June 30, 2016. The \$1,435 change was primarily due to the timing of cash disbursements related to operating expenses and capital expenditures. Accrued expenses decreased \$934 for the year to date period ended June 30, 2017, compared to a decrease of \$2,814 for the year to date period ended June 30, 2016. The \$1,880 change was primarily due to decreases in incentive compensation accruals in the prior year period.

Decreases to Operating Cash Flow. Receivables, net, increased \$8,845 for the year to date period ended June 30, 2017 compared to an increase of \$3,328 for the year to date period ended June 30, 2016. The resulting \$5,517 change was primarily due to increased net sales in the year to date period ended June 30, 2017 compared to the year to date period ended June 30, 2016 and the timing of collections. Prepaid expenses increased \$1,148 for the year to date period ended June 30, 2017 compared to a decrease of \$270 for the year to date period ended June 30, 2016. The resulting \$1,418 change was primarily due to the timing of vendor invoices.

Investing Cash Flow

Net cash flow used in investing activities increased \$3,776 to \$9,634 for the year to date period ended June 30, 2017 from \$5,858 for the year to date period ended June 30, 2016.

Capital Spending. We manage capital spending to support our business growth plans. Investments in plant, property and equipment were \$9,933 and \$6,088, respectively, for the year to date periods ended June 30, 2017 and 2016. Adjusted for the change in capital expenditures in accounts payable for the year to date periods ended June 30, 2017 and 2016 of \$(3,532) and \$2,148, respectively, total capital expenditures were \$6,401 and \$8,236, respectively. We expect approximately \$22,000 in capital expenditures in 2017 for facility improvement and expansion (including warehouse expansion), facility sustenance projects, and environmental health and safety projects.

In 2015 and 2016, our Board of Directors approved a \$29,000 major expansion in warehousing capacity on a 20-acre campus adjoining our current Lawrenceburg facility as part of the implementation of our five-year strategic plan to grow the whiskey category. As of June 30, 2017, we had incurred \$22,725 of this approved investment amount.

Financing Cash Flow

Long-Term and Short-Term Debt. We maintain debt levels we consider appropriate after evaluating a number of factors, including cash flow expectations, cash requirements for ongoing operations, investment and financing plans (including brand development and share repurchase activities) and the overall cost of capital. Total debt was \$43,732 (net of unamortized loan fees of \$485) at June 30, 2017 and \$36,001 (net of unamortized loan fees of \$576) at December 31, 2016. During the year to date periods ended June 30, 2017 and 2016, we had net borrowings of \$7,817, and \$10,112, respectively, on our Credit Agreement (see Note 3). Our payments on long-term debt totaled \$177 and \$2,173 for year to date periods ended June 30, 2017 and 2016, respectively.

Dividends and Dividend Equivalents. On May 2, 2017, the Board of Directors declared a quarterly dividend payable to stockholders of record as of May 15, 2017, of the Company's Common Stock, and a dividend equivalent payable to holders of RSUs as of May 15, 2017, of \$0.04 per share and per unit. The total payment of \$688, comprised of dividend payments of \$668 and dividend equivalent payments of \$20 (excluding estimated forfeitures), was paid on June 9, 2017.

On February 15, 2017, the Board of Directors declared a quarterly dividend payable to stockholders of record as of March 1, 2017, of the Company's Common Stock, and a dividend equivalent payable to holders of RSUs as of March 1, 2017, of \$0.04 per share and per unit. The total payment of \$688, comprised of dividend payments of \$668 and dividend equivalent payments of \$20 (excluding estimated forfeitures), was paid on March 24, 2017.

On March 7, 2016, the Board of Directors declared an annual dividend payable to stockholders of record as of March 21, 2016, of the Company's Common Stock, and an annual dividend equivalent payable to holders of RSUs as of March 21, 2016, of \$0.08 per share and per unit. The total payment of \$1,378, comprised of dividend payments of \$1,335 and dividend equivalent payments of \$43 (excluding estimated forfeitures) was paid on April 14, 2016.

Financial Condition and Liquidity

Our principal uses of cash in the ordinary course of business are for input costs used in our production processes, salaries, capital expenditures, and investments supporting our strategic plan, such as the aging of barreled distillate. Generally, during periods when commodities prices are rising, our operations require increased use of cash to support inventory levels.

Our principal sources of cash are product sales and borrowing on our Credit Agreement. Under our Credit Agreement, we must meet certain financial covenants and restrictions as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

At June 30, 2017, our current assets exceeded our current liabilities by \$102,659 largely due to our inventories of \$85,551. At June 30, 2017 our cash balance was \$7,911 and we have used our Credit Agreement for liquidity purposes, with \$49,431 remaining for additional borrowings. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. On September 8, 2017, we expect to fund a special dividend of approximately \$14,625 with cash dividends and cash proceeds totaling \$16,430 (before transaction expenses and taxes) received in June and July 2017 related to the sale of our 30 percent equity interest in ICP (see Note 10). We regularly assesses our cash needs and the available sources to fund these needs. We utilize short- and long-term debt to fund discretionary items, such as capital investments and share repurchases. In addition, we have strong operating results such that financial institutions, if needed, should provide sufficient credit funding to meet short-term financing requirements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Certain commodities we use in our production process are exposed to market price risk due to volatility in the prices for those commodities. Our multi-year grain supply agreements for our Lawrenceburg and Atchison facilities permit us to purchase grain for delivery up to 12 months into the future at negotiated prices. The pricing for contracts is based on a formula using several factors. We have determined that the firm commitments to purchase grain under the terms of the supply agreements meet the normal purchases and sales exception as defined under Accounting Standards Codification ("ASC") 815, Derivatives and Hedging, and have excluded the fair value of these commitments from recognition within our consolidated financial statements until the actual contracts are physically settled.

Our production process also involves the use of wheat flour and natural gas. The contracts for wheat flour and natural gas range from monthly contracts to multi-year supply agreements and permit us to purchase wheat flour and natural gas for delivery up to 12 months into the future at negotiated prices. Because the quantities involved are for amounts to be consumed within the normal expected production process, we have determined that the contracts meet the criteria for the normal purchases and sales exception and have excluded the fair value of these commitments from recognition within our consolidated financial statements until the actual contracts are physically settled.

Interest Rate Exposures. Our Credit Agreement with Wells Fargo Bank, as amended March 21, 2016, provides for interest either on a Base Rate model or a LIBOR Rate model. For LIBOR Rate Loans, the interest rate is equal to the per annum LIBOR Rate (based on 1, 2, 3 or 6 months) plus 1.75 - 2.75 percent (depending on the Average Excess Availability). For Base Rate Loans, the interest rate is the greatest of (a) 1 percent per annum, (b) the Federal Funds Rate plus one-half percent, (c) the one-month LIBOR Rate plus 1 percent, and (d) Wells Fargo's "prime rate" as announced from time to time, plus 0.75 - 1.75 percent (depending on the Average Excess Availability). The default rate is equal to 2 percentage points above the per annum rate otherwise applicable, in the lender's discretion.

Increases in market interest rates would cause interest expense to increase and earnings before income taxes to decrease. The change in interest expense and earnings before income taxes would be dependent upon the weighted average outstanding borrowings during the reporting period following an increase in market interest rates. Based on weighted average outstanding borrowings at June 30, 2017, a 100 basis point increase over the non-default rates actually in effect at such date would increase our interest expense on an annualized basis by \$422.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. As of the quarter ended June 30, 2017, our Chief Executive Officer and Chief Financial Officer have each reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have each concluded that our current disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls. There has been no change in the Company's internal control over financial reporting required by Exchange Act Rule 13a-15 that occurred during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is made to Part I, Item 3, Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2016 and Note 6 to this Report on Form 10-Q for information on certain proceedings to which we are subject.

We are a party to various other legal proceedings in the ordinary course of business, none of which is expected to have a material adverse effect on us.

ITEM 1A. RISK FACTORS

Risk Factors are described in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016. The following are changes thereto during the quarter ended June 30, 2017.

RISKS SPECIFIC TO OUR INGREDIENT SOLUTIONS SEGMENT

Products competing with our Fibersym® resistant starch could lead to a decrease in sales volume or pricing, a decrease in margins and lower profitability.

Our patent rights to Fibersym® expired on June 6, 2017. We face competition with our Fibersym® resistant starch. The competition could lead to diminished returns and lower our margins. This factor could result in significant costs and could have a material adverse effect on our business, cash flows and financial results.

In November 2016, we announced that we filed a citizen petition with the FDA asking the agency to further confirm the status of our patented Fibersym® RW and FiberRite® RW resistant wheat starches as dietary fiber. A list of dietary fibers is currently being developed by the FDA under new food labeling rules, which were published on May 27, 2016 and have a scheduled compliance date of July 26, 2018. While our citizen petition is undergoing review, the current status of Fibersym® RW, along with FiberRite® RW, as accepted dietary fiber and a recognized fiber fortifying ingredient remains in place. A delay in confirmation by the FDA of our patented Fibersym® RW and FiberRite® RW resistant wheat starches as dietary fiber under the new food labeling rules in a timely manner could have a material adverse impact on ingredient solutions segment operating results.

The FDA announced on June 13, 2017, its intention to extend the compliance date of the new food labeling rules published on May 27, 2016 (see above). While the FDA will provide details of the extension through a Federal Register Notice at a later time, management expects it to be a significant extension, which mitigates the risk to ingredient solutions segment operating results described in the above paragraph for as long as the FDA extends compliance.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There was no unregistered sale of equity securities during the quarter ended June 30, 2017.

ISSUER PURCHASES OF EQUITY SECURITIES

| (1) Total Number of Shares (or Units) Purchased | (2) Average Price Paid per Share (or Unit) | (3) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or | (4) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|--|--|--|---|
|--|--|--|---|

| | | | Programs |
|--------------------------------------|---|---|----------|
| April 1, 2017 through April 30, 2017 | — | — | — |
| May 1, 2017 through May 30, 2017 | — | — | — |
| June 1, 2017 through June 30, 2017 | — | — | — |
| Total | — | — | — |

30

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

31

ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibit |
|----------------|---|
| *31.1 | CEO Certification pursuant to Rule 13a-14(a) |
| *31.2 | CFO Certification pursuant to Rule 13a-14(a) |
| *32.1 | CEO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350 |
| *32.2 | CFO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350 |
| *101 | The following financial information from MGP Ingredients, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of June 30, 2017, and December 31, 2016, (ii) Condensed Consolidated Statements of Income for the six months ended June 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Comprehensive Income for the six months ended June 30, 2017 and 2016, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity, and (vi) the Notes to Condensed Consolidated Financial Statements. |

*Filed
herewith

SIGNATURES

Pursuant to the requirements on the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MGP INGREDIENTS, INC.

Date: August 3, 2017 By/s/ Augustus C. Griffin

Augustus C. Griffin, President and Chief Executive Officer

Date: August 3, 2017 By/s/ Thomas K. Pigott

Thomas K. Pigott, Vice President, Finance and Chief Financial Officer

Exhibit Index

| Exhibit Number | Description of Exhibit |
|----------------|---|
| *31.1 | CEO Certification pursuant to Rule 13a-14(a) |
| *31.2 | CFO Certification pursuant to Rule 13a-14(a) |
| *32.1 | CEO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350 |
| *32.2 | CFO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350 |
| *101 | The following financial information from MGP Ingredients, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of June 30, 2017, and December 31, 2016, (ii) Condensed Consolidated Statements of Income for the six months ended June 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Comprehensive Income for the six months ended June 30, 2017 and 2016, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity, and (vi) the Notes to Condensed Consolidated Financial Statements. |

*Filed
herewith