MGP INGREDIENTS INC
Form 10-Q
February 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010.

or

o 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	**48-0531200**
(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. x Yes o 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). o Yes o No

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

o Large accelerated filer	x Accelerated filer
o Non-accelerated filer	o Smaller Reporting Company

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

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

Common stock, no par value

17,824,813 shares outstanding

as of February 7, 2011

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as well as historical information. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q regarding the prospects of our industry and our prospects, plans, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements are usually identified by or are associated with such words as intend, plan , believe, estimate, expect, anticipate, hopeful, should, may, will , could , encouraged , opport the negatives of these terms or variations of them or similar terminology. They reflect management s current beliefs and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) disruptions in operations at our Atchison facility, (ii) the availability and cost of grain and fluctuations in energy costs, (iii) the effectiveness of our hedging strategy, (iv) the competitive environment and related market conditions, (v) the ability to effectively operate the Illinois Corn Processing, LLC (ICP) joint venture, (vi) our ability to maintain compliance with all applicable loan agreement covenants, (vii) our ability to realize operating efficiencies, (viii) and actions of governments. For further information on these and other risks and uncertainties that may affect our business, see *Item 1A. Risk Factors* of our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

METHOD OF PRESENATION

All amounts in this quarterly report, except for share, per share, and per bushel amounts, are shown in thousands.

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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	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Net sales	**$ 57,951**	$ 48,094	**$ 114,929**	$ 98,343
Cost of sales	**49,159**	39,584	**95,783**	79,996
Gross profit	**8,792**	8,510	**19,146**	18,347
Selling, general and administrative expenses	**4,360**	5,004	**10,587**	9,600
Other operating costs	**55**	455	**328**	1,252
Loss (gain) on sale of assets	**33**	(500)	**322**	(700)
Loss on joint venture formation		3,047		3,047
Income from operations	**4,344**	504	**7,909**	5,148
Other income, net		2	**3**	23
Interest expense	**(141)**	(537)	**(266)**	(1,326)
Equity in earnings (loss) of joint ventures	**(957)**	150	**632**	102
Income before income taxes	**3,246**	119	**8,278**	3,947
Provision (benefit) for income taxes	**4**	(4,659)	**34**	(4,569)
Net income	**3,242**	4,778	**8,244**	8,516
Other comprehensive income (loss), net	**(203)**	3	**(176)**	3
Comprehensive income	**$ 3,039**	$ 4,781	**$ 8,068**	$ 8,519
Per Share Data				
Total basic earnings per common share	**$ 0.18**	$ 0.29	**$ 0.46**	$ 0.51
Total diluted earnings per common share	**$ 0.18**	$ 0.29	**$ 0.46**	$ 0.51
Dividends per common share	$	$	$ 0.05	$

See accompanying notes to unaudited condensed consolidated financial statements

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MGP INGREDIENTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)

	December 31, 2010	June 30, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 472**	$ 6,369
Restricted cash	**490**	971
Receivables (less allowance for doubtful accounts: $119 and $155 at December 31, 2010 and June 30, 2010, respectively)	**21,615**	17,674
Inventory	**18,710**	14,524
Prepaid expenses	**1,111**	1,517
Deposits	**2,181**	733
Deferred income taxes	**2,854**	6,267
Refundable income taxes	**484**	578
Total current assets	**47,917**	48,633
Property and equipment, at cost	**154,683**	164,559
Less accumulated depreciation	**(96,603)**	(107,196)
Property and equipment, net	**58,080**	57,363
Investment in joint ventures	**14,722**	14,266
Other assets	**690**	875
Total assets	**$ 121,409**	$ 121,137
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current maturities of long-term debt	**$ 660**	$ 689
Revolving credit facility	**86**	
Accounts payable	**11,391**	10,341
Accounts payable to affiliate, net	**3,762**	4,951
Accrued expenses	**4,116**	7,510
Total current liabilities	**20,015**	23,491
Long-term debt, less current maturities	**1,763**	2,082
Deferred credit	**5,095**	5,379
Accrued retirement health and life insurance benefits	**8,491**	8,170
Other non current liabilities	**2,597**	2,964
Deferred income taxes	**2,854**	6,267
Total liabilities	**40,815**	48,353
Stockholders Equity		
Capital stock		
Preferred, 5% non-cumulative; $10 par value; authorized 1,000 shares; issued and outstanding 437 shares	**4**	4
Common stock	**6,715**	6,715

No par value; authorized 40,000,000 shares; issued 19,530,344 shares at December 31, 2010 and June 30, 2010, respectively; 17,824,813 and 17,519,614 shares outstanding at December 31, 2010 and June 30, 2010, respectively				
Additional paid-in capital		**6,699**		7,606
Retained earnings		**78,781**		71,428
Accumulated other comprehensive loss		**(3,003)**		(2,827)
Treasury stock, at cost Common: 1,705,531 and 2,010,730 shares at December 31, 2010 and June 30, 2010, respectively		**(8,602)**		(10,142)
Total stockholders equity		**80,594**		72,784
Total liabilities and stockholders equity	**$**	**121,409**	$	121,137

See accompanying notes to unaudited condensed consolidated financial statements

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MGP INGREDIENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Year to Date Ended	
	December 31, 2010	**December 31, 2009**
Cash Flows from Operating Activities		
Net income	**$ 8,244**	$ 8,516
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**4,083**	4,397
Loss (gain) on sale of assets	**322**	(700)
Loss on joint venture formation		3,047
Deferred income taxes		
Equity in earnings of joint ventures	**(632)**	(102)
Changes in operating assets and liabilities:		
Restricted cash	**481**	169
Receivables	**(3,941)**	(73)
Inventory	**(4,186)**	2,042
Prepaid expenses	**406**	(1,565)
Accounts payable	**(226)**	2,715
Accounts payable to affiliate, net	**(1,189)**	
Accrued expenses	**(3,394)**	13
Deferred credit	**(284)**	(407)
Income taxes payable/receivable	**94**	1,011
Accrued retirement health and life insurance benefits and other non-current liabilities	**(46)**	(2,557)
Other	**(892)**	(444)
Net cash provided by (used in) operating activities	**(1,160)**	16,062
Cash Flows from Investing Activities		
Additions to property and equipment	**(3,663)**	(55)
Proceeds from sale of interest in joint ventures		13,951
Proceeds from disposition of property and equipment		4,163
Net cash provided by (used in) investing activities	**(3,663)**	18,059
Cash Flows from Financing Activities		
Payment of dividends	**(891)**	
Exercise of stock options	**79**	221
Loan fees incurred with borrowings		(229)
Proceeds from long-term debt		2,032
Principal payments on long-term debt	**(348)**	(21,121)
Proceeds from revolving credit facility	**141,889**	97,726
Principal payments on revolving credit facility	**(141,803)**	(112,928)
Net cash used in financing activities	**(1,074)**	(34,299)
Decrease in cash and cash equivalents	**(5,897)**	(178)
Cash and cash equivalents, beginning of year	**6,369**	178

Cash and cash equivalents, end of period	**$**	**472**	$

See accompanying notes to unaudited condensed consolidated financial statements

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MGP INGREDIENTS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, unless otherwise noted)

Note 1. Accounting Policies and Basis of Presentation.

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of MGP Ingredients, Inc. and its wholly owned subsidiaries (Company) reflect all adjustments (consisting only of normal adjustments) which, in the opinion of the Company s management, are necessary to fairly present the financial position, results of operations and cash flows of the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements as of and for the quarter and year to date periods ended December 31, 2010 should be read in conjunction with the consolidated financial statements and notes thereto in the Company s Form 10-K Annual Report for the fiscal year ended June 30, 2010 filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Revenue Recognition

Revenue from the sale of the Company s products is recognized as products are delivered to customers according to shipping terms and title has transferred. Income from various government incentive grant programs is recognized as it is earned. Sales include freight costs billed to customers of $3,231 and $3,422 for the quarterly periods ended December 31, 2010 and 2009, respectively. Sales include freight costs billed to customers of $6,276 and $6,587 for the year to date periods ended December 31, 2010 and 2009, respectively.

Investment in Joint Ventures

The Company applies the provisions of Accounting Standards Codification (ASC) 810   *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,* which include a qualitative approach to identifying a controlling financial interest in a variable interest entity and determination of the primary beneficiary.

The Company accounts for its investment in non-consolidated subsidiaries under the equity method of accounting when the Company has significant influence, does not have more than 50% 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 Investment in joint ventures ; the Company s share of the earnings or losses of the non-consolidated subsidiaries are reflected as Equity in earnings (loss) of joint ventures in the Condensed Consolidated Statements of Income.

Properties and Depreciation

Property and equipment are stated at cost. Additions, including those that increase the life or utility of an asset, are capitalized and all properties are depreciated over their estimated remaining useful lives. Depreciation is computed using the straight-line method over their estimated useful lives.

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Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Impairment

The Company tests its long-lived assets for impairment whenever events or conditions and circumstances indicate a carrying amount of an asset may not be recoverable. No events or conditions occurred during the quarterly and year to date periods ended December 31, 2010 that required the Company to perform a test of its long-lived assets for impairment.

Income Taxes

The effective tax rate for the quarters ended December 31, 2010 and 2009 was .1 percent and (3,915.1) percent respectively. The effective tax rate for the year to date periods ended December 31, 2010 and 2009 was .4 percent and (115.8) percent, respectively.

For the quarter and year to date periods ended December 31, 2009, the effective rate differs from the Company s statutory rate primarily due to changes in the federal and state valuation allowance and the benefit of a tax law change that occured during the quarter ended December 31, 2009. Under the Worker, Homeownership, and Business Assistance Act of 2009, which was enacted during the quarter ended December 31, 2009, the Company became eligible to carry back net operating losses generated in the Company s fiscal year ended June 30, 2009 to the five preceding tax years, instead of the two years allowed under previous tax law. The Company filed a claim to carry an additional $12,000 of net operating loss back. An income tax benefit of approximately $4,700 was recognized during the quarter ended December 31, 2009 related to this carryback claim. The cash refund associated with the carryback claim was received during January 2010. For all other periods presented, tax expense was negligible due to the use of net operating loss carryforwards previously reserved for.

Dividends

On August 26, 2010, the Board of Directors declared a five (5) cent dividend per share of common stock, payable to holders of record as of September 15, 2010. The Company accrued the $891 dividend at September 30, 2010. The dividend was paid on October 6, 2010.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current presentation. The condensed consolidated financial statements reflect immaterial adjustments. For further discussion see *Change in Presentation to Prior Financial Statements* below. These reclassifications had no impact upon the Company s previously reported earnings or earnings per share calculations.

Out-of-Period Adjustments

Out-of-period adjustments are detailed below. Management does not believe the impact of these out of period adjustments materially impact the fair presentation of the Company s operating results or financial condition for the periods impacted.

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Accounts Payable. During the second quarter of fiscal 2010 management performed a detailed analysis of accounts that were either duplicated or otherwise erroneously recorded. After analysis, the Company determined certain recorded amounts were not owed and adjusted the accounts payable balance in the second quarter to correct this situation. The impact of the correcting adjustment increased reported pretax income in the second quarter of fiscal 2010 by approximately $1,351. Cost of sales was favorably impacted by $733, and the result of equity in earnings (loss) of joint ventures was improved by $618.

Benefit plan liabilities. During the fourth quarter of fiscal 2010, management determined the $753 actuarially determined partial settlement and curtailments related to its various benefit plans were recorded out-of-period. Had this adjustment been recorded in the proper period, pretax income would have been favorably impacted by $753 for the second quarter of fiscal 2010 and would have reduced the loss on joint venture formation recorded during the second quarter of fiscal 2010 from $3,047 to $2,294.

Change in Presentation to Prior Consolidated Financial Statements. During the second quarter of fiscal 2011, the Company identified an immaterial error in its classification of restricted stock awards on the balance sheet. The Company issues treasury shares for restricted stock awards, which allow the award participants to receive dividends and voting rights. The Company had previously classified the shares related to the awards within treasury stock until the awards were fully vested. The shares should have been presented as outstanding common stock when they were issued. The Company does not believe that these adjustments are material to any of its previously filed quarterly or annual consolidated financial statements for the fiscal years ended June 30, 2010 and 2009 and for the three months ended September 30, 2010. The impact of this immaterial error correction is to reclassify certain amounts from treasury stock to additional paid-in capital as well as to reclassify the non-vested restricted shares from treasury stock to common stock. Annual and quarterly amounts and share counts within stockholders equity have been conformed to this presentation. The amount and share reclassifications are as follows:

	As previously reported				**As reclassified**			
	Amount		**Shares Outstanding**		**Amount**		**Shares Outstanding**	
	Additional Paid-In Capital	**Treasury Stock**	**Common Stock**	**Treasury Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Common Stock**	**Treasury Stock**
July 1, 2008	$ 11,862	$ (15,035)	16,560,578	2,969,766	$ 9,838	$ (13,011)	16,960,390	2,569,954
June 30, 2009	$ 11,572	$ (14,786)	16,598,585	2,931,759	$ 6,878	$ (10,092)	17,531,486	1,998,858
September 30, 2009	$ 11,403	$ (14,753)	16,610,814	2,919,530	$ 6,908	$ (10,258)	17,496,870	2,033,474
December 31, 2009	$ 11,465	$ (14,546)	16,674,655	2,855,689	$ 6,970	$ (10,051)	17,537,769	1,992,575
March 31, 2010	$ 11,626	$ (14,546)	16,673,075	2,857,269	$ 7,158	$ (10,078)	17,532,288	1,998,056
June 30, 2010	$ 11,990	$ (14,526)	16,675,744	2,854,600	$ 7,606	$ (10,142)	17,519,614	2,010,730
September 30, 2010	$ 12,303	$ (14,526)	16,675,744	2,854,600	$ 6,431	$ (8,654)	17,814,714	1,715,630

The adjustments resulting from this matter had no impact on total stockholders equity or the Company s consolidated statements of income. Reported amounts of earnings per share were not impacted by this correction.

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Note 2. Recently Issued Accounting Pronouncements.

Consolidation of Variable Interest Entities In June 2009, the FASB issued Accounting Standards Update No. 2009-17, *Consolidations (ASC 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). ASU 2009-17 provides new guidance on the consolidation of variable interest entities (VIE) in response to concerns about the application of certain key provisions of pre-existing guidance, including those regarding the transparency of the involvement with a VIE. Specifically, ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a VIE and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, ASU 2009-17 requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. ASU 2009-17 is effective for fiscal years beginning after November 15, 2009. The Company adopted the new guidance effective July 1, 2010 and it did not have a material impact on the Company s financial position, results of operations or cash flows.

Transfers of Financial Assets In June 2009, the FASB issued Accounting Standards Update No. 2009-16, *Transfers and Servicing* (ASC *860*) *Accounting for Transfers of Financial Assets* (ASU 2009-16). ASU 2009-16 eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity s continuing involvement in and exposure to the risks related to transferred financial assets. This new guidance is effective for fiscal years beginning after November 15, 2009. The Company adopted this accounting standard effective July 1, 2010 and the adoption had no impact on the Company s financial position, results of operations and cash flows.

Disclosure Requirements Related to Fair Value Measurements In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements (ASC 820) Fair Value Measurements and Disclosures* (ASU 2010-06) to improve disclosures about fair value measurements. ASU 2010-06 adds additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009 except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. Certain provisions of this update will be effective for the Company in fiscal 2012. The Company adopted this accounting standard at July 1, 2010 and the adoption had no impact on the Company s financial position, results of operations and cash flows.

Milestone Method of Revenue Recognition - In April 2010, the FASB issued Accounting Standards Update No. 2010-17, *Revenue Recognition Milestone Method (ASC 605) Revenue Recognition* (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The Company adopted this standard effective July 1, 2010 and the adoption of this accounting standard had no impact on the Company s financial position, results of operations and cash flows.

Disclosure Requirements Related to Financing Receivables -In July 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (Topic 310) Receivables* (ASU 2010-20) . ASU 2010-20 enhances the disclosure requirements about the credit quality and related allowances for credit

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losses of financing receivables. ASU 2010-20 is effective for interim and annual reporting periods ending on or after December 15, 2010. The Company adopted this standard effective for the quarter ended December 31, 2010 and the adoption of this standard had no impact on the Company s financial statement disclosures.

Note 3. Investment in Joint Ventures.

Investments in non-consolidated affiliates accounted for under the equity method generally include all entities in which the Company has significant influence, not more than 50 percent voting control, and is not considered the primary beneficiary. The Company s investments accounted for on the equity method of accounting consist of the following: (1) 50 percent interest in Illinois Corn Processing, LLC ICP), which operates a distillery, and (2) 50 percent interest in D.M. Ingredients, GmbH, (DMI), which produces certain specialty starch and protein ingredients.

Formation of ICP Joint Venture

MGPI completed a series of related transactions on November 20, 2009 pursuant to which MGPI contributed its Pekin plant and certain maintenance and repair materials to a newly-formed company, ICP, and then sold 50 percent of the membership interest in ICP to Illinois Corn Processing Holdings, LLC (ICP Holdings), an affiliate of SEACOR Energy Inc., for proceeds of $15,000, less closing costs of $1,049. ICP reactivated distillery operations at the Pekin facility during the third quarter of fiscal 2010. MGPI purchases food grade alcohol products manufactured by ICP, and SEACOR Energy Inc. purchases fuel grade alcohol products manufactured by ICP.

In connection with these transactions, MGPI entered into various agreements with ICP and ICP Holdings, including a Contribution Agreement, an LLC Interest Purchase Agreement, a Limited Liability Company Agreement and a Marketing Agreement.

- Pursuant to the Contribution Agreement, MGPI contributed the Pekin plant to ICP at an agreed value of $30,000, consisting of land and fixed assets valued at $29,063 and materials and supply inventory valued at $937.

- Under the LLC Interest Purchase Agreement, MGPI sold ICP Holdings 50 percent of the membership interest in ICP for a purchase price of $15,000. This agreement gives ICP Holdings the option to purchase up to an additional 20 percent of the membership interest in ICP at any time between the second and fifth anniversary of the closing date for a price determined in accordance with the agreement.

- Pursuant to the Limited Liability Company Agreement, each joint venture party initially has 50 percent of the voting and equity interests in ICP. Control of day to day operations generally is retained by the members, acting by a majority in interest. However, if either MGPI or SEACOR Energy is in default under its marketing agreement, referred to below, the other party (or ICP Holdings, in the case of a default by the Company) may assume sole control of ICP s daily operations until the default is cured. If ICP defaults for two consecutive months on its obligation to pay principal or interest on its loan from SEACOR Energy s affiliate, ICP Holdings may assume control of ICP s daily operations until it has positive EBITDA and is current on principal and interest payments.

The Limited Liability Company Agreement also provides for the creation of an advisory board consisting of three advisors appointed by MGPI and three advisors appointed by ICP Holdings. If ICP Holdings exercises its purchase option described above, it will be entitled to appoint four advisors and MGPI will be entitled to appoint two.

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The Limited Liability Company Agreement generally provides for distributions to members to the extent of net cash flow, as defined, to provide for taxes attributable to allocations to them of tax items from ICP. Any distributions of net cash flow in excess of taxes may be distributed at such time as the Board of Advisors determines.

The Limited Liability Company Agreement gives either member certain rights to shut down the plant if it operates at a loss. Such rights are conditional in certain instances but absolute if EBITDA losses aggregate $1,500 over any three consecutive quarters or if ICP s net working capital is less than $2,500. ICP Holdings also has the right to shut down the plant if ICP is in default under its loan agreement for failure to pay principal or interest for two months.

The Limited Liability Company Agreement contains various buy/sell provisions and restrictions on transfer of membership interests. These include buy/sell provisions relating to a member s entire interest that may apply if the members are unable to agree on a material decision about ICP or that may be exercised by any member at any time after November 20, 2010. Another provision would entitle MGPI to a disproportionate distribution of the excess of the sales price over specified amounts if ICP is sold before November 20, 2012.

- Under the Marketing Agreement, ICP manufactures and supplies food grade alcohol products for MGPI and MGPI purchases, markets and sells such products for a marketing fee. The Marketing Agreement provides that MGPI will share margin realized from the sale of the products under the agreement with ICP. The Marketing Agreement has an initial term of one year, but automatically renews for one year terms thereafter, subject to specified exceptions, including the following: (i) there is an uncured breach by one of the parties, (ii) MGPI gives timely notice of termination, (iii) MGPI ceases to be a member of the joint venture, or (iv) the parties are unable to mutually agree to modifications to the Marketing Agreement that are proposed in good faith by one of the parties as necessary or desirable to further the purposes of the parties respective expectations of economic benefits to be derived under the Marketing Agreement and their interests in ICP. For six months following expiration or termination of the Marketing Agreement, ICP will provide MGPI with reasonable assistance to transition production of the products it makes for the Company to another producer that MGPI designates. SEACOR Energy Inc. has entered into a similar agreement with ICP with respect to the marketing of fuel grade alcohol.

An affiliate of SEACOR Energy, Inc. has provided funding to ICP through two loans secured by all of the assets of ICP, including the Pekin Plant. Among other matters, losses or working capital deficiencies that would entitle a member of ICP to shut down the plant are events of default under these loan agreements which, upon any requisite notice and/or lapse of time, would entitle the lender to exercise its remedies, including foreclosing on ICP s assets and, in the case of the working capital deficiency or successive losses, enforcing the plant closure provisions in the Limited Liability Company Agreement referred to above. The loans are non-recourse to MGPI. ICP experienced EBITDA losses in excess of $500 in the quarters ended December 31, 2009 and March 31, 2010. An affiliate of SEACOR Energy, Inc. which provides financing for ICP waived these covenant violations.

The LLC Agreement permits MGPI to pledge its interest in ICP to secure the Company s obligations under its credit facility with Wells Fargo Bank, National Association, and MGPI has done so as of November 20, 2009.

The Contribution Agreement and the LLC Interest Purchase Agreement require MGPI to indemnify ICP and ICP Holdings from and against any damages or liabilities arising from a breach of the Company s representations and warranties in the Contribution Agreement and the LLC Interest Purchase

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Agreement and also with respect to certain environmental damages or liabilities related to the recommencement of production at the Pekin plant or to operations at the Pekin plant prior to the closing. The amount of damages, with the exception of taxes and environmental matters, is limited to a maximum of $30,000.

The Company does not direct or control the activities of ICP that most significantly determine the economic performance of this investment. These responsibilities are shared equally with the Company s joint venture partner. In addition, Management has determined that since MGPI will not absorb a majority of any gains or losses related to ICP that MGPI is not the primary beneficiary and ICP should not be consolidated. The significant judgments and assumptions made by the Management in reaching this conclusion include consideration of 1) the economics to MGPI and SEACOR Energy, Inc. related to the marketing agreements, 2) the buy-out provisions by MGPI and SEACOR Energy, Inc. and 3) the financing provided by SEACOR Energy, Inc s affiliate. The Company has not provided other financial explicit or implicit support to ICP during the quarter and year to date periods ended December 31, 2010 and does not intend to provide financial or other support at this time, other than as discussed below.

On January 29, 2010, ICP acquired the steam facility that services the Pekin plant for $5,000. The Company and ICP Holdings each contributed $1,000 and each committed to fund $1,500 of the balance of the purchase price over the next three years. Subsequent to December 31, 2010, it was determined that ICP would fund a portion of this commitment. On January 19, 2011 ICP funded $1,000 of the purchase price. The Company and ICP Holdings each remain committed to fund the remaining balance of $2,000. The Company s portion of the remaining commitment plus the Company s investment balance at December 31, 2010 is the maximum exposure to losses. A reconciliation from the Company s investment in ICP to the entity s maximum loss of exposure is as follows:

		December 31, 2010
MGPI s investment balance in ICP	$	**14,468**
Plus:		
Funding commitment for capital improvements		**1,000**
MGPI s maximum exposure to loss related to ICP	$	**15,468**

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Summary Financial Information

Condensed financial information of the Company s non-consolidated equity method investment in ICP is shown below. The results for the quarter and year to date period ended December 31, 2009 include ICP s results from November 21, 2009, the date of formation, to December 31, 2009.

	Quarter Ended December 31, 2010	Quarter Ended December 31, 2009	Year to Date Ended December 31, 2010	Year to Date Ended December 31, 2009
ICP s Operating results:				
Net sales	**$ 42,827**	$ 33	**$ 81,251**	$ 33
Cost of sales and expenses	**(43,574)**	(700)	**(77,402)**	(700)
Depreciation and amortization	**(1,131)**	(199)	**(2,520)**	(199)
Net income (loss)	**$ (1,878)**	$ (866)	**$ 1,329**	$ (866)

	December 31, 2010	June 30, 2010
ICP s Balance Sheet:		
Current assets	**$ 29,141**	$ 20,567
Noncurrent assets	**28,761**	30,898
Total assets	**$ 57,902**	$ 51,465
Current liabilities	**$ 10,423**	$ 12,729
Noncurrent liabilities	**18,544**	10,788
Equity	**28,935**	27,948
Total liabilities and equity	**$ 57,902**	$ 51,465

The Company s equity in earnings (loss) of joint ventures is as follows:

	Quarter Ended December 31, 2010	Quarter Ended December 31, 2009	Year to Date Ended December 31, 2010	Year to Date Ended December 31, 2009
ICP (50% interest)*	**$ (939)**	$ 185	**$ 664**	$ 185
DMI (50% interest)	**(18)**	(35)	**(32)**	(83)
	$ (957)	$ 150	**$ 632**	$ 102

*Note: The quarter and year to date period ended December 31, 2009 includes ($433) of start-up costs for ICP joint venture and a $618 reversal of over-accrued payables out of period, as discussed in Note 1.

The Company s investment in joint ventures is as follows:

	December 31, 2010	June 30, 2010
ICP (50% interest)	**$ 14,468**	$ 13,974
DMI (50% interest)	**254**	292
	$ 14,722	$ 14,266

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Note 4. Earnings Per Share.

Basic and diluted earnings per share are computed using the two-class method. The two-class method 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 from continuing operations attributable to common shareholders by the weighted average shares outstanding during each period.

The computations of basic and diluted earnings per share from continuing operations are as follows:

	Quarter Ended		Year to Date	
	December 31, 2010	**December 31, 2009 (i)**	**December 31, 2010**	**December 31 2009 (i)**
Net income from continuing operations attributable to shareholders	**$ 3,242**	$ 4,778	**$ 8,244**	$ 8,516
Amounts allocated to participating securities (nonvested shares)	**204**		**520**	
Net income from continuing operations attributable to common shareholders	**$ 3,038**	$ 4,778	**$ 7,724**	$ 8,516
Basic weighted average common shares(ii)	**16,691**	16,673	**16,685**	16,638
Potential dilutive shares from stock options (iii)	**23**	12	**17**	2
Diluted weighted average common shares	**16,714**	16,685	**16,702**	16,640
Earnings per share from continuing operations attributable to common shareholders				
Basic	**$ 0.18**	$ 0.29	**$ 0.46**	$ 0.51
Diluted	**$ 0.18**	$ 0.29	**$ 0.46**	$ 0.51

(i) The Company adopted ASC 260 10 Earnings Per Share (formerly FSP-EITF 03-6-1) *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* effective July 1, 2009. The impacts for the non-vested restricted shares, which constitute a separate class of stock for accounting purposes, did not have a material impact and the Company did not apply the two class method in fiscal 2010. In conjunction with the declaration of the dividend in the first quarter of fiscal 2011, the Company reassessed its earnings per share calculation policy and determined to present the two-class method. Amounts allocated to participating securities prior to fiscal 2011 were immaterial.

(ii) All non-vested shares of restricted stock are reflected as outstanding; however, they have been excluded from the calculation of basic earnings per share. The Company had non-vested participating securities of 1,122,244 and 863,114 at December 31, 2010 and 2009, respectively.

(iii) Anti-dilutive shares from stock options totaled 10,000 and 108,500 at December 31, 2010 and 2009, respectively.

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Note 5. Commitments and Contingencies.

Commitments

The Company purchases its corn requirements for its Atchison plant through a single elevator company. If the Company fails to purchase at least 13 million bushels each 12 months, it must pay the elevator company $0.03 per bushel for each bushel less than 13 million purchased. The elevator company may terminate the contract if the Company fails to purchase the specified minimums, in which case the Company would be obligated to pay the elevator company $260 plus the costs incurred by the elevator company in contracting with a different customer for the delivery of corn purchased for the Company pursuant to previously issued Company delivery orders. The Company has complied with its commitment under this agreement. The agreement automatically renews each year on August 31.

The Company has commitments to purchase approximately 1,428 mmbtu of natural gas at fixed prices at various dates through November 2011. The commitment for these contracts at December 31, 2010 totaled approximately $6,822.

Beginning in the quarter ended December 31, 2008, the Company entered into a supply contract for flour for use in the production of protein and starch ingredients. As a result, the Company no longer purchases wheat directly. The initial term of the agreement, as amended, expires October 23, 2015.

As of December 31, 2010, the Company had contracts to acquire capital assets of approximately $4,345, of which $2,360 relates to the water cooling project.

Contingencies

The Company is a party to various legal proceedings which are of an ordinary, routine nature and incidental to its business. Management considers that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position or operations of the Company.

From September 16, 2008 until February 11, 2009, tests on the Company s feed drying unit indicated that it was not in compliance with the volatile organic compound emission limit established in the Consent Agreement and Final Order (CAFO) entered into with the Kansas Department of Health and Environment (KDHE) on January 11, 2006. The Company s management provided regular updates to the KDHE on efforts to bring the unit into compliance with the permit. During the third quarter of fiscal 2010, the Company disclosed that it would exceed a source-wide, rolling 12-month volatile organic compounds (VOC) emissions cap on the Company s Atchison facility imposed in the 2006 Consent Agreement with the KDHE and was negotiating a second amendment to the Consent Agreement with the KDHE (a previously disclosed amendment addressed an earlier instance of noncompliance with the emission limit). The Company has agreed to the second amendment, along with the first amendment to the Consent Agreement. The second amendment requires the Company to complete a closed-loop, process cooling water system project, which is expected to significantly reduce VOC emissions, in accordance with a scheduled timeline over a time period that ends on September 30, 2011. The Company has commenced an $8,500 capital project designed to comply with the requirements of the second

amendment.

The Company has agreed to a $5 per month penalty for any month that it exceeds the rolling 12-month cap, as well as a $1 per day penalty for each day it fails to file monthly progress reports or exceeds established completion dates for various stages of the project. The most recent results, compiled on February 1, 2011, show that the Company has not exceeded the emissions cap and therefore the Company has not been subject to related penalties.

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Note 6. Derivative Instruments and Fair Value Measurements.

Derivative Instruments. In connection with the purchase of raw materials, principally corn, for anticipated operating requirements, the Company enters into readily marketable exchange-traded derivative instruments in the form of commodity futures and option contracts consistent with its established risk management policies.

Certain commodities the Company uses in its production process are exposed to market price risks due to volatility in the prices for those commodities. The Company has historically used derivative instruments to reduce the risk related to price volatility for corn, flour and natural gas. The Company has historically managed its exposure through a combination of forward purchases, long-term contracts with suppliers and exchange traded commodity futures and option contracts. Derivative instruments are recorded as either assets or liabilities, on a net basis, and are measured at fair market value. Since these derivatives are not accounted for as hedges, fluctuations in the related commodity prices could have a material impact on earnings in any given period. Changes in fair value of open derivative instruments are recorded in inventory and cost of sales.

The Company s production process involves the use of natural gas, which it purchases under contracts that require it to commit to the purchase of certain quantities on a monthly basis and allow the Company to lock in prices on such purchase quantities. Because the quantities involved have always been for amounts to be consumed within the normal production process, the Company has excluded the market value of these commitments within its contracts from its hedge accounting consistent with normal purchases and sales as defined under ASC 815, *Derivatives and Hedging.*

Fair Value Measurements. In accordance with ASC 820, *Fair Value Measurements and Disclosures,* the fair value of an asset is considered the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Statement also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs used to measure fair value are as follows:

- Level 1 quoted prices in active markets for identical assets or liabilities accessible by the reporting entity.

- Level 2 observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3 unobservable inputs for an asset or liability. Unobservable inputs should only be used to the extent observable inputs are not available.

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The following table sets forth by level within the fair value hierarchy the Company s financial assets and liabilities that were measured at fair value on a recurring basis as of December 31, 2010 and June 30, 2010, respectively.

				Fair Value Measurements	
	Classified	**Total**	**Level 1**	**Level 2**	**Level 3**
December 31, 2010					
Assets					