

MGP INGREDIENTS INC
Form 10-Q
May 10, 2011

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 March 31, 2011.

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 48-0531200
(State or other(I.R.S.
jurisdiction of Employer
incorporation Identification
or No.)
organization)

100 66002
Commercial
Street,
Atchison
Kansas
(Address of (Zip Code)
principal
executive
offices)

(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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [] Yes [] No

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

[] Large accelerated filer [X] Accelerated filer
[] Non-accelerated filer [] Smaller Reporting Company

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [] Yes [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
17,814,158 shares outstanding
as of May 6, 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”, “opportunities”, “potentials”, “risks” and “uncertainties” or variations of these terms or similar terminology. They reflect management’s current beliefs and estimates of future economic circumstances, industry conditions, Company performance and 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, and (viii) 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 PRESENTATION

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MGP INGREDIENTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Dollars in thousands, except per-share amounts)

	Quarter Ended		Year to Date Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Net sales	\$ 64,188	\$ 49,269	\$ 179,117	\$ 147,612
Cost of sales	57,669	44,302	153,452	124,298
Gross profit	6,519	4,967	25,665	23,314
Selling, general and administrative expenses	5,690	5,075	16,277	14,675
Other operating costs	-	521	328	1,773
Loss (gain) on sale of assets	-	-	322	(700)
Loss on joint venture formation	-	-	-	3,047
Income (loss) from operations	829	(629)	8,738	4,519
Other income, net	3	1	6	24
Interest expense	(92)	(280)	(358)	(1,606)
Equity in earnings (loss) of joint ventures	124	(1,541)	756	(1,439)
Income (loss) before income taxes	864	(2,449)	9,142	1,498
Provision (benefit) for income taxes	163	(195)	197	(4,764)
Net income (loss)	701	(2,254)	8,945	6,262
Other comprehensive income (loss), net	17	(4)	(159)	(1)
Comprehensive income (loss)	\$ 718	\$ (2,258)	\$ 8,786	\$ 6,261
Per Share Data				
Total basic earnings (loss) per common share	\$ 0.04	\$ (0.14)	\$ 0.50	\$ 0.38
Total diluted earnings (loss) per common share	\$ 0.04	\$ (0.14)	\$ 0.50	\$ 0.38
Dividends per common share	\$ -	\$ -	\$ 0.05	\$ -

See accompanying notes to unaudited condensed consolidated financial statements

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

	March 31, 2011	June 30, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 713	\$6,369
Restricted cash	1,168	971
Receivables (less allowance for doubtful accounts: \$119 and \$155 at March 31, 2011 and June 30, 2010, respectively)	26,967	17,674
Inventory	22,805	14,524
Prepaid expenses	793	1,517
Deposits	1,349	733
Deferred income taxes	2,678	6,267
Refundable income taxes	358	578
Total current assets	56,831	48,633
Property and equipment, at cost	159,916	164,559
Less accumulated depreciation	(98,902)	(107,196)
Property and equipment, net	61,014	57,363
Investment in joint ventures	14,864	14,266
Other assets	594	875
Total assets	\$ 133,303	\$ 121,137
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$ 602	\$689
Revolving credit facility	5,998	-
Accounts payable	14,664	10,341
Accounts payable to affiliate, net	5,841	4,951
Accrued expenses	4,248	7,510
Total current liabilities	31,353	23,491
Long-term debt, less current maturities	1,645	2,082
Deferred credit	4,939	5,379
Accrued retirement health and life insurance benefits	8,582	8,170
Other non current liabilities	2,439	2,964
Deferred income taxes	2,678	6,267
Total liabilities	51,636	48,353
Commitments and Contingencies – See Note 4		
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 19,530,344 shares	6,715	6,715

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at March 31, 2011 and June 30, 2010, respectively; 17,814,158 and 17,519,614 shares outstanding at March 31, 2011 and June 30, 2010, respectively

Additional paid-in capital	7,108	7,606
Retained earnings	79,482	71,428
Accumulated other comprehensive loss	(2,986)	(2,827)
Treasury stock, at cost		
Common: 1,716,186 and 2,010,730 shares at March 31, 2011 and June 30, 2010, respectively	(8,656)	(10,142)
Total stockholders' equity	81,667	72,784
Total liabilities and stockholders' equity	\$ 133,303	\$ 121,137

See accompanying notes to unaudited condensed consolidated financial statements

MGP INGREDIENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Year to Date Ended	
	March 31, 2011	March 31, 2010
Cash Flows from Operating Activities		
Net income	\$8,945	\$6,262
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,478	6,538
Loss (gain) on sale of assets	322	(700)
Loss on joint venture formation	-	3,047
Equity in earnings of joint ventures	(756)	1,439
Changes in operating assets and liabilities:		
Restricted cash	(197)	(607)
Receivables, net	(9,293)	(2,132)
Inventory	(8,281)	1,904
Prepaid expenses	724	(1,924)
Accounts payable	2,825	2,463
Accounts payable to affiliate, net	890	3,676
Accrued expenses	(3,262)	792
Deferred credit	(440)	(594)
Refundable income taxes	220	5,501
Accrued retirement health and life insurance benefits and other non-current liabilities	(113)	(2,741)
Other	229	(748)
Net cash provided by (used in) operating activities	(1,709)	22,176
Cash Flows from Investing Activities		
Additions to property and equipment	(8,673)	(199)
Investment in/advances to joint ventures	-	(1,213)
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	(8,673)	16,702
Cash Flows from Financing Activities		
Payment of dividends	(891)	-
Exercise of stock options	143	221
Loan fees incurred with borrowings	-	(229)
Proceeds from long-term debt	-	2,032
Principal payments on long-term debt	(524)	(26,201)
Proceeds from revolving credit facility	227,945	153,916
Principal payments on revolving credit facility	(221,947)	(167,973)
Net cash provided by (used in) financing activities	4,726	(38,234)
Decrease in cash and cash equivalents	(5,656)	644
Cash and cash equivalents, beginning of year	6,369	178
Cash and cash equivalents, end of period	\$713	\$822

See accompanying notes to unaudited condensed consolidated financial statements

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 March 31, 2011 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.

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, but 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 Operations.

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.

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 March 31, 2011 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 March 31, 2011 and 2010 was 18.9 percent and 8.0 percent respectively. The effective tax rate for the year to date periods ended March 31, 2011 and 2010 was 2.2 percent and (318.0) percent, respectively.

For the year to date period ended March 31, 2011, the effective rate differs from the Company's statutory rate primarily due to changes in the federal and state valuation allowance recorded against deferred tax assets and the expense recorded due to a state tax law change that occurred during the quarter ended March 31, 2011. For the year to date period ended March 31, 2010, 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 occurred during the quarter ended December 31, 2009.

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, which 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 these out of period adjustments materially impact the fair presentation of the Company's operating results or financial condition for the periods affected.

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 that 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

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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.

Note 2. Investment in Joint Ventures.

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.

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 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 March 31, 2011 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. Based on ICP's working capital position, 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 March 31, 2011 is the maximum exposure to losses. A reconciliation from the Company's investment in ICP to the entity's maximum exposure to loss is as follows:

	March 31, 2011
MGPI's investment balance in ICP	\$ 14,546
Plus:	
Funding commitment for capital improvements	1,000
MGPI's maximum exposure to loss related to ICP	\$ 15,546

Summary Financial Information

Condensed financial information of the Company's non-consolidated equity method investment in ICP is shown below. The results for the year to date period ended March 31, 2010 include ICP's results from November 21, 2009, the date of formation, to March 31, 2010.

	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010	Year to Date Ended March 31, 2011	Year to Date Ended March 31, 2010
ICP's Operating results:				
Net sales	\$ 57,567	\$ 12,392	\$ 138,817	\$ 12,425
Cost of sales and expenses	56,120	14,030	133,522	14,735
Depreciation and amortization	1,289	1,360	3,809	1,554
Net income (loss)	\$ 158	\$ (2,998)	\$ 1,486	\$ (3,864)
ICP's Balance Sheet:				
			March 31, 2011	June 30, 2010
Current assets			\$ 30,065	\$ 20,567
Noncurrent assets			28,362	30,898
Total assets			\$ 58,427	\$ 51,465
Current liabilities			\$ 8,228	\$ 12,729
Noncurrent liabilities			21,107	10,788
Equity			29,092	27,948
Total liabilities and equity			\$ 58,427	\$ 51,465

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

	Quarter Ended March 31, 2011	Quarter Ended March 31, 2010	Year to Date Ended March 31, 2011	Year to Date Ended March 31, 2010
ICP (50% interest)*	\$ 79	\$ (1,499)	\$ 743	\$ (1,314)
DMI (50% interest)	45	(42)	13	(125)
	\$ 124	\$ (1,541)	\$ 756	\$ (1,439)

*Note: The year to date period ended March 31, 2010 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:

	March 31, 2011	June 30, 2010
ICP (50% interest)	\$ 14,546	\$ 13,974
DMI (50% interest)	318	292
	\$ 14,864	\$ 14,266

Note 3. 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 (loss) per share from continuing operations are as follows:

	Quarter Ended		Year to Date	
	March 31, 2011	March 31, 2010 (i)	March 31, 2011	March 31 2010 (i)
Net income (loss) from continuing operations attributable to shareholders	\$701	\$ (2,254)	\$8,945	\$6,262
Amounts allocated to participating securities (nonvested shares)	43	-	549	-
Net income (loss) from continuing operations attributable to common shareholders	\$658	\$ (2,254)	\$8,396	\$6,262
Basic weighted average common shares(ii)	16,712	16,673	16,696	16,649
Potential dilutive shares from stock options (iii)	21	-	18	8
Diluted weighted average common shares	16,733	16,673	16,714	16,657
Earnings (loss) per share from continuing operations attributable to common shareholders				
Basic	\$0.04	\$ (0.14)	\$0.50	\$0.38
Diluted	\$0.04	\$ (0.14)	\$0.50	\$0.38

(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 1,088,644 and 859,213 at March 31, 2011 and 2010, respectively.

(iii) Anti-dilutive shares from stock options totaled 10,000 for the quarter and year to date periods ended March 31, 2011. Anti-dilutive shares from stock options totaled 18,000 for the year to date period ended March 31, 2010. Due to the loss experienced during the quarter ended March 31, 2010, no stock options were considered to be dilutive.

Note 4. 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 1,311 mmbtu of natural gas at fixed prices at various dates through November 2011. The commitment for these contracts at March 31, 2011 totaled approximately \$6,117.

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 March 31, 2011, the Company had contracts to acquire capital assets of approximately \$2,542, of which \$1,285 relates to the water cooling project. At March 31, 2011, the estimated remaining commitment for the water cooling project totals approximately \$1,511.

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 April 15, 2011, show that the Company has not exceeded the emissions cap and therefore the Company has not been subject to related penalties.

Note 5. 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 and has 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 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 determined that these contracts meet the normal purchase and sales exception as defined under ASC 815, Derivatives and Hedging, and have excluded the fair value of these commitments from recognition within its financial statements until the actual contracts are physically settled.

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.

The asset's or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

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 March 31, 2011 and June 30, 2010, respectively. At March 31, 2011, \$2,766 of corn derivative assets related to futures contracts were transferred from Level 1 to Level 2. On March 31, 2011, the futures contracts market experienced significant volatility and had reached the maximum daily price allowed by the Chicago Board of Trade ("CBOT") and was closed prior to the normal closing of the market. Accordingly, the closing price was not considered to be indicative of the fair value of these futures contracts on March 31, 2011 and the Company used the CBOT's April 1, 2011 opening trading price for these futures contracts as the best indicator of fair value at March 31, 2011. Given that the fair value of the futures contracts held as of March 31, 2011 were based upon an observable proxy, the Company has classified these contracts as level 2 within the fair value hierarchy. All options on futures contracts held by the Company closed on the CBOT in the normal course of business on March 31, 2011. The Company's policy is to recognize transfers at the end of a reporting period.

	Classified	Total	Fair Value Measurements		
			Level 1	Level 2	Level 3
March 31, 2011					
Assets					
Corn Derivatives (a)(b)(c)	Inventory	\$ 3,244	\$ 468	\$ 2,776	\$ -
June 30, 2010					
Assets					
Corn Derivatives (a)(b)	Inventory	\$ 14	\$ 14	\$ -	\$ -

(a) Corn commodity contracts consist of futures contracts and options and are recorded as a component of inventory in the Company's Consolidated Balance Sheet.

(b) Based on prices of futures exchanges and recently reported prices in the marketplace.

(c) At March 31, 2011 the Company had open net derivative contracts to purchase 4,030,000 bushels of corn.

Note 6. Operating Segments.

The Company's operations are classified into three reportable segments: ingredient solutions, distillery products and other. Ingredient solutions consist of specialty starches and proteins, commodity starch and vital wheat gluten (commodity protein). The distillery products segment consists of food grade alcohol, along with fuel grade alcohol, commonly known as ethanol, and distillers feed, which are co-products of our distillery operations. The other segment products are comprised of plant-based polymers and composite resins manufactured through the further processing of certain of the Company's starch and wood particles.

Operating profit for each segment is based on net sales less identifiable operating expenses. Interest expense, investment income and other general miscellaneous expenses have been excluded from segment operations and classified as Corporate. Receivables, inventories and property and equipment have been identified with the segments to which they relate. All other assets are considered as Corporate.

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	Quarter Ended		Year to Date Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Sales to Customers				
Ingredient solutions	\$ 13,574	\$ 14,402	\$ 42,161	\$ 45,160
Distillery products	50,327	34,264	136,028	100,604
Other	287	603	928	1,848
Total	64,188	49,269	179,117	147,612
Depreciation and amortization				
Ingredient solutions	595	572	1,550	1,732
Distillery products	1,273	1,086	3,473	3,277
Other	62	61	184	184
Corporate	465	421	1,271	1,345
Total	2,395	2,140	6,478	6,538
Income (Loss) before Income Taxes				
Ingredient solutions	100	2,183	1,963	7,240
Distillery products	5,475	1,975	20,901	12,815
Other	(175)	29	(312)	124
Corporate(i)	(4,536)	(6,636)	(13,088)	(16,334)
Loss on joint venture formation(i)	-	-	-	(3,047)
Gain (loss) on sale of assets(i)	-	-	(322)	700
Total	\$ 864	\$ (2,449)	\$ 9,142	\$ 1,498

(i) MGPI's management reporting does not assign or allocate special charges to the Company's operating segments. For purposes of comparative analysis, loss on joint venture formation and gain (loss) on sale of assets have been excluded from our segment results. Corporate loss was favorably impacted by \$1,351 for the year to date period ended March 31, 2010, representing the reversal of over-accrued payables as discussed in the Out-of-Period Adjustments section of Note 1 Accounting Policies and Basis of Presentation. Loss on joint venture formation should have been reduced by \$753, representing a partial settlement and curtailments on our various benefit plans as discussed in the Out-of-Period Adjustments section of Note 1 Accounting Policies and Basis of Presentation.

	As of March 31, 2011	As of June 30, 2010
Identifiable Assets		
Ingredient solutions	\$ 30,632	\$ 30,221
Distillery products	61,411	47,511
Other	1,574	1,777
Corporate	39,686	41,628
Total	\$ 133,303	\$ 121,137

Note 7. Employee Benefit Plans.

Post Retirement Benefits. The Company and its subsidiaries provide certain post-retirement health care and life benefits to certain retired employees. The liability for such benefits is unfunded. The Company uses a June 30 measurement date for the plan.

The components of the Net Periodic Benefit Cost for the quarter and year to date periods ended March 31, 2011 and 2010, respectively, are as follows:

	Quarter Ended		Year to Date Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Service cost	\$56	\$ 62	\$168	\$ 186
Interest cost	102	135	306	405
Amortization of unrecorded prior service cost	(4)	(9)	(12)	(27)
Amortization of unrecorded net loss	22	17	66	51
Total post-retirement benefit cost	\$176	\$ 205	\$528	\$ 615

The Company previously disclosed in its financial statements for the year ended June 30, 2010, amounts expected to be paid to plan participants. There have been no revisions to these estimates and there have been no changes in the estimate of total employer contributions expected to be made for the fiscal year ended June 30, 2011.

Total employer contributions accrued for the quarter ended March 31, 2011 were \$176.

Pension Benefits. The Company and its subsidiaries also provide defined retirement benefits to certain employees covered under collective bargaining agreements. Under the collective bargaining agreements, the Company's pension funding contributions are a function of the wages paid and are determined as a percentage of wages paid. The funding is divided between the defined benefit plans and a union 401(k) plan. It has been management's policy to fund the defined benefit plans in accordance with the collective bargaining agreements. The collective bargaining agreements allow the plans' trustees to develop changes to the pension plans to allow benefits to match funding, including reductions in benefits. The Company uses a June 30 measurement date for the plans. The benefits under these pension plans are based upon years of qualified credited service; however benefit accruals under the Atchison plan were frozen as of October 15, 2009 and benefit accruals under the Pekin plan were frozen as of December 10, 2009.

The components of the Net Periodic Benefit Cost for the quarter and year to date periods ended March 31, 2011 and 2010, respectively, are as follows:

	Quarter Ended		Year to Date Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Service cost	\$-	\$ 152	\$-	\$ 456
Interest cost	59	58	177	174
Expected return on plan assets	(49)	(42)	(147)	(126)
Amortization of unrecorded prior service cost	-	6	-	18
Amortization of unrecorded net loss	34	21	102	63
Total pension benefit cost	\$44	\$ 195	\$132	\$ 585

The Company has made employer contributions of \$100 and \$379 related to the pension plans and union 401(k), respectively, for the year to date period ended March 31, 2011, all of which were paid in the quarter ended September 30, 2010.

Equity-Based Compensation Plans. The Company previously disclosed in its financial statements for the year ended June 30, 2010, a description of the Company's equity-based compensation plans.

The Company's equity based compensation plans provide for the awarding of shares of restricted common stock ("restricted stock" and "nonvested shares") for senior executives and certain salaried employees as well as outside directors. As of March 31, 2011, 1,088,644 shares of non-vested restricted common stock (net of forfeitures) remained outstanding under the Company's long-term incentive plans. Compensation expense related to these awards is based on the market price of the stock on the date the Board of Directors approved the grant and is amortized over the vesting period of the restricted stock award.

On August 26, 2010, the Company granted 295,100 shares of restricted stock (nonvested shares) with a fair value of \$6.75 per share under the Company's 2004 Stock Incentive Plan. The value of those shares at the grant date, aggregating \$1,992, will be amortized to expense over a five year vesting period.

On October 20, 2010, the Company granted 5,000 shares of restricted stock (nonvested shares) with a fair value of \$8.94 per share under the Company's 2004 Stock Incentive Plan. The value of those shares at the grant date, aggregating \$45, will be amortized to expense over a five year vesting period.

On October 22, 2010, the Company granted 10,984 shares of restricted stock with a fair value of \$9.10 per share under the Company's Director's Stock Plan. The value of those shares at the grant date, aggregating approximately \$100, will be amortized over a three year vesting period.

No stock options or restricted stock were granted during the quarter ended March 31, 2011. 10,400 options were exercised during the quarter ended March 31, 2011 for proceeds of \$63. No stock options expired or were forfeited during the quarter ended March 31, 2011. 21,055 shares of restricted stock were forfeited during the quarter ended March 31, 2011.

Note 8. Sale of Kansas City Facility.

On August 21, 2009, the Company sold its Kansas City, Kansas, facility for \$3,585, with potential additional payments over the next three years based on the buyer's income from sales of the Company's existing products to the Company's existing customers during that period. The sale included all equipment used for the production and packaging of pet-related products, which principally include extruded plant-based resins and finished pet treats. The Company retained ownership of equipment that is used for the production of our Wheatex® textured wheat proteins, which are sold for use in meat extension and vegetarian product applications. This equipment is located in a separate section of the facility that has been leased to the Company for a period of three years ending August 20, 2012 and is operated by a subsidiary of the buyer under a toll manufacturing arrangement.

Note 9. Restructuring Cost Activity.

During fiscal 2009, the Company incurred certain restructuring activities, as previously disclosed in its financial statements for the year ended June 30, 2010.

Activity related to the severance and early retirement costs was as follows:

	Quarter Ended		Year to Date Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Balance at beginning of period	\$791	\$ 1,284	\$1,123	\$1,791
Provisions for severance and early retirement costs	-	186	-	186
Payments and adjustments	(173)	(169)	(505)	(676)
Balance at end of period	\$618	\$ 1,301	\$618	\$1,301

Activity related to the lease termination restructuring accrual and related costs was as follows:

	Quarter Ended		Year to Date Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Balance at beginning of period	\$1,229	\$ 2,037	\$1,562	\$2,380
Payments and adjustments	(197)	(269)	(530)	(612)