MGP INGREDIENTS INC
Form 10-Q
November 05, 2015

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 September 30, 2015

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________________________ to _________________________________

Commission File Number: 0-17196

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

KANSAS (State or other jurisdiction of incorporation or organization)	45-4082531 (I.R.S. Employer Identification No.)
100 Commercial Street, Atchison, Kansas (Address of principal executive offices)	66002 (Zip Code)

(913) 367-1480
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

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

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

[ ] Large accelerated filer	[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.

16,681,776 shares of Common Stock, no par value as of October 30, 2015

INDEX

METHOD OF PRESENTATION

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

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

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as well as historical information. All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q regarding the prospects of our industry and our prospects, plans, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements are usually identified by or are associated with such words as "intend," "plan," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may," "will," "could," "encouraged," "opportunities," "potential" and/or the negatives or variations of these terms or similar terminology. They reflect management's current beliefs and estimates of future economic circumstances, industry conditions, Company performance, and Company financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) disruptions in operations at our Atchison facility, Lawrenceburg facility, or at the Illinois Corn Processing, LLC ("ICP") facility, (ii) the availability and cost of grain, flour, and barrels, and fluctuations in energy costs, (iii) the effectiveness of our grain purchasing program to mitigate our exposure to commodity price fluctuations, (iv) the effectiveness or execution of our five-year strategic plan, (v) potential adverse effects to operations and our system of internal controls related to the loss of key management personnel, (vi) the competitive environment and related market conditions, (vii) the ability to effectively pass raw material price increases on to customers, (viii) the positive or adverse impact to our earnings as a result of the high volatility in our equity method investment's, ICP's, operating results, (ix) ICP's access to capital, (x) our limited influence over the ICP joint venture operating decisions, strategies or financial decisions (including investments, capital spending and distributions), (xi) our ability to source product from the ICP joint venture or unaffiliated third parties, (xii) our ability to maintain compliance with all applicable loan agreement covenants, (xiii) our ability to realize operating efficiencies, (xiv) actions of governments, (xv) consumer tastes and preferences, and (xvi) the volatility in our earnings resulting from the timing differences between a business interruption and a potential insurance recovery. For further information on these and other risks and uncertainties that may affect our business, including risks specific to our Distillery Products and Ingredient Solutions segments, see Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by Item 1A. Risk Factors of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, and this Quarterly Report on Form 10-Q.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MGP INGREDIENTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands, except per share amounts)

	Quarter Ended		Year to Date Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Sales	$83,880	$83,966	$260,815	$254,451
Less: excise taxes	3,552	6,451	14,720	17,373
Net sales	80,328	77,515	246,095	237,078
Cost of sales [(a)]	68,466	70,204	203,317	214,658
Gross profit	11,862	7,311	42,778	22,420
Selling, general and administrative expenses	5,497	4,967	20,002	15,205
Insurance recoveries (Note 6)	—	(1,293)	—	(1,223)
Income from operations	6,365	3,637	22,776	8,438
Interest expense, net	(114)	(199)	(374)	(615)
Equity method investment earnings (Note 2)	1,562	1,621	6,010	7,287
Income before income taxes	7,813	5,059	28,412	15,110
Provision (benefit) for income taxes	1,042	(1,169)	8,700	(1,002)
Net income	6,771	6,228	19,712	16,112
Other comprehensive income (loss), net of tax	(15)	(123)	243	202
Comprehensive income	$6,756	$6,105	$19,955	$16,314
Basic and diluted earnings per share	$0.38	$0.34	$1.10	$0.89
Dividends and dividend equivalents per common share	$—	$—	$0.06	$0.05

(a) Includes related party purchases of $8,929 and $10,079 for the quarters ended September 30, 2015 and 2014, respectively. Includes related party purchases of $28,366 and $26,220 for the year to date periods ended September 30, 2015 and 2014. See Note 2. Equity Method Investments.

See accompanying notes to unaudited condensed consolidated financial statements

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

	September 30, 2015	December 31, 2014
Current Assets		
Cash and cash equivalents	$126	$5,641
Receivables (less allowance for doubtful accounts: September 30, 2015 - $6; December 31, 2014 - $12)	31,659	32,672
Inventory	52,208	34,441
Prepaid expenses	2,239	1,179
Deferred income taxes	5,555	7,924
Refundable income taxes	707	388
Total current assets	92,494	82,245
Property and equipment	219,866	198,176
Less accumulated depreciation and amortization	(143,315)	(134,295)
Property and equipment, net	76,551	63,881
Equity method investments (Note 2)	18,427	12,373
Other assets	1,923	2,100
Total assets	$189,395	$160,599
Current Liabilities		
Current maturities of long-term debt	$2,400	$2,613
Accounts payable	20,775	16,076
Accounts payable to affiliate, net	4,070	3,333
Accrued expenses	10,348	8,010
Other current liabilities	—	716
Total current liabilities	37,593	30,748
Long-term debt, less current maturities	6,512	7,670
Credit facility	19,901	—
Deferred credit	3,579	4,099
Accrued retirement health and life insurance benefits	4,193	4,420
Deferred income taxes	8,333	9,297
Total liabilities	80,111	56,234
Commitments and Contingencies (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 18,115,965 shares at September 30, 2015 and December 31, 2014, and 16,675,816 and 17,674,599 shares outstanding at September 30, 2015 and December 31, 2014, respectively	6,715	6,715
Additional paid-in capital	11,013	9,904
Retained earnings	108,079	89,454
Accumulated other comprehensive loss, net of tax	(489)	(732)
Treasury stock, at cost		
Shares of 1,440,149 at September 30, 2015 and 441,406 at December 31, 2014	(16,038)	(980)
Total stockholders' equity	109,284	104,365

Total liabilities and stockholders’ equity	$189,395	$160,599

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	
	September 30, 2015	September 30, 2014
Cash Flows from Operating Activities		
Net income	$19,712	$16,112
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	9,260	9,202
Gain on property insurance recoveries	—	(1,223)
Deferred income taxes, including change in valuation allowance	1,405	(1,215)
Share based compensation	1,417	588
Equity method investment earnings	(6,010)	(7,287)
Changes in Operating Assets and Liabilities:		
Receivables, net	1,013	(3,729)
Inventory	(17,767)	3,452
Prepaid expenses	(1,060)	(587)
Refundable income taxes	(319)	241
Accounts payable	3,052	(8,188)
Accounts payable to affiliate, net	737	2,220
Accrued expenses	2,338	(295)
Deferred credit	(520)	334
Accrued retirement health and life insurance benefits and other accrued retiree benefits	(746)	(456)
Other	286	(414)
Net cash provided by operating activities	12,798	8,755
Cash Flows from Investing Activities		
Additions to property and equipment	(20,043)	(4,920)
Proceeds from property insurance recoveries	—	1,383
Proceeds from sale of property and other	—	4
Net cash used in investing activities	(20,043)	(3,533)
Cash Flows from Financing Activities		
Purchase of treasury stock	(15,366)	(601)
Payment of dividends	(1,087)	(907)
Principal payments on long-term debt	(1,203)	(1,162)
Proceeds from credit facility	21,125	49,590
Payments on credit facility	(1,391)	(54,933)
Loan fees incurred with borrowings	(348)	(66)
Net cash provided by (used in) financing activities	1,730	(8,079)
Decrease in cash and cash equivalents	(5,515)	(2,857)
Cash and cash equivalents, beginning of year	5,641	2,857
Cash and cash equivalents, end of period	$126	$—

See accompanying notes to unaudited condensed consolidated financial statements

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

	Capital Stock Preferred	Issued Common	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2014	$4	$6,715	$9,904	$89,454	$(732)	$(980)	$104,365
Comprehensive income:							
Net income	—	—	—	19,712	—	—	19,712
Change in pension plans, net of tax [(a)]	—	—	—	—	243	—	243
Change in post employment benefits [(a)]	—	—	—	—	(45)	—	(45)
Change in translation adjustment on non-consolidated foreign subsidiary, net of tax[(b)]	—	—	—	—	45	—	45
Dividends and dividend equivalents declared, net	—	—	—	(1,087)	—	—	(1,087)
Share-based compensation	—	—	1,417	—	—	—	1,417
Stock shares awarded, forfeited or vested	—	—	(308)	—	—	308	—
Stock shares repurchased	—	—	—	—	—	(15,366)	(15,366)
Balance, September 30, 2015	$4	$6,715	$11,013	$108,079	$(489)	$(16,038)	$109,284

(a) See Note 9. Employee and Non-Employee Benefit Plans for amounts reclassified from Accumulated Other Comprehensive Loss.

(b) See Note 2. Equity Method Investments for amounts reclassified from Accumulated Other Comprehensive Loss.

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.

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

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of the 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 intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements as of and for the year to date period ended September 30, 2015 should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC"). The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventory

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

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

	September 30, 2015	December 31, 2014
Finished goods	$15,674	$10,039
Barreled distillate	21,063	11,114

Work in process	1,910	2,023
Raw materials	6,412	5,440
Maintenance materials	5,305	4,913
Other	1,844	912
Total	$52,208	$34,441

Equity Method Investments

The Company accounts for equity investments under the equity method of accounting when the Company has significant influence, but does not have more than 50 percent voting control. Under the equity method of accounting, the Company reflects such investments within the Company's Condensed Consolidated Balance Sheets in Equity method investments; the Company's share of the earnings or losses of equity method investments are reflected as Equity method investment earnings in the Condensed Consolidated Statements of Comprehensive Income.

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

Revenue Recognition

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

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

Customer-paid freight costs are included in Sales and were $3,138 and $3,237 for the quarters ended September 30, 2015 and 2014, respectively, and $10,088 and $10,400 for the year to date periods ended September 30, 2015 and 2014, respectively.

Recognition of Insurance Recoveries

Estimated loss contingencies are recognized as charges to income when they are probable and reasonably estimable. Insurance recoveries are not recognized until all contingencies related to the insurance claim have been resolved and settlement has been reached with the insurer. Insurance recoveries related to interruption of business, net of related out-of-pocket expenses, are reported as a reduction to Cost of sales on the Condensed Consolidated Statements of Comprehensive Income. Insurance recoveries related to property damage, in excess of related costs and losses, if any, are included in Insurance recoveries on the Condensed Consolidated Statements of Comprehensive Income.

Income Taxes

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

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

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

Earnings per Share

Basic and diluted earnings per share are computed using the two-class method, which is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends and dividend equivalents 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 the period.

Impairment of Long-lived Assets

The Company tests its long-lived assets and instruments 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 quarter or year to date periods ended September 30, 2015 that required the Company to test its long-lived assets for impairment.

Fair Value Measurements

The fair value of an asset is considered to be 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. Accounting guidance 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 Company’s short-term financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The carrying value of the short term financial instruments approximates the fair value due to their short-term nature. These financial instruments have no stated maturities or the financial instruments have short-term maturities that approximate market.

The fair value of the Company’s debt is estimated based on current market interest rates for debt with similar maturities and credit quality. The fair values of the Company’s debt were $28,415 and $10,297 at September 30, 2015 and December 31, 2014, respectively. These fair values are considered Level 2 under the fair value hierarchy. The financial statement carrying values of the Company's debt were $28,813 and $10,283 at September 30, 2015 and December 31, 2014, respectively.

Dividends and Dividend Equivalents

On February 27, 2015, the Board of Directors declared a dividend payable to stockholders of record as of March 26, 2015, of the Company's common stock, no par value ("Common Stock"), and a dividend equivalent payable to holders of restricted stock units ("RSUs") as of March 26, 2015, of six cents per share and per unit. The total payment of $1,087, comprised of dividend payments of $1,061 and dividend equivalent payments, net of estimated forfeitures, of $26, was paid on April 21, 2015.

On February 28, 2014, the Board of Directors declared a dividend payable to stockholders of record as of March 17, 2014, of the Company's Common Stock and a dividend equivalent payable to holders of RSUs as of March 17, 2014, of five cents per share and per unit. The total payment of $907, comprised of dividend payments of $884 and dividend equivalent payments, net of estimated forfeitures, of $23, was paid on April 9, 2014.

Credit Agreement

On February 27, 2015, the Company, as a guarantor and a party, and its subsidiaries, MGPI Processing, Inc., MGPI Pipeline, Inc., and MGPI of Indiana, LLC, as the borrowers, entered into a five-year, $80,000 credit agreement pursuant to a Second Amended and Restated Credit Agreement and associated schedules (the "Restated Credit Agreement") with Wells Fargo Bank, National Association, as Administrative Agent (the "Agent"). The Restated Credit Agreement amended and restated the Company's former revolving credit facility under the Amended and Restated Credit Agreement between the Company and Wells Fargo Bank, National Association, as Lender, dated November 2, 2012, as amended. The Restated Credit Agreement differs from the Company's prior credit agreement by (i) increasing amount available under the credit facility to $80,000, (ii) extending the maturity date to February 27, 2020, (iii) providing for the addition of U.S. Bank, National Association, as a lender, and (iv) reducing certain interest rates, and (v) incorporating other modifications consistent with the increase in the loan amount and to reflect Wells Fargo's status as the Agent. The Company incurred new loan fees related to the Restated Credit Amendment of $348 during the year to date period ended September 30, 2015. The unamortized balance of total loan fees related to the Restated Credit Amendment was $675 at September 30, 2015 and is included in Other Assets on the Condensed Consolidated Balance Sheets. The loan fees are being amortized over the life of the Restated Credit Agreement.

As of and for the quarter and year to date period ended September 30, 2015, the Company was in compliance with the Restated Credit Agreement's financial covenants and other restrictions.

The amount of borrowings which the Company may make is subject to borrowing base limitations adjusted for the Fixed Asset Sub-Line collateral. Due to limitations generally based on the value of eligible inventory and accounts receivable owned by the Borrowers as defined in the Restated Credit Agreement, our current borrowing capacity is $59,955. As of September 30, 2015, the Company's total outstanding borrowings under the credit facility were $26,405, comprised of $19,901 of revolver borrowing and $6,504 of fixed asset sub-line term loan borrowing, leaving $33,550 available for additional borrowings. The average interest rate for total borrowings of the Restated Credit Agreement at September 30, 2015 was 3.04 percent.

New Accounting Pronouncements

In September 2015 the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), which simplifies its current requirement that an entity measure inventory at lower of cost or market, when market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Inventory within the scope of ASU 2015-11 should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The Company is evaluating the effect that ASU 2015-11 will have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015 (and interim periods within those fiscal years) with early adoption permitted and retrospective application required. The Company is evaluating the effect that ASU 2015-03 will have on its consolidated financial statements and related disclosures.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. At its July 9, 2015 meeting, the FASB agreed to defer by one year the mandatory effective date of its revenue recognition standard, but will also provide entities the option to adopt it as of the original effective date (ASU No. 2015-14). The new standard has a mandatory adoption date for the Company of January 1, 2018. Early adoption is permitted at January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09, updated to ASU 2015-14, will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Note 2. Equity Method Investments.

As of September 30, 2015, the Company’s investments that are accounted for using the equity method of accounting consisted of the following: (1) 30 percent interest in ICP, which manufactures alcohol for fuel, industrial and beverage applications, and (2) 50 percent interest in D.M. Ingredients, GmbH, ("DMI"), which produced certain specialty starch and protein ingredients until June 30, 2015 (see DMI discussion below).

On April 9, 2015, ICP obtained a $30,000 revolving credit facility with JPMorgan Chase Bank, N.A., which could be increased in the future by an additional $20,000, subject to lender approval. The revolver matures on April 9, 2018. Simultaneous with the execution of the new revolving credit facility, ICP terminated its $15,000 amended and restated revolving credit facility with an affiliate of SEACOR, which would have matured January 31, 2016. The Company has no funding requirement to ICP.

During the quarter ended June 30, 2014, management reassessed the most likely events that would result in a recovery of its investment in ICP and, as a result, the Company remeasured its cumulative equity in the undistributed earnings of ICP. The cumulative effect of this change in estimate resulted in a decrease in equity method investment earnings of ICP of $1,882 for the period beginning April 1, 2013 and ending March 31, 2014; a decrease in the earnings per share of $0.10 per share for the year to date period ended September 30, 2014; and a decrease in the related equity method investment in ICP at September 30, 2014, of $1,882.

On December 29, 2014, the Company gave notice to DMI and to the Company's partner in DMI, Crespel and Dieters GmbH & Co. KG ("C&D"), to terminate the joint venture effective June 30, 2015. C&D also provided notice to terminate DMI effective June 30, 2015. On June 22, 2015, a termination agreement was executed by and between the Company, DMI, and C&D to dissolve DMI effective June 30, 2015. Additionally, on June 22, 2015 a termination agreement was executed by and between the Company and DMI to terminate their distribution agreement effective June 29, 2015. Under German law, commencing on June 30, 2015, normal operations for DMI ceased and a one-year winding down process began.

Realizability of DMI Investment

Due to the termination agreement signed on June 22, 2015, to terminate the Company's DMI joint venture effective June 30, 2016 that is previously described, the Company reclassified its pre-tax DMI translation adjustment of $81 ($45, net of tax) from accumulated other comprehensive loss into equity method investment loss that is reflected in Equity method investment earnings in the Condensed Consolidated Statements of Comprehensive Income for the year to date period ended September 30, 2015. Also due to the June 22, 2015 agreement, the Company assessed the recoverability of its investment in DMI at September 30, 2015 of $384. The Company determined that DMI's financial results for the quarter ended June 30, 2015 reflected all foreseen adjustments resulting from the termination agreement. DMI is currently within the one-year winding down process as above described. Since operations ceased at

June 30, 2015, there have been no updated financial results or other communications impacting the valuation of DMI assets reported by DMI. By recording in Equity method investment earnings in the Condensed Consolidated Statements of Comprehensive Income, the pre-tax foreign currency translation adjustment, as well as the Company's 50 percent portion of DMI's equity method investment losses, totaling $110 for the year to date period ended September 30, 2015, the Company's investment in DMI is appropriately reflected at the estimated fair value of the DMI investment at September 30, 2015.

Summary Financial Information (unaudited)

Condensed financial information related to the Company's non-consolidated equity method investment in ICP is shown below.

	Quarter Ended September 30, 2015	September 30, 2014	Year to Date Ended September 30, 2015		September 30, 2014
ICP's Operating results:					
Net sales [a]	$40,281	$53,813	$128,250		$185,460
Cost of sales and expenses [b]	35,072	48,467	107,851		155,214
Net income	$5,209	$5,346	$20,399	[c]	$30,246

(a) Includes related party sales to MGPI of $8,680 and $9,287 for the quarters ended September 30, 2015 and 2014, respectively, and $27,195 and $23,905 for the year to date periods ended September 30, 2015 and 2014, respectively.

(b) Includes depreciation and amortization of $662 and $738 for the quarters ended September 30, 2015 and 2014, respectively, and depreciation and amortization of $1,987 and $2,100.

(c) Includes business interruption insurance proceeds of $4,112 for the year to date period ended September 30, 2015.

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

	Quarter Ended September 30, 2015	September 30, 2014	Year to Date Ended September 30, 2015		September 30, 2014
ICP (30% interest)	$1,562	$1,604	$6,120	[a]	$7,192
DMI (50% interest)	—	17	(110	) [b]	95
	$1,562	$1,621	$6,010		$7,287

(a) Earnings include business interruption insurance proceeds of $1,230 ($4,112 x 30% interest) for the year to date period ended September 30, 2015.

(b) Loss includes $81 pre-tax foreign currency translation adjustment for the year to date period ended September 30, 2015 discussed above in Realizability of DMI Investment.

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

	September 30, 2015		December 31, 2014
ICP (30% interest)	$18,043	[a]	$11,924
DMI (50% interest)	384	[b]	449
	$18,427		$12,373

(a) Includes effect of business interruption insurance proceeds on ICP earnings of $1,230 ($4,112 x 30% interest) for the year to date period ended September 30, 2015.

(b) Includes effect of $81 pre-tax foreign currency translation adjustment on DMI loss for the year to date period ended September 30, 2015 discussed above in Realizability of DMI Investment.

Note 3. Earnings per Share.

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

	Quarter Ended		Year to Date Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Operations:				
Net operating income[(a)]	$6,771	$6,228	$19,712	$16,112
Less: Amounts allocated to participating securities (nonvested shares and units)[(b)]	222	268	653	692
Net income attributable to common shareholders	$6,549	$5,960	$19,059	$15,420
Share information:				
Basic weighted average common shares[(c)(d)]	17,154,303	17,334,330	17,315,890	17,286,258
Incremental shares from potential dilutive securities[(e)]	769	229	759	—
Diluted weighted average common shares	17,155,072	17,334,559	17,316,649	17,286,258
Basic and diluted earnings per share	$0.38	$0.34	$1.10	$0.89

(a) Net operating income attributable to all shareholders.

(b) Participating securities include 128,500 and 301,598 nonvested restricted shares at September 30, 2015 and 2014, respectively.

(c) Under the two-class method, basic weighted average common shares exclude outstanding nonvested, participating securities consisting of restricted share awards of 128,500 and 301,598 at September 30, 2015 and 2014, respectively.

(d) Basic weighted average common shares were affected by the September 1, 2015, purchase of 950,000 shares of common stock in a privately-negotiated transaction with F2 SEA, Inc., an affiliate of SEACOR Holdings, Inc. pursuant to a Stock Repurchase Agreement. SEACOR Holdings, Inc. is the 70 percent owner of ICP, the Company's 30 percent equity method investment.

(e) Anti-dilutive shares related to stock options totaled 0 and 6,000 for the quarters ended September 30, 2015 and 2014, respectively, and 0 and 8,667 for the year to date periods ended September 30, 2015 and 2014. There were dilutive shares related to stock options totaling 4,000 and 4,000 for the quarters ended September 30, 2015 and 2014, respectively, and 4,000 and 1,333 for the year to date periods ended September 30, 2015 and 2014, respectively. The dilutive shares resulted in potential dilutive securities of 769 and 229 for the quarters ended September 30, 2015 and 2014, respectively, and 759 and 0 for the year to date periods ended September 30, 2015 and 2014, respectively.

Note 4. Commitments and Contingencies.

Commitments

The Company has separate supply agreements to purchase its grain requirements for its Lawrenceburg and Atchison facilities, each with a single supplier. These supply agreements expire December 31, 2017. At September 30, 2015, the Company had total commitments to purchase grain to be used in operations through December 2016 totaling $34,613.

The Company has commitments to purchase natural gas at fixed prices and various dates through September 2016. The commitment for these contracts at September 30, 2015 totaled $8,375.

The Company has a supply agreement for flour used in the production of protein and starch ingredients. At September 30, 2015, the Company had purchase commitments aggregating $16,465 through December 2016.

As of September 30, 2015, the Company had commitments to acquire capital assets totaling $6,042. For the year to date period ended September 30, 2015, we made $22,262 of capital investments, of which $20,043 was a use of cash and $2,219 remained payable at September 30, 2015.

Contingencies

There are various legal proceedings involving the Company and its subsidiaries. Management believes that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position or overall trends in results of operations of the Company.

Note 5. Income Taxes

In the quarter ended September 30, 2015, the Company evaluated the potential realization of its deferred income tax assets. The Company recorded deferred tax assets related to certain state income tax benefits of $3,829 as of December 31, 2014 that had been reduced by a valuation allowance. Evaluating the need for, and amount of, a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all available evidence on a jurisdiction-by-jurisdiction basis. Such judgments require the Company to interpret existing tax law and other published guidance as applied to its circumstances. As part of this assessment, the Company considers both positive and negative evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which the strength of the evidence can be objectively verified. The Company generally considers the following, among other, objectively verified evidence to determine the likelihood of realization of the deferred tax assets:

- The Company's current financial position and its historical results of operations for recent years. The Company generally considers cumulative pre-tax losses in the three-year period ending with the current quarter to be significant negative evidence regarding its future profitability. A pattern of objectively-measured recent financial reporting losses is heavily weighted as a source of negative evidence when relying upon projections of future taxable income to recover deferred tax assets. The Company also considers the historical and current financial trends in the recent years.

- Sources of taxable income of the appropriate character. Future realization of deferred tax assets is dependent on projected taxable income of the appropriate character from its continuing operations. Future reversals of existing temporary differences are heavily weighted sources of objectively verifiable positive evidence. Projections of future taxable income exclusive of reversing temporary differences are a source of positive evidence only when the projections are combined with a history of recent profits and current financial trends and can be reasonably estimated.

- Carryback and carryforward periods available. The long carryback and carryforward periods permitted under the tax law are objectively verified positive evidence.

- Tax planning strategies. Tax planning strategies can be, depending on their nature, heavily-weighted sources of objectively verifiable positive evidence when the strategies are available and can be reasonably executed. The Company considers tax planning strategies only if they are feasible and justifiable considering its current operations and its strategic plan. Tax planning strategies, if executed, may accelerate the recovery of a deferred tax asset so the tax benefit of the deferred tax asset can be carried back.

After evaluating positive and negative evidence available as of September 30, 2015, the Company determined that it is more likely than not that it will realize a portion of its deferred tax assets related to certain state income tax benefits that previously had a 100 percent valuation allowance recorded. The Company’s cumulative income history and projections of future taxable income supported an assessment that a portion of these recorded deferred tax assets are more likely than not to be recoverable. The Company recorded an income tax benefit of $1,908 for the year to date period ended September 30, 2015 for the portion of the change in valuation allowance arising from expected realization of certain state deferred tax assets in future periods.

For the comparable year to date period ended September 30, 2014, the Company recorded an income tax benefit of $1,215 for the portion of the change in valuation allowance arising from expected realization of deferred tax assets in future years. The Company also released $5,855 of valuation allowance related to the tax effects of income generated in the year to date period ended September 30, 2014, resulting in no net impact to the income tax provision.

The effective tax rate for the quarter and the year to date periods ended September 30, 2015 was 13.3 percent and 30.6 percent, respectively, which was impacted by the release of the valuation allowance. The income tax expense of $1,042 recorded for the quarter ended September 30, 2015 includes the release of $1,908 of valuation allowance arising from expected realization of deferred tax assets in future years. The income tax expense for the year to date period ended September 30, 2015 was $8,700.

For the comparable quarter and year to date periods ended September 30, 2014, the effective tax rate was (23.1) percent and (6.6) percent, respectively, after consideration of utilization of certain deferred tax assets, primarily net operating loss carry forwards and the related impact due to the release of the valuation allowance. The income tax benefit of $1,169 recorded for the quarter ended September 30, 2014 primarily related to the release of $1,215 of valuation allowance arising from expected realization of net deferred tax assets in future years. The income tax benefit for the year to date period ended September 30, 2014 was $1,002.

Note 6. Property and Business Interruption Insurance Claims and Recoveries

During October 2014, the Company experienced a fire at its Atchison facility. Certain equipment in the facility's feed drying operations was damaged, but repairable, and the Company experienced a seven-day temporary loss of production. The Company reached final settlement with its insurance carrier to close this claim during the quarter ended March 31, 2015, and received $460 of insurance proceeds reflected as a net reduction to Cost of Sales on the Condensed Consolidated Statements of Comprehensive Income for the year to date period ended September 30, 2015.

During January 2014, the Company experienced a fire at its Lawrenceburg facility. The fire damaged certain equipment in the feed dryer house and caused a temporary loss of production. The fire did not impact the Company's own or customer-owned warehoused inventory. By the end of February the plant was at pre-fire production levels. During the quarter and year to date period ended September 30, 2014, the Company received $2,058 and $2,308 of insurance proceeds, respectively. Insurance proceeds related to business interruption for the quarter and year to date period ended September 30, 2014 of $765 and $925, respectively, net of out-of-pocket expenses of $118 and $328, respectively, are reported as a net reduction to Cost of Sales of $647 and $597, respectively, on the Condensed Consolidated Statements of Comprehensive Income. Insurance proceeds related to property damage for the quarter and year to date period of $1,293 and $1,383, respectively, net of the book value property loss of $0 and $160, respectively, are reported as Insurance recoveries of $1,293 and $1,223, respectively, on the Condensed Consolidated Statements of Comprehensive Income.

Detail of the activities related to the property and business interruption insurance claims and recoveries and where the net impacts are recorded on the Condensed Consolidated Statements of Comprehensive Income is as follows:

	Quarter Ended		Year to Date Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Total insurance recoveries	$—	$2,058	$460	$2,308
Insurance recoveries - interruption of business	$—	$765	$460	$925
Less: out-of-pocket expenses related to interruption of business in Cost of Sales	—	118		