MGP INGREDIENTS INC
Form 10-Q
November 13, 2013

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, 2013

or

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

Commission File Number: 0-17196

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [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. (Check One)

[ ] Large accelerated filer	[ ] Accelerated filer

[ ] Non-accelerated filer [X] 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.

17,851,535 shares of Common Stock, no par value as of October 31, 2013

INDEX

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”, “pot negatives of these terms or variations of them or similar terminology. They reflect management’s current beliefs and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) disruptions in operations at our Atchison facility or Indiana Distillery, (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 pass raw material price increases on to customers, (vi) the viability of the Illinois Corn Processing, LLC (“ICP”) joint venture and its ability to obtain financing, (vii) our ability to maintain compliance with all applicable loan agreement covenants, (viii) our ability to realize operating efficiencies, (ix) potential adverse affects to the business, operations and profitability, as well as the rights of our common shareholders as a result of a proxy contest initiated by a dissident shareholder group, (x) litigation that we have launched against the co-trustees of the MGP Ingredients, Inc. Voting Trust and the Cray Family Trust, (xi) actions of governments, (xii) and consumer tastes and preferences. For further information on these and other risks and uncertainties that may affect our business, including risks specific to our Distillery and Ingredient segments, see Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012, as updated by Item 1A. Risk Factors of this Quarterly Report on Form 10-Q.

METHOD OF PRESENTATION

All amounts in this report, except for share, bushels, gallons, pounds, mmbtu, per share, per bushel, per gallon and percentage amounts, are shown in thousands.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Quarter Ended		Year to Date Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Sales	$80,709	$76,189	$253,134	$251,882
Less: excise taxes	538	82	7,164	3,897
Net sales	80,171	76,107	245,970	247,985
Cost of sales (a)	79,356	70,047	232,645	230,382
Gross profit	815	6,060	13,325	17,603
Selling, general and administrative expenses	6,760	6,037	17,405	20,070
Other operating costs and losses on sale of assets	1	38	59	288
Gain on sale of assets, net	—	(889)	—	(841)
Income (loss) from operations	(5,946)	874	(4,139)	(1,914)
Gain on sale of joint venture interest	—	—	—	4,055
Interest expense	(269)	(226)	(829)	(709)
Equity in earnings (loss) of Joint Ventures	(91)	(130)	(962)	164
Income (loss) from continuing operations before income taxes	(6,306)	518	(5,930)	1,596
Provision for income taxes	19	100	44	152
Net income (loss) from continuing operations	(6,325)	418	(5,974)	1,444
Discontinued operations, net of tax (Note 9)	—	—	1,406	—
Net income (loss)	(6,325)	418	(4,568)	1,444
Other comprehensive income (loss), net of tax	(111)	826	(401)	1,011
Comprehensive income (loss)	$(6,436)	$1,244	$(4,969)	$2,455
Basic and diluted earnings (loss) per share				
Income (loss) from continuing operations	$(0.37)	$0.02	$(0.35)	$0.08
Income from discontinued operations	—	—	0.08	—
Net income (loss)	$(0.37)	$0.02	$(0.27)	$0.08
Dividends per common share	$—	$—	$0.05	$0.05

(a) Includes related party purchases of $702 and $9,806 for the quarters ended September 30, 2013 and 2012, respectively. Includes related party purchases of $5,494 and $40,931 for the year to date periods ended September 30, 2013 and 2012, respectively. 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, 2013	December 31, 2012
Current Assets		
Cash and cash equivalents	$—	$—
Restricted cash	—	12
Receivables (less allowance for doubtful accounts: September 30, 2013 - $20; December 31, 2012 - $12)	31,796	35,325
Inventory	36,801	36,532
Prepaid expenses	1,238	697
Deferred income taxes	6,349	5,283
Refundable income taxes	226	242
Total current assets	76,410	78,091
Property and equipment	192,361	190,519
Less accumulated depreciation and amortization	(122,061)	(115,128)
Property and equipment, net	70,300	75,391
Equity method investments	6,352	7,301
Other noncurrent assets	2,153	2,388
Total assets	$155,215	$163,171
Current Liabilities		
Current maturities of long-term debt	$1,558	$1,683
Accounts payable	19,689	18,860
Accounts payable to affiliate, net	517	4,008
Accrued expenses	7,145	5,220
Total current liabilities	28,909	29,771
Long-term debt, less current maturities	4,005	5,168
Revolving credit facility	24,867	25,893
Deferred credit	3,793	4,133
Accrued retirement health and life insurance benefits	4,884	5,096
Other noncurrent liabilities	946	1,000
Deferred income taxes	6,349	5,283
Total liabilities	73,753	76,344
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 18,115,965 shares at September 30, 2013 and December 31, 2012, 17,827,135 and 17,934,233 shares outstanding at September 30, 2013 and December 31, 2012, respectively	6,715	6,715
Additional paid-in capital	8,844	7,894
Retained earnings	67,047	72,531
Accumulated other comprehensive loss, net of tax	(634)	(233)
Treasury stock, at cost	(514)	(84)

288,830 and 181,732 shares at September 30, 2013 and December 31, 2012, respectively		
Total stockholders' equity	81,462	86,827
Total liabilities and stockholders' equity	$155,215	$163,171

See accompanying notes to unaudited condensed consolidated financial statements

5

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

	Year to Date Ended	
	September 30, 2013	September 30, 2012
Cash Flows from Operating Activities		
Net income (loss)	$(4,568)	$1,444
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,955	8,680
Gain on sale of bioplastics manufacturing business	(1,453)	—
Gain on sale of joint venture interest	—	(4,055)
Gain on sale of assets, net	—	(841)
Share based compensation	970	628
Equity in (earnings) loss of Joint Ventures	962	(164)
Changes in operating assets and liabilities:		
Restricted cash	12	7,476
Receivables, net	3,529	(2,490)
Inventory	(342)	(3,423)
Prepaid expenses	(541)	(621)
Refundable income taxes	16	152
Accounts payable	(509)	(8,031)
Accounts payable to affiliate, net	(3,491)	(3,595)
Accrued expenses	1,478	1,311
Change in derivatives	—	(2,492)
Deferred credit	(340)	(448)
Accrued retirement health and life insurance benefits and other noncurrent liabilities	(680)	(826)
Other	6	(158)
Net cash provided by (used by) operating activities	4,004	(7,453)
Cash Flows from Investing Activities		
Proceeds from sale of bioplastics manufacturing business	2,797	—
Proceeds from sale of joint venture interest	—	9,103
Proceeds from the disposition of property and equipment	—	3,215
Additions to property and equipment	(3,571)	(7,712)
Investment in and advances to unconsolidated subsidiaries	—	(500)
Net cash provided by (used by) investing activities	(774)	4,106
Cash Flows from Financing Activities		
Payment of dividends	(916)	(914)
Loan fees incurred with borrowings	—	(100)
Principal payments on long-term debt	(1,288)	(1,248)
Proceeds from revolving credit facility	83,031	99,239
Payments on revolving credit facility	(84,057)	(94,013)
Net cash provided by (used by) financing activities	(3,230)	2,964
Decrease in cash and cash equivalents	—	(383)
Cash and cash equivalents, beginning of year	—	383
Cash and cash equivalents, end of period	$—	$—

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 Income (Loss)	Treasury Stock	Total
Balance, December 31, 2012	$4	$6,715	$7,894	$72,531	$(233)	$(84)	$86,827
Comprehensive income:							
Net loss	—	—	—	(4,568)	—	—	(4,568)
Change in pension plans, net of tax (a)	—	—	—	—	50	—	50
Change in post employment benefits, net of tax (a)	—	—	—	—	(464)	—	(464)
Change in translation adjustment on non-consolidated foreign subsidiary, net of tax	—	—	—	—	13	—	13
Dividends declared and paid	—	—	—	(916)	—	—	(916)
Share-based compensation	—	—	970	—	—	—	970
Common shares reacquired due to taxes derived from vesting of restricted stock and restricted stock units	—	—	(20)	—	—	(430)	(450)
Balance, September 30, 2013	$4	$6,715	$8,844	$67,047	$(634)	$(514)	$81,462

(a) See Note 7. Employee Benefit Plans for amounts reclassified from Accumulated Other Comprehensive Income (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, which is discussed in greater detail in the Company's Report on Form 10-K for the year ended December 31, 2012. Prior to the Reorganization, Processing was named MGP Ingredients, Inc.

MGPI-I acquired substantially all the beverage alcohol distillery assets of Lawrenceburg Distillers Indiana, LLC ("LDI") at its Lawrenceburg and Greendale, Indiana facility ("Indiana Distillery") on December 27, 2011.

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 period ended September 30, 2013 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, 2012 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.

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.

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. Inventories are stated at the lower of cost or market on the first-in, first-out ("FIFO") method. Inventory consists of the following:

	September 30, 2013	December 31, 2012
Finished goods	$12,579	$14,272
Barreled distillate	12,038	9,080
Work in process	2,204	2,571

Raw materials	4,783	5,959
Maintenance materials	4,670	4,116
Other	527	534
Total	$36,801	$36,532

8

Equity Method Investments

The Company accounts for its investment in non-consolidated subsidiaries under the equity method of accounting when the Company has significant influence, but does not have more than 50% voting control, and is not considered the primary beneficiary. Under the equity method of accounting, the Company reflects its investment in non-consolidated subsidiaries within the Company’s Condensed Consolidated Balance Sheets as “Equity method investments”; the Company’s share of the earnings or losses of the non-consolidated subsidiaries are reflected as “Equity in earnings (loss) of Joint Ventures” in the Condensed Consolidated Statements of Comprehensive Income (Loss).

The Company reviews its investments in non-consolidated subsidiaries for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary include, but are not limited to, the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment. The Company considered the losses incurred by ICP during the year to date period ended September 30, 2013 and the Company's election to provide notice to shutdown the plant (as more fully described in Note 2. Equity Method Investments), however these circumstances did not cause the Company to determine that its investment in ICP was not fully recoverable.

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.

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, and requirements for bill and hold revenue recognition must be met prior to the Company recognizing revenue for this product. Separate warehousing agreements are typically maintained for customers who store their product with the Company after purchase, and warehouse revenues are recognized as the service is provided.

Sales include customer-paid freight costs billed to customers of $3,153 and $2,537 for the quarters ended September 30, 2013 and 2012, respectively, and $8,789 and $7,656 for the year to date periods ended September 30, 2013 and 2012, respectively.

Income Taxes

The effective tax rates for the quarters ended September 30, 2013 and 2012 were (0.3) percent and 19.3 percent, respectively. The effective tax rates for the year to date periods ended September 30, 2013 and 2012 were (0.2) percent and 9.5 percent, respectively, consisting of state income taxes for which no net operating loss carryforwards are currently available. The $47 of taxes related to discontinued operations were included in the computation of the effective rate for the year to date period ended September 30, 2013.
For the quarters and year to date periods ended September 30, 2013 and September 30, 2012, the effective rates differed from the Company's statutory rate primarily due to the expected utilization of available net operating losses. At this time, management is unable to conclude it is more likely than not that deferred tax assets will be realized. As a result of this analysis, the Company continues to record a full valuation allowance on net deferred tax

assets. Management will continue to evaluate the available positive and negative evidence in future periods.

Earnings per Share

Basic and diluted earnings (loss) per share are computed using the two-class method, which is an earnings allocation formula that determines net income (loss) 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 (loss) from continuing operations attributable to common shareholders by the weighted average shares outstanding during the period.

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 or year to date periods ended September 30, 2013 that required the Company to test 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 $30,585 and $32,596 at September 30, 2013 and December 31, 2012, respectively. The financial statement carrying value was $30,430 and $32,744 at September 30, 2013 and December 31, 2012, respectively. These fair values are considered Level 2 under the fair value hierarchy.

Dividends

On February 28, 2013, the Board of Directors declared a dividend of $0.05 per share of the Company’s common stock, no par value (the “Common Stock”), payable to stockholders of record of Common Stock, restricted stock and restricted stock units on March 18, 2013. The $916 dividend was paid on April 10, 2013.

On March 1, 2012, the Board of Directors declared a dividend of $0.05 per share of the Company’s Common Stock, no par value, payable to stockholders of record of Common Stock, restricted stock and restricted stock units on March 22, 2012. The $914 dividend was paid on April 19, 2012.

Line of Credit

On November 2, 2012, we entered into an Amended and Restated Credit Agreement, and ancillary documents with Wells Fargo (the “Credit Agreement”).

The amount of borrowings which we may make is subject to borrowing base limitations. As of September 30, 2013, our outstanding borrowings under this facility were $24,867, leaving $19,463 available for additional borrowings after giving effect to a $2,000 outstanding letter of credit that we have with one of our vendors.

As of and for the year to date period ended September 30, 2013, we are in compliance with the Credit Agreement's financial covenants and other restrictions.

Note 2. Equity Method Investments.

As of September 30, 2013, the Company's investments accounted for on the equity method of accounting consist 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 produces certain specialty starch and protein ingredients.

Processing completed a series of related transactions on November 20, 2009 pursuant to which Processing 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 ("ICP Holdings"), an affiliate of SEACOR Energy Inc.

On February 1, 2012, ICP Holdings exercised its option to purchase an additional 20 percent of the membership interest in ICP. The sales price was $9,103 and was determined in accordance with the LLC Interest Purchase Agreement. Following its exercise, ICP Holdings owns 70 percent of ICP, is entitled to name 4 of ICP's 6 advisory board members, and generally has control of ICP's day to day operations. Processing owns 30 percent of ICP and is entitled to name 2 of ICP's 6 advisory board members.

Under a marketing agreement between ICP and the Company, (the "Marketing Agreement"), ICP manufactured and supplied food grade and industrial-use alcohol products for the Company, and the Company purchased, marketed and sold such products for a marketing fee. Effective January 1, 2013, the Marketing Agreement expired. The Company has sourced minimal product from ICP since April 2013.

ICP's term loan and revolving credit agreement with an affiliate of SEACOR Energy Inc. expired as of December 31, 2012 and has not been renewed. The Company has no further funding requirement to ICP.

The ICP Limited Liability Company Agreement gives the Company and its joint venture partner, ICP Holdings, certain rights to shut down the Pekin plant if ICP operates at an EBITDA loss of $500 in any quarter. Such rights are conditional in certain instances, but are certain if EBITDA losses aggregate $1,500 over any three consecutive quarters or if ICP's net working capital is less than $2,500. For the quarter ended March 31, 2013, ICP experienced an EBITDA loss in excess of the $500 threshold. Such shutdown notice was provided by the Company on April 18, 2013 under the terms of the ICP Limited Liability Company Agreement, and such notice was rejected by ICP Holdings. The Company has not withdrawn its election as of the date of this filing.

The ICP Limited Liability Company Agreement provides for a new allocation of profit and loss when notice of shutdown is rejected by ICP Holdings. From an accounting perspective, the Company will continue to allocate profit and loss 30 percent to the Company and 70 percent to ICP Holdings in accordance with U.S. generally accepted accounting principles.

Summary Financial Information

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

	Quarter Ended		Year to Date Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
ICP's Operating results:				
Net sales (a)	$52,580	$47,813	$146,807	$164,804

Gross profit	148	45	(900)	2,075
Net income (loss)	$(585)	$(448)	$(3,472)	$311

(a) Includes related party sales to MGPI of $110 and $9,697 for the quarters ended September 30, 2013 and 2012, respectively, and $3,510 and $40,331 for the year to date periods ended September 30, 2013 and 2012, respectively.

11

The Company’s equity in earnings (loss) of Joint Ventures based on unaudited financial statements is as follows:

	Quarter Ended		Year to Date Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
ICP (30% interest) (a)	$(135)	$(134)	$(1,042)	$229
DMI (50% interest)	44	4	80	(65)
	$(91)	$(130)	$(962)	$164

(a) The Company’s ownership percentage of ICP was 50 percent through February 1, 2012, when the Company sold 20 percent of its investment. From February 2, 2012 through September 30, 2013, the Company’s ownership percentage in ICP and accounting profit and loss was 30 percent.

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

	September 30, 2013	December 31, 2012
ICP (30% interest)	$5,856	$6,898
DMI (50% interest)	496	403
	$6,352	$7,301

Note 3. Earnings (Loss) per Share.

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

	Quarter Ended		Year to Date Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Continuing Operations:				
Net income (loss) from continuing operations attributable to shareholders	$(6,325)	$418	$(5,974)	$1,444
Less: Amounts allocated to participating securities (nonvested shares and units)(i)	—	26	—	91
Net income (loss) from continuing operations attributable to common shareholders	$(6,325)	$392	$(5,974)	$1,353
Discontinued Operations:				
Discontinued operations attributable to shareholders	$—	$—	$1,406	$—
Less: Amounts allocated to participating securities (nonvested shares and units)(i)	—	—	—	—
Discontinued operations attributable to common shareholders	$—	$—	$1,406	$—
Share information:				
Basic weighted average common shares(ii)	17,127,523	16,976,054	17,045,001	16,936,366
Potential dilutive securities(iii)	—	66	—	313
Diluted weighted average common shares	17,127,523	16,976,120	17,045,001	16,936,679
Basic earnings (loss) per share				
Income (loss) from continuing operations	$(0.37)	$0.02	$(0.35)	$0.08
Income from discontinued operations	—	—	0.08	—
Net income (loss)	$(0.37)	$0.02	$(0.27)	$0.08
Diluted earnings (loss) per share				
Income (loss) from continuing operations	$(0.37)	$0.02	$(0.35)	$0.08
Income from discontinued operations	—	—	0.08	—
Net income (loss)	$(0.37)	$0.02	$(0.27)	$0.08

(i) Participating securities include 699,612 and 956,207 nonvested restricted shares for the quarters and year to date periods ended September 30, 2013 and 2012, respectively, as well as 413,764 and 196,264 restricted share units for the quarters and year to date periods ended September 30, 2013 and 2012, respectively. Participating securities do not receive an allocation in periods when a loss is experienced.

(ii) Under the two-class method, basic weighted average common shares exclude outstanding nonvested participating securities consisting of restricted share awards of 699,612 and 956,207 for the quarters and year to date periods ended September 30, 2013 and 2012, respectively.

(iii) Anti-dilutive shares related to stock options totaled 18,000 and 30,000 for the quarters ended September 30, 2013 and 2012, respectively, and 18,667 and 22,667 for the year to date periods ended September 30, 2013 and 2012, respectively. Potential dilutive securities have not been included in the earnings (loss) per share computation in a period when a loss is experienced.

13

Note 4. Commitments and Contingencies.

Commitments

The Company has grain supply agreements with a single supplier to purchase its corn requirements. These grain supply agreements expire December 31, 2014. At September 30, 2013, the Company had commitments to purchase corn to be used in operations through December 2014 totaling $31,687.

The Company has commitments to purchase natural gas needed in production at fixed prices at various dates through March 2014. The commitment for these contracts at September 30, 2013 totaled $3,498.

The Company has a supply contract for flour for use in the production of protein and starch ingredients. The initial term of the agreement, as amended, expires October 23, 2015. At September 30, 2013, the Company had purchase commitments aggregating $11,986 through March 2014.

As of September 30, 2013, the Company had contracts of approximately $842 to acquire capital assets.

At September 30, 2013, the Company had $2,000 outstanding on a letter of credit for a vendor, which reduced the amount available to the Company under its revolving line of credit.

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.
On June 14, 2013, the Company filed a petition for declaratory judgment in the District Court of Johnson County, Kansas, against Richard B. Cray, Thomas Cray, Cloud L. Cray Jr., Karen Seaberg, Laidacker M. Seaberg, and Timothy Newkirk, as co-trustees of either MGP Ingredients Inc. Voting Trust or the Cray Family Trust. The Company has requested a declaratory judgment determining the parties' legal rights and obligations in the context of proxies for the Annual Meeting and the status of the Voting Trust. The petition alleges that the co-trustees may be unqualified to serve as co-trustees and asks the Court to resolve the resulting controversy. The defendants filed a Motion to Dismiss on August 1, 2013. On October 2, 2013, the Court dismissed all allegations by the Company and Mr. Newkirk to the extent they implicate any standing to challenge the conduct of the Voting Trust directly. On October 16, 2013, the Company filed a motion to amend the October 2, 2013 order on defendants' motion to dismiss in order to include findings allowing interlocutory appeal, or, in the alternative, to enter a journal entry of final judgment as to petitioner. The Hearing is set for November 18, 2013. On October 21, 2013, the defendants filed a motion for summary judgment on the cross-claim of Mr. Newkirk, as well as a motion to dismiss cross-claim of Mr. Newkirk for lack of standing and subject ma