

MGP INGREDIENTS INC
Form 10-Q
August 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _____ to _____

Commission File Number: 0-17196

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 Accelerated filer
 Non-accelerated filer Smaller Reporting Company

Edgar Filing: MGP INGREDIENTS INC - Form 10-Q

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.

16,697,823 shares of Common Stock, no par value as of July 29, 2016

INDEX

| <u>PART I. FINANCIAL INFORMATION</u> | Page |
|--|-----------|
| <u>Item 1. Financial Statements</u> | |
| <u>Condensed Consolidated Statements of Comprehensive Income</u> | <u>3</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>5</u> |
| <u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u> | <u>6</u> |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | <u>7</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>15</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>26</u> |
| <u>Item 4. Controls and Procedures</u> | <u>26</u> |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>27</u> |
| <u>Item 1A. Risk Factors</u> | <u>27</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>27</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>27</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>27</u> |
| <u>Item 5. Other Information</u> | <u>27</u> |
| <u>Item 6. Exhibits</u> | <u>28</u> |

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. In this document, for any references to Note 1 through Note 9, refer to the Notes to Consolidated Financial Statements in Item 1.

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MGP INGREDIENTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except per share amounts)

| | Quarter Ended | | Year to Date Ended | |
|---|------------------|------------------|--------------------|------------------|
| | June 30, 2016 | June 30, 2015 | June 30, 2016 | June 30, 2015 |
| Sales | \$82,174 | \$92,071 | \$159,365 | \$176,935 |
| Less: excise taxes | 1,782 | 6,717 | 2,138 | 11,168 |
| Net sales | 80,392 | 85,354 | 157,227 | 165,767 |
| Cost of sales ^(a) | 64,861 | 67,826 | 124,650 | 134,851 |
| Gross profit | 15,531 | 17,528 | 32,577 | 30,916 |
| Selling, general and administrative expenses | 6,404 | 8,025 | 12,725 | 14,505 |
| Operating income | 9,127 | 9,503 | 19,852 | 16,411 |
| Equity method investment earnings (Note 2) | 1,079 | 3,096 | 1,596 | 4,448 |
| Interest expense, net | (328) | (129) | (639) | (260) |
| Income before income taxes | 9,878 | 12,470 | 20,809 | 20,599 |
| Income tax expense | 3,570 | 4,599 | 7,442 | 7,658 |
| Net income | 6,308 | 7,871 | 13,367 | 12,941 |
| Other comprehensive income (loss), net of tax | (21) | 330 | (38) | 258 |
| Comprehensive income | \$6,287 | \$8,201 | \$13,329 | \$13,199 |
| Basic and diluted earnings per share | \$0.37 | \$0.44 | \$0.77 | \$0.72 |
| Dividends and dividend equivalents per common share | \$— | \$— | \$0.08 | \$0.06 |

Includes related party purchases of \$6,698 and \$12,187 for the quarters ended June 30, 2016 and 2015, ^(a) respectively. Includes related party purchases of \$12,939 and \$23,364 for the year to date periods ended June 30, 2016 and 2015, respectively.

See accompanying notes to unaudited condensed consolidated financial statements

3

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

| | June 30, 2016 | December 31, 2015 |
|--|------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,554 | \$ 747 |
| Receivables (less allowance for doubtful accounts: June 30, 2016 - \$24; December 31, 2015 - \$24) | 33,998 | 30,670 |
| Inventory | 71,595 | 58,701 |
| Prepaid expenses | 792 | 1,062 |
| Total current assets | 107,939 | 91,180 |
| Property and equipment | 238,150 | 229,914 |
| Less accumulated depreciation and amortization | (152,180) | (146,360) |
| Property and equipment, net | 85,970 | 83,554 |
| Equity method investments (Note 2) | 16,856 | 18,563 |
| Other assets | 934 | |