MGP INGREDIENTS INC
Form 10-Q
August 03, 2017

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 June 30, 2017
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, a smaller reporting company, or an "emerging growth 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 (Do not check if smaller reporting company [ ] Smaller Reporting Company
[ ] Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]
Indicate 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.

16,715,939 shares of Common Stock, no par value as of July 27, 2017

INDEX

METHOD OF PRESENTATION

Throughout this Report, when we refer to "the Company," "MGP," "we," "us," "our," and words of similar import, we are referring to the combined business of MGP Ingredients, 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 10, refer to the Notes to Unaudited Condensed 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 INCOME
(Unaudited)
(Dollars in thousands, except per share amounts)

	Quarter Ended		Year to Date Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Sales	$87,892	$ 82,174	$179,237	$159,365
Less: excise taxes	2,139	1,782	6,315	2,138
Net sales	85,753	80,392	172,922	157,227
Cost of sales [a]	66,928	64,861	135,056	124,650
Gross profit	18,825	15,531	37,866	32,577
Selling, general and administrative expenses	8,311	6,404	15,960	12,725
Operating income	10,514	9,127	21,906	19,852
Equity method investment earnings (loss) (Note 2)	(819)	1,079	(348)	1,596
Interest expense, net	(379)	(328)	(710)	(639)
Income before income taxes	9,316	9,878	20,848	20,809
Income tax expense (Note 4)	2,947	3,570	5,801	7,442
Net income	$6,369	$ 6,308	$15,047	$13,367
Income attributable to participating securities	183	240	433	506
Net income attributable to common shareholders and used in EPS calculation (Note 5)	$6,186	$ 6,068	$14,614	$12,861
Share information:				
Diluted weighted average common shares	16,745,679	16,617,857	16,727,305	16,612,416
Basic and diluted earnings per common share	$0.37	$ 0.37	$0.87	$0.77
Dividends and dividend equivalents per common share	$0.04	$ —	$0.08	$0.08

(a) Includes related party purchases of $9,180 and $6,698 for the quarters ended June 30, 2017 and 2016, respectively. Includes related party purchases of $18,425 and $12,939 for the year to date periods ended June 30, 2017 and 2016, respectively.

See accompanying notes to unaudited condensed consolidated 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, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	$6,369	$6,308	$15,047	$13,367
Other comprehensive loss, net of tax:				
Change in post-employment benefits	(38)	(18)	(77)	(35)
Change in equity method investments	(2)	(3)	(4)	$(3)
Other comprehensive loss	(40)	(21)	(81)	(38)
Comprehensive income	$6,329	$6,287	$14,966	$13,329

See accompanying notes to unaudited condensed consolidated financial statements

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

	June 30, 2017	December 31, 2016
Current Assets		
Cash and cash equivalents	$7,911	$ 1,569
Receivables (less allowance for doubtful accounts: June 30, 2017 - $24; December 31, 2016 - $24)	34,930	26,085
Inventory	85,551	78,858
Prepaid expenses	2,832	1,684
Refundable income taxes	3,131	2,705
Total current assets	134,355	110,901
Property and equipment	252,586	246,219
Less accumulated depreciation and amortization	(158,812)	(153,428)
Property and equipment, net	93,774	92,791
Equity method investments (Note 2)	11,152	18,934
Other assets	2,665	2,710
Total assets	$241,946	$ 225,336
Current Liabilities		
Current maturities of long-term debt	$4,366	$ 4,359
Accounts payable	16,140	20,342
Accounts payable to affiliate, net	3,181	3,349
Accrued expenses	8,009	8,945
Total current liabilities	31,696	36,995
Long-term debt, less current maturities	14,034	16,218
Revolving credit facility	25,332	15,424
Deferred credits	2,568	2,978
Accrued retirement, health and life insurance benefits	3,415	3,604
Deferred income taxes	4,009	3,432
Other noncurrent liabilities	402	393
Total liabilities	81,456	79,044
Commitments and Contingencies (Note 6)		
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 June 30, 2017 and December 31, 2016, and 16,715,939 and 16,658,765 shares outstanding at June 30, 2017 and December 31, 2016, respectively	6,715	6,715
Additional paid-in capital	14,723	14,279
Retained earnings	156,325	142,652
Accumulated other comprehensive loss, net of tax	(454)	(373)
Treasury stock, at cost		
Shares of 1,400,026 at June 30, 2017 and 1,457,200 at December 31, 2016	(16,823)	(16,985)
Total stockholders' equity	160,490	146,292
Total liabilities and stockholders' equity	$241,946	$ 225,336

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	
	June 30, 2017	June 30, 2016
Cash Flows from Operating Activities		
Net income	$15,047	$13,367
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	5,554	5,983
Distribution received from equity method investee	7,131	3,300
Deferred income taxes, including change in valuation allowance	577	(749)
Share-based compensation	1,737	1,234
Equity method investment earnings	348	(1,596)
Other, net	—	(230)
Changes in Operating Assets and Liabilities:		
Receivables, net	(8,845)	(3,328)
Inventory	(6,693)	(12,894)
Prepaid expenses	(1,148)	270
Accounts payable	(671)	(2,106)
Accounts payable to affiliate, net	(168)	196
Accrued expenses	(934)	(2,814)
Income taxes payable	(426)	57
Deferred credit	(410)	(348)
Accrued retirement health and life insurance benefits	(256)	(124)
Net cash provided by operating activities	10,843	218
Cash Flows from Investing Activities		
Additions to plant, property and equipment	(9,933)	(6,088)
Return of equity method investment	299	—
Other, net	—	230
Net cash used in investing activities	(9,634)	(5,858)
Cash Flows from Financing Activities		
Stock shares repurchased	(1,131)	—
Payment of dividends	(1,376)	(1,378)
Principal payments on long-term debt	(177)	(2,173)
Proceeds from credit facility	12,467	17,064
Payments on credit facility	(4,650)	(6,952)
Loan fees incurred with borrowings	—	(114)
Net cash provided by financing activities	5,133	6,447
Increase in cash and cash equivalents	6,342	807
Cash and cash equivalents, beginning of year	1,569	747
Cash and cash equivalents, end of period	$7,911	$1,554

See accompanying notes to unaudited condensed consolidated financial statements

6

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

	Capital Stock Preferred	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2016	$ 4	$ 6,715	$ 14,279	$ 142,652	$ (373)	$ (16,985)	$ 146,292
Comprehensive income:							
Net income	—	—	—	15,047	—	—	15,047
Other Comprehensive loss	—	—	—	—	(81)	—	(81)
Dividends and dividend equivalents, net of estimated forfeitures	—	—	—	(1,374)	—	—	(1,374)
Share-based compensation	—	—	1,304	—	—	—	1,304
Stock shares awarded, forfeited, and/or vested	—	—	(860)	—	—	1,293	433
Stock shares repurchased	—	—	—	—	—	(1,131)	(1,131)
Balance, June 30, 2017	$ 4	$ 6,715	$ 14,723	$ 156,325	$ (454)	$ (16,823)	$ 160,490

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.

The Company. 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 condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

These unaudited condensed consolidated financial statements as of and for the quarter ended June 30, 2017 should be read in conjunction with the consolidated financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 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.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal and recurring adjustments) necessary to fairly present the results for interim periods in accordance with U.S. generally accepted accounting principles ("GAAP"). Pursuant to the rules and regulations of the SEC, certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted.

Use of Estimates. The financial reporting policies of the Company conform to GAAP. The preparation of condensed consolidated financial statements in conformity with 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. The application of certain of these policies places significant demands on management's judgment, with financial reporting results relying on estimation about the effects of matters that are inherently uncertain. For all of these policies, management cautions that future events rarely develop as forecast, and estimates routinely require adjustment and may require material adjustment.

Inventory. Inventory includes finished goods, raw materials in the form of agricultural commodities used in the production process and certain maintenance and repair items. Bourbon and whiskeys are normally aged in barrels for several years, following industry practice; all barreled bourbon and whiskey 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 lower of cost or net realizable value on the first-in, first-out, or FIFO, method. Inventory valuations are impacted by constantly changing prices paid for key materials, primarily corn. Inventory consists of the following:

	June 30, 2017	December 31, 2016
Finished goods	$14,474	$ 14,002
Barreled distillate (bourbon and whiskey)	56,383	50,941
Work in process	2,141	1,933
Raw materials	4,271	4,274
Maintenance materials	6,693	6,231
Other	1,589	1,477
Total	$85,551	$ 78,858

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 percent 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 is reflected as Equity method investment earnings in the Condensed Consolidated Statements of Income.

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.

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 grant programs is recognized as it is earned.

The Company's Distillery segment routinely 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 to the goods must be passed to the customer, and requirements for bill and hold revenue recognition must be met prior to the Company recognizing revenue from the sale of the product. Separate warehousing agreements are maintained for customers who store their product with the Company and warehouse services revenues are recognized as the services are provided.

Sales include customer paid freight costs billed to customers for the quarters ended June 30, 2017 and 2016 of $3,463 and $3,939, respectively and $7,078 and $8,076 for the year to date periods ended June 30, 2017 and 2016, respectively.

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 declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income attributable to common shareholders by the weighted average shares outstanding during the period.

Long-Lived Assets and Loss on Impairment of Assets. Management reviews long-lived assets, mainly property and equipment assets, whenever events or circumstances indicate that usage may be limited and carrying values may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are determined to be impaired, the impairment is measured by the amount by which the asset carrying value exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No events or conditions occurred during the quarter ended June 30, 2017 that required the Company to test its long-lived assets for impairment.

Fair Value of Financial Instruments. The Company determines the fair values of its financial instruments based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy is broken down into three levels based upon the observability of inputs. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability.

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 value of the Company’s debt was $44,372 and $37,412 at June 30, 2017 and December 31, 2016, respectively. The financial statement carrying value of total debt was $43,732 (including unamortized loan fees of $485) and $36,001 (including unamortized loan fees of $576) at June 30, 2017 and December 31, 2016, respectively. These fair values are considered Level 2 under the fair value hierarchy.

Recent Accounting Pronouncements.

In May 2017, the FASB issued Accounting Standards Update ("ASU") 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies what constitutes a modification of a share-based payment award. This ASU is effective for all entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is evaluating the effect that ASU 2017-09 will have on its consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires companies to present the service cost component of net benefit cost in the same line items in which they report compensation cost. Companies will present all other components of net benefit cost outside operating income, if this subtotal is presented.

This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is evaluating the effect that ASU 2017-07 will have on its consolidated financial statements and related disclosures.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which clarifies the guidance in Subtopic 610-20 on accounting for derecognition of a nonfinancial asset. The ASU also defines in-substance nonfinancial assets and includes guidance on partial sales of nonfinancial assets.
An entity is required to apply the amendments in this ASU at the same time that it applies ASU 2014-09 (see below). The Company is evaluating the effect that ASU 2017-05 will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. The changes are effective for public business entities that are SEC filers, for annual and interim periods in fiscal years beginning after December 15, 2019. All entities may early adopt the standard for goodwill impairment tests with measurement dates after January 1, 2017. The Company is evaluating the effect that ASU 2017-04 will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update), which incorporates into the FASB Accounting Standards Codification® recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The SEC staff had previously announced that registrants should include the disclosures starting with their December 2017 financial statements. The Company is evaluating the effect that ASU 2017-03 will have on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Entities may early adopt the ASU and apply it to transactions that have not been reported in financial statements that have been issued or made available for issuance. The Company is evaluating the effect that ASU 2017-01 will have on its consolidated financial statements and related disclosures.

ASU Transition Updates.

In February 2016, the FASB issued ASU 2016-02, Leases, which aims to make leasing activities more transparent and comparable and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. This ASU is effective for all interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements and related disclosures. At June 30, 2017, the Company had various machinery and equipment operating leases, as well as operating leases for 224 rail cars and one office space.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will replace numerous requirements in GAAP, including industry specific requirements, and provide companies with a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. The FASB will permit companies to adopt the new standard early, but not before the original effective date of annual reporting periods beginning after December 15, 2016.

In 2016, the Company established an implementation team consisting of internal and external representatives. The implementation team is in the process of assessing the impact the new standard will have on the consolidated financial statements and assessing the impact on individual contracts in the Company's revenue streams. The scoping for the assessment is complete and the testing of individual contracts is substantially complete, with a review and compilation of findings to follow. In addition, the implementation team is in the process of identifying, and will then implement, appropriate changes to business processes, systems and controls to support recognition and disclosure under the new standard. The implementation team will report findings and progress of the project to management and the Audit Committee on a frequent basis through the effective date. The Company will adopt the requirements of the new standard in the first quarter of 2018 and anticipates using the modified retrospective transition method. The Company has not yet determined the quantitative impact on its consolidated financial statements.

Note 2. Equity Method Investments.

As of June 30, 2017, the Company’s investment accounted for using the equity method of accounting was a 30 percent interest in Illinois Corn Processing ("ICP"), which manufactures alcohol for fuel, industrial and beverage applications. Until December 23, 2016, the Company also had a 50 percent interest in D.M. Ingredients, GmbH, ("DMI"), which produced certain specialty starch and protein ingredients.

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. 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. On December 23, 2016, the Company received its portion of the remaining DMI liquidation proceeds, which totaled $351, as a return of its investment.

Refer to Note 10 for events occurring subsequent to the financial statement date for the quarter and year to date periods ended June 30, 2017 related to the Company's equity method investment in ICP.

Summary Financial Information (unaudited). Condensed financial information related to the Company’s non-consolidated equity method investment in ICP is shown below.

	Quarter Ended		Year to Date Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
ICP’s Operating results:				
Net sales [(a)]	$39,677	$40,576	$78,062	$90,185
Cost of sales and expenses [(b)]	42,410	36,980	79,224	84,866
Net income	$(2,733)	$3,596	$(1,162)	$5,319

(a) Includes related party sales to MGPI of $9,015 and $6,698 for the quarters ended June 30, 2017 and 2016, respectively. Includes related party sales to MGPI of $17,672 and $12,939 for the year to date periods ended June 30, 2017 and 2016, respectively.

(b) Includes depreciation and amortization of $862 and $747 for the quarters ended June 30, 2017 and 2016, respectively. Includes depreciation and amortization of $1,720 and $1,482 for the year to date periods ended June 30, 2017 and 2016, respectively.

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

	Quarter Ended		Year to Date Ended		
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	
ICP (30% interest)	$(819)	$ 1,079	$(348)	$ 1,596	
DMI (50% interest)[(a)]	—	—	—	—	(a)
	$(819)	$ 1,079	$(348)	$ 1,596	

(a) The Company's equity method investment in DMI ended on December 23, 2016, when it received a return of its investment.

12

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

	June 30, 2017	December 31, 2016
ICP (30% interest)	$11,152 [(a)]	$ 18,934 [(a)]

[(a)] During the year to date periods ended June 30, 2017 and 2016, the Company received cash distributions from ICP of $7,430 and $3,300, respectively. The Company's portions of the cash distributions totaling $7,430, were recorded in the Condensed Consolidated Balance Sheets as cash and returns on investment. In the Condensed Consolidated Statements of Cash Flows, $7,131 of the cash distributions received in the year to date period ended June 30, 2017 was recorded as a return on investment. The balance of $299 was recorded as a return of investment because, since the inception of the investment, total dividends received exceeded total equity earnings by this amount (see Note 10). The cash distribution of $3,300 received in the year to date period ended June 30, 2016 was a return on investment.

Note 3. Corporate Borrowings.

Indebtedness Outstanding:

Description[(a)]	June 30, 2017	December 31, 2016
Credit Agreement - Revolver, 3.262% (variable rate) due 2020	$25,817	$16,000
Credit Agreement - Fixed Asset Sub-Line term loan, 3.3005% (variable rate) due 2020	4,753	5,253
Credit Agreement - Term Loan, 3.3005% (variable rate) due 2020	11,500	13,000
Secured Promissory Note, 3.71% (variable rate) due 2022	2,147	2,324
Unamortized loan fees[(b)]	(485)	(576)
Total	$43,732	$36,001
Less current maturities of long term debt	(4,366)	(4,359)
Long-term debt	$39,366	$31,642

[(a)] Interest rates are as of June 30, 2017.
[(b)] Loan fees are being amortized over the life of the Credit Agreement.

Credit Agreement. On March 21, 2016, the Company entered into a Third Amended and Restated Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association. The Credit Agreement contains customary terms and conditions substantially similar to the Second Amended and Restated Credit Agreement (the "Previous Credit Agreement") and associated schedules with Wells Fargo Bank, National Association. The Credit Agreement is a $15,000 term loan and $80,000 revolving facility resulting in a $95,000 facility. The principal of the term loan can be prepaid at any time without penalty or otherwise will be repaid by the Company in installments of $250 each month.

The Company was in compliance with the Credit Agreement covenants at June 30, 2017. The Company incurred no new loan fees related to the Credit Agreement during the quarter ended June 30, 2017. The unamortized balance of total loan fees related to the Credit Agreement was $485 at June 30, 2017 and is included in the carrying value of total debt on the Condensed Consolidated Balance Sheets as described above in the Fair Value of Financial Instruments section. The loan fees are being amortized over the life of the Credit Agreement.

The amount of borrowings which the Company may make is subject to borrowing base limitations adjusted for the Fixed Asset Sub-Line collateral as described in the Credit Agreement. As of June 30, 2017, the Company's total outstanding borrowings under the Credit Agreement were $42,070, comprised of $25,817 of revolver borrowing (including unamortized loan fees), $4,753 of fixed asset sub-line term loan borrowing, and $11,500 of term loan borrowing, leaving $49,431 available. The average interest rate for total borrowings of the Credit Agreement at

June 30, 2017 was 3.28 percent.

Note 4. Income Taxes

Income tax expense for the quarter and year to date period ended June 30, 2017 was $2,947 and $5,801, for an effective tax rate for the quarter of 31.6 percent and for the year to date period of 27.8 percent. The effective tax rate differs from the 35 percent federal statutory rate on pretax income, primarily due to the impact of income tax benefits related to share-based compensation as accounted for in ASU 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based

Payment Accounting, which was adopted by the Company during the quarter ended September 30, 2016, the domestic production activities deduction, and state tax planning, including state income tax credits in Indiana and Kansas. The Company updated its estimated annual effective tax rate to include the anticipated effects of the use of capital loss carryforwards and a release of the related $716 in valuation allowance for the quarter and year to date period ended June 30, 2017, resulting in a reduction of income tax expense of $364. This release was based upon the anticipated capital gain related to the Company's sale of its 30 percent ownership interest in ICP (see Note 10). As of June 30, 2017, the Company has a remaining valuation allowance of $10 related to state net operating loss carry forwards in states in which the Company no longer files tax returns.

Income tax expense for the quarter and year to date period ended June 30, 2016, was $3,570 and $7,442, respectively, for an effective tax rate of 36.1 percent for the quarter and 35.8 percent for the year to date period. The primary reasons for the reduction in effective tax rate of 4.5 percentage points in the quarter ended June 30, 2017, are the state tax credits and the release of the valuation allowance. The primary reasons for the reduction in effective tax rate of 8.0 percentage points in the year to date period ended June 30, 2017, are the impact of ASU 2016-09 (see above), the state tax credits, and the release of the valuation allowance.

Note 5. Dividends and Earnings per Share.

Dividend and dividend equivalent information for year to date periods ended June 30, 2017 and 2016 is detailed below:

Dividend and Dividend Equivalent Information (per Share and Unit)

Declaration date	Payment date	Declared	Paid	Total payment
2017				
February 15, 2017	March 24, 2017	$ 0.04	$0.04	$ 688
May 2, 2017	June 9, 2017	0.04	0.04	688
		$ 0.08	$0.08	$ 1,376
2016				
March 7, 2016	April 14, 2016	$ 0.08	$0.08	$ 1,378

The computations of basic and diluted earnings per share for the quarter and year to date periods ended June 30, 2017 and 2016 are as follows:

	Quarter Ended		Year to Date Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Operations:				
Net income[(a)]	$6,369	$ 6,308	$15,047	$ 13,367
Income attributable to participating securities[(b)]	183	240	433	506
Net income attributable to common shareholders	$6,186	$ 6,068	$14,614	$ 12,861
Share information:				
Basic and diluted weighted average common shares[(c)]	16,745,679	16,617,857	16,727,305	16,612,416
Basic and diluted earnings per share	$0.37	$ 0.37	$0.87	