MGP INGREDIENTS INC
Form 10-Q
August 03, 2016

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, 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. [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.

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

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. 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.

2

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

(a) Includes related party purchases of $6,698 and $12,187 for the quarters ended June 30, 2016 and 2015, 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

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	1,013
Total assets	$211,699	$ 194,310
Current Liabilities		
Current maturities of long-term debt	$4,352	$ 3,345
Accounts payable	20,982	20,940
Accounts payable to affiliate, net	2,487	2,291
Accrued expenses	7,101	10,400
Income taxes payable	742	685
Total current liabilities	35,664	37,661
Long-term debt, less current maturities	18,399	7,579
Revolving credit facility	18,618	22,536
Deferred credit	3,054	3,402
Accrued retirement, health and life insurance benefits	4,045	4,136
Deferred income taxes	2,008	2,757
Other noncurrent liabilities	81	79
Total liabilities	81,869	78,150
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 June 30, 2016 and December 31, 2015, and 16,697,823 and 16,681,576 shares outstanding at June 30, 2016 and December 31, 2015, respectively	6,715	6,715
Additional paid-in capital	12,634	11,356
Retained earnings	126,550	114,558
Accumulated other comprehensive loss, net of tax	(538)	(500)
Treasury stock, at cost		
Shares of 1,418,142 at June 30, 2016 and 1,434,389 at December 31, 2015	(15,535)	(15,973)
Total stockholders' equity	129,830	116,160
Total liabilities and stockholders' equity	$211,699	$ 194,310

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, 2016	June 30, 2015
Cash Flows from Operating Activities		
Net income	$13,367	$12,941
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	5,983	6,184
Distribution received from equity method investee	3,300	—
Deferred income taxes, including change in valuation allowance	(749)	3,057
Share-based compensation	1,234	690
Equity method investment earnings	(1,596)	(4,447)
Other, net	(230)	—
Changes in Operating Assets and Liabilities:		
Receivables, net	(3,328)	(4,081)
Inventory	(12,894)	(10,576)
Prepaid expenses	270	(663)
Accounts payable	(2,106)	2,992
Accounts payable to affiliate, net	196	988
Accrued expenses	(2,814)	1,879
Income taxes payable	57	857
Deferred credit	(348)	(340)
Accrued retirement health and life insurance benefits	(124)	(665)
Other, net	—	287
Net cash provided by operating activities	218	9,103
Cash Flows from Investing Activities		
Additions to property and equipment	(6,088)	(8,080)
Other, net	230	—
Net cash used in investing activities	(5,858)	(8,080)
Cash Flows from Financing Activities		
Purchase of treasury stock	—	(166)
Payment of dividends	(1,378)	(1,087)
Principal payments on long-term debt	(2,173)	(799)
Proceeds from credit facility	17,064	1,235
Payments on credit facility	(6,952)	(1,138)
Loan fees incurred with borrowings	(114)	(348)
Net cash provided by (used in) financing activities	6,447	(2,303)
Increase (decrease) in cash and cash equivalents	807	(1,280)
Cash and cash equivalents, beginning of year	747	5,641
Cash and cash equivalents, end of period	$1,554	$4,361

See accompanying notes to unaudited condensed consolidated financial statements

5

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, 2015	$ 4	$ 6,715	$ 11,356	$ 114,558	$ (500)	$ (15,973)	$ 116,160
Comprehensive income:							
Net income	—	—	—	13,367	—	—	13,367
Change in post employment benefits	—	—	—	—	(35)	—	(35)
Change in joint venture equity	—	—	—	—	(3)	—	(3)
Dividends and dividend equivalents, net of forfeitures	—	—	—	(1,375)	—	—	(1,375)
Share-based compensation	—	—	1,278	—	—	—	1,278
Stock shares awarded, forfeited or vested	—	—	—	—	—	438	438
Balance, June 30, 2016	$ 4	$ 6,715	$ 12,634	$ 126,550	$ (538)	$ (15,535)	$ 129,830

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 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, 2016 should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s Report on Form 10-K/A for the year ended December 31, 2015 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 financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). The preparation of 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 the lower of cost or market 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, 2016	December 31, 2015
Finished goods	$15,447	$ 15,126
Barreled distillate (bourbon and whiskey)	40,290	28,278
Work in process	1,758	2,364
Raw materials	7,021	6,675
Maintenance materials	5,970	5,371
Other	1,109	887

Total	$71,595	$ 58,701

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 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 Consolidated Statements of Comprehensive 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 revenues are recognized as the service is provided.

Sales include customer paid freight costs billed to customers for the quarters ended June 30, 2016 and 2015 of $3,939 and $4,577, respectively, and $8,076 and $8,878 for the year to date periods ended June 30, 2016 and 2015, 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, 2016 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 $42,399 and $34,603 at June 30, 2016 and December 31, 2015, respectively. The financial statement carrying value of total debt was $41,369 (net of unamortized loan fees of $667) and $33,460 (net of unamortized loan fees of $636) at June 30, 2016 and December 31, 2015, respectively. These fair values are considered Level 2 under the fair value hierarchy.

Dividends and Dividend Equivalents. On March 7, 2016, the Board of Directors declared a dividend payable to stockholders of record as of March 21, 2016, 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 21, 2016, of $0.08 per share and per unit. The total payment of $1,378, comprised of dividend payments of $1,335 and dividend equivalent payments of $43 (including estimated forfeitures), was paid on April 14, 2016.

On March 12, 2015, the Board of Directors announced a dividend payable to stockholders of record as of March 26, 2015, of the Company's Common Stock, and a dividend equivalent payable to holders of RSUs as of March 26, 2015, of $0.06 per share and per unit. The total payment of $1,087, comprised of dividend payments of $1,061 and dividend equivalent payments of $26 (including estimated forfeitures), was paid on April 21, 2015.

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, except as described below. Such terms and conditions include limitations on mergers, consolidations, reorganizations, recapitalizations, indebtedness and certain payments, as well as financial condition covenants relating to leverage and interest coverage ratios. The Company's obligations under the Credit Agreement may be accelerated upon customary events of default, including, without limitation, non-payment of principal or interest, breaches of covenants, certain judgments against the loan parties, cross-defaults to other material debt, a change in control and specified bankruptcy events.

The Credit Agreement added a $15,000 term loan to the previous credit agreement's $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, which commenced on May 1, 2016. Additionally, the Credit Agreement reduced certain restrictions on acquisitions. Under the Previous Credit Agreement, only acquisitions less than $1,000 individually and $7,500 in the aggregate were permitted. The Credit Agreement eliminated the individual dollar limitation and increased the aggregate limitation to $35,000. The Credit Agreement also added an increased minimum fixed charge coverage ratio of 1.25x (compared to 1.10x in the Previous Credit Agreement) while the $15,000 term loan is outstanding, however, the special fixed coverage ratio is only tested if excess availability, after giving effect to such restricted payment, is less than 17.5 percent of the total amount of the facility.

The Company was in compliance with the Credit Agreement covenants at June 30, 2016. The Company incurred $46 of new loan fees related to the Credit Agreement that were capitalized during the quarter ended June 30, 2016. The unamortized balance of total loan fees related to the Credit Agreement was $667 at June 30, 2016 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, 2016, the Company's total outstanding borrowings under the credit facility were $39,538, comprised of $19,285 of revolver borrowing (including unamortized loan fees of $667), $5,753 of fixed asset sub-line term loan borrowing, and $14,500 of term loan borrowing, leaving $47,385 available. The average interest rate for total borrowings of the Credit Agreement at June 30, 2016 was 2.52 percent.

Recent Accounting Pronouncements. In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation—Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting, which simplifies certain aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is evaluating the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures and concurrently determining whether or not to early adopt this new accounting standard in 2016.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which increases transparency and comparability
among organizations by recognizing lease assets and lease liabilities on the balance sheet and discloses key information about leasing arrangements. This update, along with IFRS 16, Leases, is the result of the FASB’s and the International Accounting Standards Board’s (IASB’s) efforts to meet this objective and improve financial reporting. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, including interim periods within those annual periods. Early adoption is permitted. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In January 2016 the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10), which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The amendments in this update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted following the early application guidance set forth in the pronouncement. The Company is evaluating the effect that ASU 2016-01 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 the full retrospective, retrospective with practical expedients, or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 (updated to ASU 2015-14), and related standard updates, ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Identifying Performance Obligations and Licensing, ASU No. 2016-11, Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update), and ASU No. 2016-12, Narrow-Scope

Improvements and Practical Expedients, will have on its consolidated financial statements and related disclosures, but has not yet selected a transition method nor determined the effect of the standard on its ongoing financial reporting.

Note 2. Equity Method Investments.

As of June 30, 2016, 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).

Realizability of DMI Investment. 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 once the registration of resolutions, appointment of liquidators, inventory count, and publication of the notice to potential creditors was complete, which occurred on October 29, 2015. On or after October 29, 2016, the remaining liquidating proceeds will be disbursed.

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, 2016	June 30, 2015	June 30, 2016	June 30, 2015
ICP's Operating results:				
Net sales [(a)]	$40,576	$48,371	$90,185	$87,969
Cost of sales and expenses [(b)]	36,980	37,609	84,866	72,779
Net income	$3,596	$10,762	$5,319	$15,190

(a) Includes related party sales to MGPI of $6,698 and $11,803 for the quarters ended June 30, 2016 and 2015, respectively. Includes related party sales to MGPI of $12,939 and $22,442 for the year to date periods ended June 30, 2016 and 2015, respectively.

(b) Includes depreciation and amortization of $747 and $662, and business interruption insurance proceeds of $0 and $4,112, for the quarters ended June 30, 2016 and 2015, respectively. Includes depreciation and amortization of $1,482 and $1,325, and business interruption insurance proceeds of $0 and $4,112, for the year to date periods ended June 30, 2016 and 2015, respectively.

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

	Quarter Ended		Year to Date Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
ICP (30% interest)	$1,079	$3,229	$1,596	$4,558
DMI (50% interest)	—	(133) [(a)]	—	