

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, 2022

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-17196



**MGP INGREDIENTS, INC.**

(Exact name of registrant as specified in its charter)

**Kansas**

(State or other jurisdiction of incorporation or organization)

**45-4082531**

(I.R.S. Employer Identification No.)

**100 Commercial Street**

**Atchison Kansas**

(Address of principal executive offices)

**66002**

(Zip Code)

**(913) 367-1480**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, no par value	MGPI	NASDAQ Global Select Market

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 (§232.405 of this chapter) 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.

x Large accelerated filer  Accelerated filer  
 Non-accelerated filer  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:  
21,993,346 shares of Common Stock, no par value, as of July 29, 2022

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### **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 11, 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, 9-liter cases, per share, per bushel, per gallon, per proof gallon, per 9-liter case 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 share and per share amounts)

	Quarter Ended June 30,		Year to Date Ended June 30,	
	2022	2021	2022	2021
Sales	\$ 194,982	\$ 174,939	\$ 390,217	\$ 283,262
Cost of sales	135,758	118,112	259,172	194,136
<b>Gross profit</b>	<b>59,224</b>	<b>56,827</b>	<b>131,045</b>	<b>89,126</b>
Advertising and promotion expenses	6,065	3,371	11,569	4,224
Selling, general and administrative expenses	17,859	25,793	34,125	36,739
Other operating (income) expense, net	(6)	—	(35)	—
<b>Operating income</b>	<b>35,306</b>	<b>27,663</b>	<b>85,386</b>	<b>48,163</b>
Interest expense, net	(1,543)	(1,104)	(3,141)	(1,592)
Other income (expense), net	(1,062)	(88)	(1,008)	(58)
<b>Income before income taxes</b>	<b>32,701</b>	<b>26,471</b>	<b>81,237</b>	<b>46,513</b>
Income tax expense	7,339	6,412	18,504	11,027
<b>Net income</b>	<b>25,362</b>	<b>20,059</b>	<b>62,733</b>	<b>35,486</b>
Net (income) loss attributable to noncontrolling interest	198	76	264	76
<b>Net income attributable to MGP Ingredients, Inc.</b>	<b>25,560</b>	<b>20,135</b>	<b>62,997</b>	<b>35,562</b>
Income attributable to participating securities	(217)	(150)	(535)	(299)
<b>Net income used in Earnings Per Common Share calculation</b>	<b>\$ 25,343</b>	<b>\$ 19,985</b>	<b>\$ 62,462</b>	<b>\$ 35,263</b>
<b>Basic and diluted weighted average common shares</b>	<b>22,002,385</b>	<b>21,916,721</b>	<b>21,995,779</b>	<b>19,436,143</b>
<b>Basic and diluted Earnings Per Common Share</b>	<b>\$ 1.15</b>	<b>\$ 0.91</b>	<b>\$ 2.84</b>	<b>\$ 1.81</b>

See accompanying notes to unaudited condensed consolidated financial statements

**MGP INGREDIENTS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)  
(Dollars in thousands)

	Quarter Ended June 30,		Year to Date Ended June 30,	
	2022	2021	2022	2021
Net income attributable to MGP Ingredients, Inc.	\$ 25,560	\$ 20,135	\$ 62,997	\$ 35,562
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on foreign currency translation adjustment	(430)	1	(649)	7
Change in Company-sponsored post-employment benefit plan	(13)	—	(26)	49
<b>Other comprehensive income (loss)</b>	<b>(443)</b>	<b>1</b>	<b>(675)</b>	<b>56</b>
<b>Comprehensive income attributable to MGP Ingredients, Inc.</b>	<b>25,117</b>	<b>20,136</b>	<b>62,322</b>	<b>35,618</b>
Comprehensive loss attributable to noncontrolling interest	(198)	(76)	(264)	(76)
<b>Comprehensive income</b>	<b>\$ 24,919</b>	<b>\$ 20,060</b>	<b>\$ 62,058</b>	<b>\$ 35,542</b>

See accompanying notes to unaudited condensed consolidated financial statements

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

	June 30, 2022	December 31, 2021
<b>Current Assets</b>		
Cash and cash equivalents	\$ 37,415	\$ 21,568
Receivables (less allowance for credit loss, \$175 and \$150 at June 30, 2022, and December 31, 2021, respectively)	105,393	92,537
Inventory	272,948	245,944
Prepaid expenses	6,768	1,510
Refundable income taxes	—	5,539
<b>Total current assets</b>	<b>422,524</b>	<b>367,098</b>
Property, plant, and equipment	418,040	404,149
Less accumulated depreciation and amortization	(206,055)	(196,863)
<b>Property, plant, and equipment, net</b>	<b>211,985</b>	<b>207,286</b>
Operating lease right-of-use assets, net	15,559	9,671
Investment in joint ventures	5,792	4,944
Intangible assets, net	217,803	218,838
Goodwill	226,294	226,294
Other assets	6,663	7,336
<b>Total assets</b>	<b>\$ 1,106,620</b>	<b>\$ 1,041,467</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 4,189	\$ 3,227
Accounts payable	60,572	53,712
Federal and state excise taxes payable	7,673	6,992
Income taxes payable	141	—
Accrued expenses and other	20,681	24,869
<b>Total current liabilities</b>	<b>93,256</b>	<b>88,800</b>
Long-term debt, less current maturities	32,698	35,266
Convertible senior notes	195,066	194,906
Long-term operating lease liabilities	12,206	6,997
Other noncurrent liabilities	4,095	5,132
Deferred income taxes	66,226	66,101
<b>Total liabilities</b>	<b>403,547</b>	<b>397,202</b>
Commitments and Contingencies (Note 8)		
<b>Stockholders' Equity</b>		
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 23,125,166 shares at June 30, 2022 and December 31, 2021; and 21,992,751 and 21,964,314 shares outstanding at June 30, 2022 and December 31, 2021, respectively	6,715	6,715
Additional paid-in capital	317,240	315,802
Retained earnings	401,915	344,237
Accumulated other comprehensive income	(321)	354
Treasury stock, at cost, 1,132,415 and 1,160,852 shares at June 30, 2022 and December 31, 2021, respectively	(21,726)	(22,357)
<b>Total MGP Ingredients, Inc. stockholders' equity</b>	<b>703,827</b>	<b>644,755</b>
Noncontrolling interest	(754)	(490)
<b>Total equity</b>	<b>703,073</b>	<b>644,265</b>
<b>Total liabilities and equity</b>	<b>\$ 1,106,620</b>	<b>\$ 1,041,467</b>

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,	
	2022	2021
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 62,733	\$ 35,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,924	8,425
Share-based compensation	2,131	4,767
Deferred income taxes, including change in valuation allowance	125	(1,568)
Other, net	82	(69)
Changes in operating assets and liabilities, net of effects of acquisition:		
Receivables, net	(13,142)	7,531
Inventory	(27,508)	(408)
Prepaid expenses	266	(897)
Income taxes payable	141	1,017
Accounts payable	11,438	(12,996)
Accrued expenses and other	(4,791)	7,987
Federal and state excise taxes payable	681	716
Other, net	(61)	(2,537)
<b>Net cash provided by operating activities</b>	<b>43,019</b>	<b>47,454</b>
<b>Cash Flows from Investing Activities</b>		
Additions to property, plant, and equipment	(18,087)	(18,336)
Purchase of business, net of cash acquired	—	(149,599)
Contributions to equity method investment	(1,028)	(988)
Other, net	(369)	(1,312)
<b>Net cash used in investing activities</b>	<b>(19,484)</b>	<b>(170,235)</b>
<b>Cash Flows from Financing Activities</b>		
Payment of dividends and dividend equivalents	(5,322)	(4,707)
Purchase of treasury stock	(713)	(765)
Loan fees paid related to borrowings	—	(666)
Principal payments on long-term debt	(1,614)	—
Proceeds from credit agreement - revolver	—	242,300
Payments on credit agreement - revolver	—	(10,306)
Payment on assumed debt as part of the Merger	—	(87,497)
<b>Net cash provided by (used in) financing activities</b>	<b>(7,649)</b>	<b>138,359</b>
Effect of exchange rate changes on cash	(39)	3
Increase in cash and cash equivalents	15,847	15,581
Cash and cash equivalents, beginning of period	21,568	21,662
Cash and cash equivalents, end of period	<u>\$ 37,415</u>	<u>\$ 37,243</u>

See accompanying notes to unaudited condensed consolidated financial statements

**MGP INGREDIENTS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For Year to Date Ended June 30, 2022**  
**(Unaudited) (Dollars in thousands)**

	Capital Stock Preferred	Issued Common	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive income	Treasury Stock	Non-controlling Interest	Total
<b>Balance, December 31, 2021</b>	\$ 4	\$ 6,715	\$ 315,802	\$ 344,237	\$ 354	\$ (22,357)	\$ (490)	\$ 644,265
Comprehensive income:								
Net income (loss)	—	—	—	37,437	—	—	(66)	37,371
Other comprehensive loss	—	—	—	—	(232)	—	—	(232)
Dividends and dividend equivalents of \$0.12 per common share and per restricted stock unit, net of estimated forfeitures								
	—	—	—	(2,661)	—	—	—	(2,661)
Share-based compensation	—	—	1,373	—	—	—	—	1,373
Stock shares awarded, forfeited or vested	—	—	(604)	—	—	604	—	—
Stock shares repurchased	—	—	—	—	—	(711)	—	(711)
<b>Balance, March 31, 2022</b>	<b>4</b>	<b>6,715</b>	<b>316,571</b>	<b>379,013</b>	<b>122</b>	<b>(22,464)</b>	<b>(556)</b>	<b>679,405</b>
Comprehensive income:								
Net income (loss)	—	—	—	25,560	—	—	(198)	25,362
Other comprehensive loss	—	—	—	—	(443)	—	—	(443)
Dividends and dividend equivalents of \$0.12 per common share and per restricted stock unit, net of estimated forfeitures								
	—	—	—	(2,658)	—	—	—	(2,658)
Share-based compensation	—	—	1,409	—	—	—	—	1,409
Stock shares awarded, forfeited or vested	—	—	(740)	—	—	740	—	—
Stock shares repurchased	—	—	—	—	—	(2)	—	(2)
<b>Balance, June 30, 2022</b>	<b>4</b>	<b>6,715</b>	<b>317,240</b>	<b>401,915</b>	<b>(321)</b>	<b>(21,726)</b>	<b>(754)</b>	<b>703,073</b>

See accompanying notes to unaudited condensed consolidated financial statements

**MGP INGREDIENTS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For Year to Date Ended June 30, 2021**  
**(Unaudited) (Dollars in thousands)**

	Capital Stock Preferred	Issued Common	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive income	Treasury Stock	Non-controlling Interest	Total
<b>Balance, December 31, 2020</b>	\$ 4	\$ 6,715	\$ 15,503	\$ 262,943	\$ 486	\$ (23,125)	\$ —	\$ 262,526
Comprehensive income:								
Net income	—	—	—	15,427	—	—	—	15,427
Other comprehensive income	—	—	—	—	55	—	—	55
Dividends and dividend equivalents of \$0.12 per common share and per restricted stock unit, net of estimated forfeitures								
	—	—	—	(2,052)	—	—	—	(2,052)
Share-based compensation	—	—	3,229	—	—	—	—	3,229
Stock shares awarded, forfeited or vested	—	—	(716)	—	—	716	—	—
Stock shares repurchased	—	—	—	—	—	(674)	—	(674)
<b>Balance, March 31, 2021</b>	<u>4</u>	<u>6,715</u>	<u>18,016</u>	<u>276,318</u>	<u>541</u>	<u>(23,083)</u>	<u>—</u>	<u>278,511</u>
Comprehensive income:								
Net income (loss)	—	—	—	20,135	—	—	(76)	20,059
Other comprehensive income	—	—	—	—	1	—	—	1
Dividends and dividend equivalents of \$0.12 per common share and per restricted stock unit, net of estimated forfeitures								
	—	—	—	(2,653)	—	—	—	(2,653)
Share-based compensation	—	—	1,538	—	—	—	—	1,538
Stock shares awarded, forfeited, or vested	—	—	(705)	—	—	705	—	—
Stock shares repurchased	—	—	—	—	—	(91)	—	(91)
Equity consideration for Merger	—	—	296,213	—	—	—	—	296,213
<b>Balance, June 30, 2021</b>	<u>\$ 4</u>	<u>\$ 6,715</u>	<u>\$ 315,062</u>	<u>\$ 293,800</u>	<u>\$ 542</u>	<u>\$ (22,469)</u>	<u>\$ (76)</u>	<u>\$ 593,578</u>

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. (“the Company,” or “MGP”) is a Kansas corporation headquartered in Atchison, Kansas and is a leading producer and supplier of premium distilled spirits, branded spirits and food ingredients. Distilled spirits include premium bourbon and rye whiskeys and grain neutral spirits, including vodka and gin. The Company’s distilled spirits are either packaged and sold under its own brands to distributors, sold, directly or indirectly to manufacturers of other branded spirits, or direct to consumer. MGP is also a top producer of high quality industrial alcohol for use in both food and non-food applications. The Company’s protein and starch food ingredients provide a host of functional, nutritional, and sensory benefits for a wide range of food products to serve the consumer packaged goods industry. The Company’s industrial alcohol and ingredients products are sold directly, or through distributors, to manufacturers and processors of finished packaged goods or to bakeries. The Company’s distillery products are derived from corn and other grains (including rye, barley, wheat, barley malt, and milo), and its ingredient products are derived primarily from wheat flour. On April 1, 2021, the Company acquired Luxco, Inc. and its affiliated companies (“Luxco”) which is a leading branded beverage alcohol company across various categories, with a more than 60-year business heritage. Luxco’s operations predominately involve the producing, importing, bottling and rectifying of distilled spirits. See Note 3, Business Combination, for further details.

The Company reports three operating segments: Distilling Solutions, Branded Spirits and Ingredient Solutions. During 2022, the Company changed the name of its Distillery Products segment to Distilling Solutions. Certain amounts in the 2021 consolidated financial statements have been reclassified to conform to the 2022 presentation.

**Basis of Presentation and Principles of Consolidation.** The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned and majority 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 and year to date ended June 30, 2022, 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, 2021, 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.

The Company holds 60 percent interest in Dos Primos Tequila, LLC (“Dos Primos”). The Company consolidated Dos Primos’ activity on the financial statements and presented the 40 percent non-controlling interest portion on a separate line.

**Use of Estimates.** The financial reporting policies of the Company conform to GAAP. The preparation of unaudited 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 demands on management’s judgment, with financial reporting results relying on estimation about the effects of matters that are inherently uncertain, inclusive of the effects related to the COVID-19 pandemic. For all of these policies, management cautions that future events rarely develop as forecast, and estimates routinely require adjustment and may require material adjustment.

**Immaterial Correction to Prior Period Financial Statements.** During the quarter ended June 30, 2022, the Company identified an immaterial correction related to gross amounts of Property, plant and equipment and Accumulated depreciation and amortization in the Condensed Consolidated Balance Sheet as of December 31, 2021. The Company performed a materiality assessment, considering both quantitative and qualitative factors, which resulted in the determination that the correction to the financial statements is immaterial. As such, the Company corrected the December 31, 2021 gross balances for Property, plant, and equipment and Accumulated depreciation and amortization on the Condensed Consolidated Balance Sheet reported in this Form 10-Q by equal and offsetting amounts, which resulted in no change to the balance of Property, plant, and equipment, net.

**Inventory.** Inventory includes finished goods, raw materials in the form of agricultural commodities used in the production process as well as bottles, caps, and labels used in the bottling process, and certain maintenance and repair items. Bourbons and whiskeys, included in inventory, 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:

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Finished goods	\$ 46,859	\$ 35,362
Barreled distillate (bourbons and whiskeys)	184,926	174,080
Raw materials	28,176	24,981
Work in process	2,124	1,261
Maintenance materials	9,614	9,179
Other	1,249	1,081
Total	<u>\$ 272,948</u>	<u>\$ 245,944</u>

**Revenue Recognition.** Revenue is recognized when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration it expects to be entitled to receive in exchange for the performance obligations. The term between invoicing and when payment is due is not significant and the period between when the entity transfers the promised good or service to the customer and when the customer pays for that good or service is one year or less.

Revenue is recognized for the sale of products at the point in time finished products are delivered to the customer in accordance with shipping terms. This is a faithful depiction of the satisfaction of the performance obligation because, at the point control passes to the customer, the customer has legal title and the risk and rewards of ownership have transferred, and the customer has present obligation to pay.

The Company's Distilling Solutions segment routinely enters into bill and hold arrangements, whereby the Company produces and sells aged and unaged distillate to customers, and the product is barreled at the customer's request and warehoused at a Company location for an extended period of time in accordance with directions received from the Company's customers. Even though the aged and unaged distillate remains in the Company's possession, a sale is recognized at the point in time when the customer obtains control of the product. Control is transferred to the customer in bill and hold transactions when: the customer acceptance specifications have been met, legal title has transferred, the customer has a present obligation to pay for the product, and the risk and rewards of ownership have transferred to the customer. Additionally, all of the following bill and hold criteria have to be met in order for control to be transferred to the customer: the reason for the bill and hold arrangement is substantive - the customer has requested the product be warehoused, the product has been identified as separately belonging to the customer, the product is currently ready for physical transfer to the customer, and the Company does not have the ability to use the product or direct it to another customer.

Warehouse services revenue is recognized over the time that warehouse services are rendered and as they are rendered. This is a faithful depiction of the satisfaction of the performance obligation because control of the aging products has already passed to the customer and there are no additional performance activities required by the Company, except as requested by the customer. The performance of the service activities, as requested, is invoiced as satisfied and revenue is concurrently recognized. Contract bottling is recognized over the time contract bottling services are rendered and as they are rendered.

Sales in the Branded Spirits segment reflect reductions attributable to consideration given to customers in incentive programs, including discounts and allowances for certain volume targets. These allowances and discounts are not for distinct goods and are paid only when the depletion volume targets are achieved by the customer. The amounts reimbursed to customers are determined based on agreed-upon amounts and are recorded as a reduction of revenue.

**Excise Taxes.** The Company is responsible for compliance with the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department (the “TTB”) regulations which includes making timely and accurate excise tax payments. The Company is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcohol beverages in varying amounts. The Company calculates its Federal and state excise tax expense based upon units shipped and on its understanding of the applicable excise tax laws. Excise taxes that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer are excluded from revenue.

**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. 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.

**Earnings Per Common Share (“EPS”).** Basic and diluted EPS is 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. Basic EPS amounts are computed by dividing net income attributable to common shareholders by the weighted average shares outstanding during each period. Diluted EPS is computed using the if-converted method by dividing the net income attributable to common shareholders by the weighted average shares outstanding, inclusive of the impact of the Convertible Senior Notes, except for where the result would be anti-dilutive as of the balance sheet date.

**Translation of Foreign Currencies.** Assets and liabilities of Niche Drinks Co., Ltd. (“Niche”), a wholly-owned subsidiary of the Company whose functional currency is the British pound sterling, are translated to U.S. dollars using the exchange rate in effect at the condensed consolidated balance sheet date. Results of operations are translated using average rates during the period. Adjustments resulting from the translation process are included as a component of Accumulated other comprehensive income.

**Business Combinations.** Assets acquired and liabilities assumed during a business combination are generally recorded at fair market value as of the acquisition date. Goodwill is recognized to the extent that the purchase consideration exceeds the value of the assets acquired and liabilities assumed. The Company uses its best estimate and third party valuation specialists to determine the fair value of the assets acquired and liabilities assumed. During the measurement period, which can be up to one year after the acquisition date, the Company can make adjustments to the fair value of the assets acquired and liabilities assumed, with the offset being an adjustment to goodwill.

**Goodwill and Indefinite-Lived Intangible Assets.** The Company records goodwill and other indefinite-lived intangible assets in connection with various acquisitions of businesses and allocates the goodwill and other indefinite-lived intangible assets to its respective reporting units. The Company evaluates goodwill for impairment at least annually, in the fourth quarter, or on an interim basis if events and circumstances occur that would indicate it is more likely than not that the fair value of a reporting unit is less than the carrying value. To the extent that the carrying amount exceeds fair value, an impairment of goodwill is recognized. Judgment is required in the determination of reporting units, the assignment of assets and liabilities to reporting units, including goodwill, and the determination of fair value of the reporting units. The Company separately evaluates indefinite-lived intangible assets for impairment. As of June 30, 2022, the Company determined that goodwill and indefinite-lived intangible assets were not impaired.

**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 receivables 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 \$212,654 and \$272,971 at June 30, 2022 and December 31, 2021, respectively. The financial statement carrying value of total debt was \$231,953 (including unamortized loan fees) and \$233,399 (including unamortized loan fees) at June 30, 2022 and December 31, 2021, respectively. These fair values are considered Level 2 under the fair value hierarchy. Fair value disclosure for deferred compensation plan investments is included in Note 9, Employee and Non-Employee Benefit Plans. See Note 3, Business Combination, for discussion related the the fair value of tangible and intangible assets acquired and liabilities assumed as part of the merger with Luxco.

**Equity Method Investments.** The Company holds 50 percent interests in DGL Destiladores, S.de R.L. de C.V. ("DGL") and Agricola LG, S.de R.L. de C.V. ("Agricola") (combined "LMX"), which are accounted for as equity method investments since the date of acquisition and are considered affiliates of the Company. The investment in LMX, which is recorded in Investment in joint ventures on the Condensed Consolidated Balance Sheet, was \$5,792 and \$4,944 at June 30, 2022 and December 31, 2021, respectively. During the quarter ended June 30, 2022 and 2021, the Company recorded a loss of \$574 and \$334 from our equity method investments, respectively, which is recorded in Other income (expense), net on the Condensed Consolidated Statement of Income. During the year to date ended June 30, 2022 and 2021, the Company recorded a loss of \$180 and \$334 from our equity method investments, respectively, which is recorded in Other (income) expense, net on the Condensed Consolidated Statement of Income. During the quarter and year to date ended June 30, 2022, the Company purchased \$11,538 and \$19,929, respectively, of bulk beverage alcohol from LMX, and during the quarter and year to date ended June 30, 2021, the Company purchased \$11,672 of bulk beverage alcohol from LMX.

**Recently Adopted Accounting Standard Updates.** The Company did not adopt any new Accounting Standard Updates during the quarter ended June 30, 2022.

## **Note 2. Revenue**

The Company generates revenues from the Distilling Solutions segment by the sale of products and by providing warehouse services related to the storage and aging of customer products. The Company generates revenues from the Branded Spirits segment by the sale of products and by providing contract bottling services. The Company generates revenues from Ingredient Solutions segment by the sale of products. Revenue related to sales of products is recognized at a point in time whereas revenue generated from warehouse services and contract bottling services is recognized over time. Contracts with customers include a single performance obligation (either the sale of products, the provision of warehouse services or contract bottling services).

The following table presents the Company's sales by segment and major products and services:

	Quarter Ended June 30,		Year to Date Ended June 30,	
	2022	2021	2022	2021
<b>Distilling Solutions</b>				
Brown goods	\$ 56,331	\$ 43,766	\$ 118,476	\$ 86,807
White goods	17,441	18,205	37,527	34,862
Premium beverage alcohol	73,772	61,971	156,003	121,669
Industrial alcohol	12,885	14,770	24,380	32,106
Food grade alcohol	86,657	76,741	180,383	153,775
Fuel grade alcohol	3,312	4,753	6,594	7,270
Distillers feed and related co-products	11,267	4,672	20,184	9,644
Warehouse services	5,902	4,182	11,486	8,283
<b>Total Distilling Solutions</b>	<b>107,138</b>	<b>90,348</b>	<b>218,647</b>	<b>178,972</b>
<b>Branded Spirits</b>				
Ultra premium	9,435	8,002	22,032	8,128
Super premium	3,226	3,184	6,172	3,595
Premium	5,775	5,303	11,915	5,329
Mid	23,301	25,407	42,574	25,407
Value	12,908	13,228	24,207	13,228
Other	3,921	5,302	7,417	5,309
<b>Total Branded Spirits</b>	<b>58,566</b>	<b>60,426</b>	<b>114,317</b>	<b>60,996</b>
<b>Ingredient Solutions</b>				
Specialty wheat starches	16,001	12,598	31,204	22,820
Specialty wheat proteins	10,109	8,352	19,528	14,398
Commodity wheat starches	3,130	2,663	6,483	4,946
Commodity wheat proteins	38	552	38	1,130
<b>Total Ingredient Solutions</b>	<b>29,278</b>	<b>24,165</b>	<b>57,253</b>	<b>43,294</b>
<b>Total sales</b>	<b>\$ 194,982</b>	<b>\$ 174,939</b>	<b>\$ 390,217</b>	<b>\$ 283,262</b>

### Note 3. Business Combination

**Description of the Transaction.** On January 22, 2021, the Company entered into a definitive agreement to acquire Luxco, and subsequently completed the merger on April 1, 2021 (the "Merger"). Luxco is a leading branded beverage alcohol company across various categories, with a more than 60-year business heritage. As a result of the Merger, MGP increased its scale and market position in the branded-spirits sector and believes it strengthened its platform for future growth of higher valued-added products.

Following the Merger, Luxco became a wholly-owned subsidiary of MGP and is included within the Branded Spirits segment. The aggregate consideration paid by the Company in connection with the Merger was \$237,500 in cash (less assumed indebtedness) and 5,007,833 shares of common stock of the Company, subject to adjustment for fractional shares (the "Company Shares," and together with the cash portion, the "Merger Consideration"). The Company Shares were valued at \$296,213 and represented approximately 22.8 percent of the Company's outstanding common stock immediately following the closing of the Merger. The Merger Consideration was subject to customary purchase price adjustments related to, among other things, net working capital, acquired cash and assumed debt. The consideration paid at closing included a preliminary estimated purchase price adjustment. In September 2021, the parties finalized the purchase price adjustment, which decreased the cash consideration paid by approximately \$608 and increased stock consideration by an additional 1,373 shares from the preliminary amounts that were paid at closing.

The cash portion of the Merger Consideration, the repayment of assumed debt, and transaction-related expenses were financed with borrowings under the Company's existing Credit Agreement which was drawn down on April 1, 2021. See Note 5, Corporate Borrowings, for further details.

For tax purposes, the transaction was structured partially as a tax-free reorganization and partially as a taxable acquisition, as defined in the Internal Revenue Code. The amount transferred in a tax deferred manner, under the tax-free reorganization rules, did not create additional tax basis for the Company. The taxable component of the transaction created additional tax basis and a corresponding future tax deduction for the Company.

**Purchase Price Allocation.** The Merger was accounted for as a business combination in accordance with Financial Accounting Standards Board Accounting Standard Codification 805, Business Combinations ("ASC 805"), and as such, assets acquired, liabilities assumed, and consideration transferred were recorded at their estimated fair values on the acquisition date. The following table summarizes the allocation of the consideration paid for Luxco to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date, with the excess recorded to goodwill.

**Consideration:**

Cash, net of assumed debt	\$	149,484
Value of MGP Common Stock issued at close <sup>(a)</sup>		296,279
Fair value of total consideration transferred	\$	<u>445,763</u>

**Recognized amounts of identifiable assets acquired and liabilities assumed:**

Cash	\$	479
Receivables		29,675
Inventory		90,854
Prepaid expenses		1,454
Property, plant and equipment, net		41,279
Investments in joint ventures		5,085
Intangible assets <sup>(b)</sup>		219,500
Other assets		4,257
Total assets		<u>392,583</u>
Current maturities of long-term debt <sup>(c)</sup>		87,509
Accounts payable		14,453
Federal and state excise taxes payable		8,352
Accrued expenses and other		2,832
Other noncurrent liabilities		196
Deferred income taxes		57,034
Total liabilities		<u>170,376</u>
Goodwill		223,556
Total	\$	<u>445,763</u>

(a) On April 1, 2021, the Company issued 5,007,833 shares of MGP Common Stock which was valued at \$59.15 per share. In September 2021, the parties finalized the purchase price adjustments which increased stock consideration by an additional 1,373 shares from the preliminary amounts that were paid at closing.

(b) Intangible assets acquired includes trade names with an estimated fair value of \$178,100 and distributor relationships with an estimated fair value of \$41,400.

(c) The fair value of Luxco's debt that was assumed by MGP in the transaction and repaid on the closing date.

In accordance with ASC 805 assets acquired, liabilities assumed, and consideration transferred were recorded at their estimated fair values on the acquisition date. The fair value measurements of tangible and intangible assets and liabilities were based on significant inputs not observable in the market and represent Level 3 measurements within the fair value hierarchy. Level 3 inputs include discount rates that would be used by a market participant in valuing these assets and liabilities, projections of revenues and cash flows, distributor attrition rates, royalty rates and market comparables, among others. The fair value of work-in-process and finished goods inventory was determined using the comparative sales method and raw materials was determined using the replacement cost method. The fair value of personal property assets was determined using the market approach and the indirect and direct method of the cost approach, and the fair value of real property was determined using the

cost approach and the sales comparison approach.

Goodwill of \$223,556, none of which is deductible for tax purposes, represents the excess of the consideration transferred over the estimated fair value of assets acquired net of liabilities assumed. The Intangible assets acquired includes indefinite-lived intangible assets, trade names, with an estimated fair value of \$178,100 and definite-lived intangible assets, distributor relationships, with an estimated fair value of \$41,400 and a useful life of 20 years. The trade names and distributor relationships acquired by the Company have been recorded at the estimated fair values using the relief from royalty method and multi-period earnings method, respectively. Management engaged a third party valuation specialist to assist in the valuation analysis of certain acquired assets including trade names and distributor relationships.

**Pro Forma Information.** The following table summarizes the unaudited pro forma financial results for the quarter and year to date ended June 30, 2021, as if the Merger had occurred on January 1, 2020:

	<b>Pro Forma Financial Information</b>	
	<b>Quarter Ended June 30, 2021</b>	<b>Year to Date Ended June 30, 2021</b>
Sales	\$ 174,939	\$ 327,632
Net income	28,124	44,747
Basic and diluted earnings per common share	1.28	2.04

The pro forma results are adjusted for items that are non-recurring in nature and directly attributable to the Merger, including the income tax effect of the adjustments. Merger related costs incurred by the Company of \$6,738 and \$8,628 for the quarter and year to date ended June 30, 2021, respectively, were excluded and \$6,738 is assumed to have been incurred on January 1, 2020. Merger related costs incurred by Luxco of \$3,132 were excluded from the year to date ended June 30, 2021 pro forma results. A non-recurring expense of \$2,529 for the quarter and year to date ended June 30, 2021 related to the fair value adjustment of finished goods inventory estimated to have been sold was removed. Other acquired tangible and intangible assets are assumed to be recorded at estimated fair value on January 1, 2020 and are amortized or depreciated over their estimated useful lives.

The summary pro forma financial information is for informational purposes only, is based on estimates and assumptions, and does not purport to represent what the Company's consolidated results of operations actually would have been if the Merger had occurred at an earlier date, and such data does not purport to project the Company's results of operations for any future period. The basic and diluted shares outstanding used to calculate the pro forma net income per share amounts presented above have been adjusted to assume shares issued at the closing of the Merger were outstanding since January 1, 2020.

#### **Note 4. Goodwill and Intangible Assets**

**Definite-Lived Intangible Assets.** The Company has a definite-lived intangible asset which was acquired as a result of the Merger. The distributor relationships have a carrying value of \$38,813, net of accumulated amortization of \$2,587. The distributor relationships have a useful life of 20 years. The amortization expense for the quarter and year to date ended June 30, 2022 was \$517 and \$1,035, respectively, and the amortization expense for the quarter and year to date ended June 30, 2021 was \$518.

As of June 30, 2022, the expected future amortization expense related to definite-lived intangible assets are as follows:

Remainder of 2022	\$ 1,035
2023	2,070
2024	2,070
2025	2,070
2026	2,070
Thereafter	29,498
<b>Total</b>	<b>\$ 38,813</b>

**Goodwill and Indefinite-Lived Intangible Assets.** The Company records goodwill and indefinite-lived intangible assets in connection with various acquisitions of businesses and allocates the goodwill and indefinite-lived intangible assets to its respective reporting units.

Changes in carrying amount of goodwill by business segment were as follows:

	Distilling Solutions	Branded Spirits	Ingredient Solutions	Total
Balance, December 31, 2021	\$ —	\$ 226,294	\$ —	\$ 226,294
Acquisitions	—	—	—	—
Balance, June 30, 2022	\$ —	\$ 226,294	\$ —	\$ 226,294

Changes in carrying amount of trade name intangible assets by business segment were as follows:

	Distilling Solutions	Branded Spirits	Ingredient Solutions	Total
Balance, December 31, 2021	\$ —	\$ 178,990	\$ —	\$ 178,990
Acquisitions	—	—	—	—
Balance, June 30, 2022	\$ —	\$ 178,990	\$ —	\$ 178,990

#### Note 5. Corporate Borrowings

The following table presents the Company's outstanding indebtedness:

Description <sup>(a)</sup>	June 30, 2022	December 31, 2021
Credit Agreement - Revolver, 2.79% (variable rate) due 2025	\$ —	\$ —
Convertible Senior Notes, 1.88% (fixed rate) due 2041	201,250	201,250
Note Purchase Agreement		
Series A Senior Secured Notes, 3.53% (fixed rate) due 2027	16,800	18,400
Senior Secured Notes, 3.80% (fixed rate) due 2029	20,000	20,000
Other long-term borrowings	189	203
Total indebtedness outstanding	238,239	239,853
Less unamortized loan fees <sup>(b)</sup>	(6,286)	(6,454)
Total indebtedness outstanding, net	231,953	233,399
Less current maturities of long-term debt	(4,189)	(3,227)
Long-term debt and Credit Agreement - Revolver	\$ 227,764	\$ 230,172

(a) Interest rates are as of June 30, 2022.

(b) Loan fees are being amortized over the life of the debt instruments.

**Credit Agreement.** On February 14, 2020, the Company entered into a credit agreement (the "Credit Agreement") with multiple participants led by Wells Fargo Bank, National Association ("Wells Fargo Bank") that matures on February 14, 2025. The Credit Agreement provided for a \$300,000 revolving credit facility. On May 14, 2021, the Credit Agreement was amended to increase the principal amount to \$400,000 and to increase the amount of the revolving credit facility by up to an additional \$100,000. The Credit Agreement includes certain requirements and covenants, which the Company was in compliance with at June 30, 2022. The cash portion of the Merger Consideration, the repayment of assumed debt, and transaction-related expenses were financed with \$242,300 borrowings under the Credit Agreement which was drawn down on April 1, 2021. As of June 30, 2022, the Company had no outstanding borrowings under the Credit Agreement leaving \$400,000 available.

**Convertible Senior Notes.** On November 16, 2021, the Company issued \$201,250 in aggregate principle of 1.875% convertible senior notes due in 2041 ("2041 Notes"). The 2041 Notes were issued pursuant to an indenture, dated as of November 16, 2021 (the "Indenture"), by and among the Company, as issuer, Luxco, Inc., MGPI Processing, Inc. and MGPI of Indiana, LLC as subsidiary guarantors, and U.S. Bank National Association, as trustee. The 2041 Notes are senior, unsecured obligations of the Company and interest is payable semi-annually in arrears at a fixed interest rate of 1.875% on May 15 and November 15 of each year. The 2041 Notes mature on November 15, 2041 ("Maturity Date") unless earlier repurchased, redeemed or converted, per the agreement. Upon conversion, the Company will pay cash up to the aggregate principal amount of the 2041 Notes to be converted and pay or deliver, as the case may be, cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock, at its election, in respect to the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 2041 Notes being converted.



**Note Purchase Agreements.** The Company's Note Purchase and Private Shelf Agreement (the "Note Purchase Agreement"), with PGIM, Inc., an affiliate of Prudential Financial, Inc., and certain affiliates of PGIM, Inc., provides for the issuance of \$20,000 of Series A Senior Secured Notes and the issuance of up to \$105,000 of additional Senior Secured Notes (or any higher amount solely to the extent PGIM, Inc. has provided written notice to the Company of its authorization of such a higher amount). On July 29, 2021, PGIM, Inc. ("Prudential") provided the Company notice pursuant to Section 1.2 of the Note Agreement that Prudential has authorized an increase in the amount of additional senior promissory notes that may be issued under the uncommitted shelf facility under the Note Agreement from \$105,000 to \$140,000, effective as of July 29, 2021. The deadline for issuing the notes under the shelf facility is August 23, 2023.

During 2017, the Company issued \$20,000 of Series A Senior Secured Notes with a maturity date of August 23, 2027. During 2019, the Company issued \$20,000 of additional Senior Secured Notes with a maturity date of April 30, 2029. The Note Purchase Agreement includes certain requirements and covenants, which the Company was in compliance with at June 30, 2022. As of June 30, 2022, the Company has \$20,000 outstanding borrowings under the Note Purchase Agreement leaving \$120,000 available.

**Other long-term borrowings.** As part of the Merger, the Company acquired additional long-term notes payable to certain counties in Kentucky.

#### **Note 6. Income Taxes**

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete items arising in that quarter. In each quarter, the estimated annual effective tax rate is updated and a year to date adjustment is made to the provision. The Company's quarterly effective tax rate can be subject to significant change due to the effect of discrete items arising in a given quarter. Beginning in the second quarter of 2021, the estimated annual effective tax rate includes both domestic and foreign entities acquired in the Merger. See Note 3, Business Combination, for further details.

Income tax expense for the quarter and year to date ended June 30, 2022, was \$7,339 and \$18,504 for an effective tax rate of 22.4 percent and 22.8 percent, respectively. The effective tax rate differed from the 21 percent federal statutory rate on pretax income primarily due to state income taxes and income taxes on foreign subsidiaries, partially offset by state and federal tax credits, and the deduction applicable to export activity. The increase in Income tax expense for the quarter and year to date ended June 30, 2022 was primarily due to higher Income before income taxes as compared to the prior year periods.

Income tax expense for the quarter and year to date ended June 30, 2021, was \$6,412 and \$11,027 for an effective tax rate of 24.2 percent and 23.7 percent, respectively. The effective tax rate for the quarter and year to date ended June 30, 2021 differed from the 21 percent federal statutory rate on pretax income primarily due to state taxes, income taxes on foreign subsidiaries acquired as a result of the Merger, nondeductible transaction costs, and a change in accounting estimate related to the Company's state tax credits. The increase in the estimated annual effective tax rate was partially offset by state and federal credits, including income taxes on foreign subsidiaries acquired as a result of the Merger, the deduction applicable to export activity, and a change related to the Company's valuation allowance related to the ability to use certain state net operating losses carryforward.

## Note 7. Equity and EPS

The computations of basic and diluted EPS:

	Quarter Ended June 30,		Year to Date Ended June 30,	
	2022	2021	2022	2021
<b>Operations:</b>				
Net income <sup>(a)</sup>	\$ 25,362	\$ 20,059	\$ 62,733	\$ 35,486
Net loss attributable to noncontrolling interest	198	76	264	76
Income attributable to participating securities (unvested shares and units) <sup>(b)</sup>	(217)	(150)	(535)	(299)
Net income used in EPS calculation	\$ 25,343	\$ 19,985	\$ 62,462	\$ 35,263
<b>Basic and diluted weighted average common shares<sup>(c)</sup></b>	<b>22,002,385</b>	<b>21,916,721</b>	<b>21,995,779</b>	<b>19,436,143</b>
<b>Basic and diluted EPS</b>	<b>\$ 1.15</b>	<b>\$ 0.91</b>	<b>\$ 2.84</b>	<b>\$ 1.81</b>

(a) Net income attributable to all shareholders.

(b) Participating securities included 189,297 and 166,674 unvested restricted stock units ("RSUs"), at June 30, 2022 and 2021, respectively.

(c) Under the two-class method, basic and diluted weighted average common shares at June 30, 2022 and 2021 exclude unvested participating securities.

**Share Issuance.** On April 1, 2021, as part of the consideration for the Merger, the Company issued 5,007,833 shares of common stock. In September 2021, the parties finalized the purchase price adjustments, which increased stock consideration by an additional 1,373 shares from the preliminary amounts that were paid at closing.

**Share Repurchase.** On February 25, 2019, MGP's Board of Directors approved a \$25,000 share repurchase authorization commencing February 27, 2019, through February 27, 2022. Under the share repurchase program, the Company could have repurchased stock from time to time for cash in open market purchases, block transactions, and privately negotiated transactions in accordance with applicable federal securities laws. The Company did not repurchase any shares during the year to date ended June 30, 2022. The Company did not renew the share repurchase program upon its expiration.

### Common Stock Share Activity.

	Shares Outstanding	
	Capital Stock Preferred	Common Stock
<b>Balance, December 31, 2021</b>	437	21,964,314
Issuance of Common Stock	—	29,807
Repurchase of Common Stock <sup>(a)</sup>	—	(9,021)
<b>Balance, March 31, 2022</b>	437	21,985,100
Issuance of Common Stock	—	7,655
Repurchase of Common Stock <sup>(a)</sup>	—	(4)
<b>Balance, June 30, 2022</b>	<b>437</b>	<b>21,992,751</b>

	Shares Outstanding	
	Capital Stock Preferred	Common Stock
<b>Balance, December 31, 2020</b>	437	16,915,862
Issuance of Common Stock	—	35,114
Repurchase of Common Stock <sup>(a)</sup>	—	(10,376)
<b>Balance, March 31, 2021</b>	437	16,940,600
Issuance of Common Stock	—	5,022,122
Repurchase of Common Stock <sup>(a)</sup>	—	(1,489)
<b>Balance, June 30, 2021</b>	<b>437</b>	<b>21,961,233</b>

(a) The Common Stock repurchases were for tax withholding on equity based compensation

## Note 8. Commitments and Contingencies

There are various legal and regulatory proceedings involving the Company and its subsidiaries. The Company accrues estimated costs for a contingency when management believes that a loss is probable and can be reasonably estimated.

**Shareholder matters.** On May 11, 2020, Mitchell Dorfman, a shareholder in MGP, filed an action in the United States District Court for the District of Kansas, under the caption *Dorfman, derivatively on behalf of MGP Ingredients v. Griffin, et al.*, Case 2:20-cv-02239. On June 4, 2020, Justin Carter, a shareholder in MGP, filed an action in the United States District Court for the District of Kansas, under the caption *Carter, derivatively on behalf of MGP Ingredients v. Griffin, et al.*, Case 2:20-cv-02281. On June 18, 2020, Alexandra Kearns, a shareholder in MGP, filed an action in the District Court of Atchison County, Kansas, under the caption *Kearns, derivatively on behalf of MGP Ingredients v. Griffin, et al.*, Case 2020-CV-000042. The defendants were certain of the Company's current and former officers and directors. The Company was a nominal defendant in each action. Plaintiffs alleged that the Company was damaged as a result of the commencement of securities litigation against defendants, the repurchase of Company stock at artificially inflated prices, and compensation paid to the individual defendants. The Complaint in *Dorfman* asserted claims for violations of Sections 14(a), 10(b), and 20(a) of the Securities Exchange Act of 1934, breach of fiduciary duties, waste of corporate assets, and unjust enrichment. The Complaint in *Carter* asserted claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, breach of fiduciary duties, waste of corporate assets, and unjust enrichment. The Petition in *Kearns* asserted claims for breach of fiduciary duties, waste of corporate assets, and unjust enrichment. The pleadings prayed for an award of compensatory damages, including interest, in favor of the Company, for equitable relief related to the Company's corporate governance, for disgorgement of compensation, and for an award of attorneys' fees and costs.

On August 31, 2021, the court dismissed with prejudice the securities litigation on which some of the derivative claims were based. On January 4, 2022, the court dismissed the *Carter* action. On January 11, 2022, the court dismissed the *Dorfman* action. On February 2, 2022, the plaintiffs and defendants entered into a stipulation of dismissal of the *Kearns* action. The federal claims alleged in *Carter* were dismissed with prejudice. All other derivative claims were dismissed without prejudice.

**2016 Atchison Chemical Release.** A chemical release occurred at the Company's Atchison facility on October 21, 2016, which resulted in emissions venting into the air ("the Atchison Chemical Release"). Private plaintiffs initiated legal proceedings against the Company for damages resulting from the Atchison Chemical Release. The Company reached a settlement with the plaintiffs in December 2021 and the legal proceedings were dismissed with prejudice in January 2022.

## Note 9. Employee and Non-Employee Benefit Plans

**Share-Based Compensation Plans.** The Company's share-based compensation plans provide for the awarding of stock options, stock appreciation rights, shares of restricted stock ("Restricted Stock"), and RSUs for senior executives and salaried employees, as well as non-employee directors. The Company has two active equity-based compensation plans: the Employee Equity Incentive Plan of 2014 (the "2014 Plan") and the Non-Employee Director Equity Incentive Plan (the "Directors' Plan").

As of June 30, 2022, 585,353 RSUs had been granted of the 1,500,000 shares approved under the 2014 Plan, and 130,386 shares had been granted of the 300,000 shares approved under the Directors' Plan. As of June 30, 2022, there were 191,637 unvested RSUs under the Company's long-term incentive plans and 189,297 were participating securities (Note 7).

**Deferred Compensation Plan.** The Company established an unfunded Executive Deferred Compensation Plan ("EDC Plan") effective as of June 30, 2018, with a purpose to attract and retain highly-compensated key employees by providing participants with an opportunity to defer receipt of a portion of their salary, bonus, and other specified compensation. The Company's obligations under this plan will change in conjunction with the performance of the participants' investments, along with contributions to and withdrawals from the plan. Realized and unrealized gains (losses) on deferred compensation plan investments were included as a component of Other income (expense), net on the Company's Condensed Consolidated Statements of Income for the quarter and year to date ended June 30, 2022. For quarter and year to date ended June 30, 2022, the Company had a loss on deferred compensation plan investments of \$489 and \$828, respectively. For quarter and year to date ended June 30, 2021, the Company had a gain on deferred compensation plan investments of \$246 and \$276, respectively.

Plan investments are classified as Level 1 in the fair value hierarchy since the investments trade with sufficient frequency and volume to enable the Company to obtain pricing information on an ongoing basis. Participants were able to direct the deferral of a portion of their base salary and a portion of their estimated accrued Short-term incentive plan (“STI Plan”) amounts that were paid during first quarter of the following year. Base salary amounts elected for deferral are deposited into the EDC Plan by the Company on a weekly basis and allocated by participants among Company-determined investment options. STI plan deferral were deposited, at the time of payment, into the EDC Plan by the Company and allocated by participants among Company-determined investment options.

At June 30, 2022 and December 31, 2021, the EDC Plan investments were \$2,598 and \$3,072, respectively, which were recorded in Other assets on the Company’s Condensed Consolidated Balance Sheets. The EDC Plan current liabilities were \$617 at both June 30, 2022 and December 31, 2021, which were included in Accrued expenses and other on the Company’s Condensed Consolidated Balance Sheets. The EDC Plan non-current liabilities were \$2,280 and \$2,981 at June 30, 2022 and December 31, 2021, respectively, and were included in Other noncurrent liabilities on the Company’s Condensed Consolidated Balance Sheets.

#### **Note 10. Operating Segments**

At June 30, 2022, the Company had three segments: Distilling Solutions, Branded Spirits, and Ingredient Solutions. The Distilling Solutions segment consists of food grade alcohol and distillery co-products, such as distillers feed (commonly called dried distillers grain in the industry) and fuel grade alcohol. The Distilling Solutions segment also includes warehouse services, including barrel put away, storage, retrieval, and blending services. The Branded Spirits segment consists of producing, importing, bottling and rectifying of distilled spirits. Ingredient Solutions segment consists of specialty starches and proteins and commodity starches and proteins.

Operating profit for each segment is based on sales less identifiable operating expenses. Non-direct selling, general and administrative expenses, interest expense, other special charges, and other general miscellaneous expenses are excluded from segment operations and are classified as Corporate. Receivables, inventories, property, plant and equipment, leases, goodwill and intangible assets have been identified with the segments to which they relate. All other assets are considered as Corporate.

	Quarter Ended June 30,		Year to Date Ended June 30,	
	2022	2021	2022	2021
<b>Sales to Customers</b>				
Distilling Solutions	\$ 107,138	\$ 90,348	\$ 218,647	\$ 178,972
Branded Spirits	58,566	60,426	114,317	60,996
Ingredient Solutions	29,278	24,165	57,253	43,294
Total	\$ 194,982	\$ 174,939	\$ 390,217	\$ 283,262
<b>Gross Profit</b>				
Distilling Solutions	\$ 29,780	\$ 31,985	\$ 68,713	\$ 60,230
Branded Spirits	20,960	18,434	45,742	18,520
Ingredient Solutions	8,484	6,408	16,590	10,376
Total	\$ 59,224	\$ 56,827	\$ 131,045	\$ 89,126
<b>Depreciation and Amortization</b>				
Distilling Solutions	\$ 2,926	\$ 2,652	\$ 5,787	\$ 5,205
Branded Spirits	1,402	1,709	3,184	1,738
Ingredient Solutions	613	481	1,225	956
Corporate	362	273	728	526
Total	\$ 5,303	\$ 5,115	\$ 10,924	\$ 8,425
<b>Income (loss) before Income Taxes</b>				
Distilling Solutions	\$ 29,127	\$ 31,315	\$ 67,119	\$ 58,178
Branded Spirits	7,454	7,113	18,240	5,889
Ingredient Solutions	7,477	5,735	14,948	8,907
Corporate	(11,357)	(17,692)	(19,070)	(26,461)
Total	\$ 32,701	\$ 26,471	\$ 81,237	\$ 46,513

The following table allocates assets to each segment as of:

	June 30, 2022	December 31, 2021
<b>Identifiable Assets</b>		
Distilling Solutions	\$ 330,356	\$ 314,816
Branded Spirits	685,570	658,826
Ingredient Solutions	55,815	43,009
Corporate	34,879	24,816
Total	\$ 1,106,620	\$ 1,041,467

#### Note 11. Subsequent Events

**Dividend.** On August 4, 2022, the Company's Board of Directors declared a quarterly dividend payable to stockholders of record as of August 19, 2022, of the Company's Common Stock, and a dividend equivalent payable to holders of certain RSUs as of August 19, 2022, of \$0.12 per share and per unit, payable on September 2, 2022.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**(Dollar amounts in thousands, unless otherwise noted)**

### **CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Report on Form 10-Q contains forward looking statements as well as historical information. All statements, other than statements of historical facts, regarding the prospects of our industry and our prospects, plans, financial position, and strategic plan may constitute forward looking statements. In addition, forward looking statements are usually identified by or are associated with such words as "intend," "plan," "believe," "estimate," "expect," "anticipate," "hopeful," "should," "may," "will," "could," "encouraged," "opportunities," "potential," and/or the negatives or variations of these terms or similar terminology. Forward looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from those expressed or implied in the forward looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward looking statements is included in the section titled "Risk Factors" (Item 1A) of our Annual Report on Form 10-K for the year ended December 31, 2021 and the additional risk factors included in this Form 10-Q in Part II, Item 1A. Forward looking statements are made as of the date of this report, and we undertake no obligation to update or revise publicly any forward looking statements, whether because of new information, future events or otherwise.

### **OVERVIEW**

MGP is a leading producer and supplier of premium distilled spirits, branded spirits and food ingredients. Distilled spirits include premium bourbon and rye whiskeys and grain neutral spirits ("GNS"), including vodka and gin. We are also a top producer of high quality industrial alcohol for use in both food and non-food applications. Our distilled spirits are either packaged and sold under our own brands to distributors, sold, directly or indirectly, to manufacturers of other branded spirits, or direct to consumer. Our Branded Spirits consist of producing, importing, bottling and rectifying distilled spirits through our distilleries and bottling facilities. The Company's protein and starch food ingredients provide a host of functional, nutritional, and sensory benefits for a wide range of food products to serve the packaged goods industry.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes included in this Form 10-Q, as well as our audited consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations - General, set forth in our Annual Report on Form 10-K for the year ended December 31, 2021.

## RESULTS OF OPERATIONS

### Consolidated Results

The table below details the consolidated results for the quarters ended June 30, 2022 and 2021:

	Quarter Ended June 30,		2022 v. 2021
	2022	2021	
Sales	\$ 194,982	\$ 174,939	11 %
Cost of sales	135,758	118,112	15
Gross profit	59,224	56,827	4
Gross margin %	30.4 %	32.5 %	(2.1) pp <sup>(a)</sup>
Advertising and promotion expenses	6,065	3,371	80
Selling, general, and administrative (“SG&A”) expenses	17,859	25,793	(31)
Other operating (income) expense, net	(6)	—	N/A
Operating income	35,306	27,663	28
Operating margin %	18.1 %	15.8 %	2.3 pp
Interest expense, net	(1,543)	(1,104)	(40)
Other income (expense), net	(1,062)	(88)	(1,107)
Income before income taxes	32,701	26,471	24
Income tax expense	7,339	6,412	14
Effective tax expense rate %	22.4 %	24.2 %	(1.8) pp
Net income	\$ 25,362	\$ 20,059	26 %
Net income margin %	13.0 %	11.5 %	1.5 pp

(a) Percentage points (“pp”).

*Sales* - Sales for quarter ended June 30, 2022 were \$194,982, an increase of 11 percent compared to the year-ago quarter, which was the result of increased sales in the Distilling Solutions and Ingredient Solutions segments, partially offset by decreased sales in the Branded Spirits segment. Within the Distilling Solutions segment, sales were up 19 percent, primarily due to an increase in the sales of brown goods within premium beverage alcohol. Within the Ingredient Solutions segment, sales were up 21 percent, primarily due to increased sales of specialty wheat starches and proteins. Within the Branded Spirits segment, sales were down 3 percent, due to decreased sales of mid and other price tiers (see Segment Results).

*Gross profit* - Gross profit for quarter ended June 30, 2022 was \$59,224, an increase of 4 percent compared to the year-ago quarter. The increase was driven by an increase in gross profit in the Branded Spirits and Ingredient Solutions segments, partially offset by a decrease in Distilling Solutions segment gross profit. In the Branded Spirits segment, gross profit increased by \$2,526, or 14 percent. In the Ingredient Solutions segment, gross profit increased by \$2,076, or 32 percent. In the Distilling Solutions segment, gross profit declined by \$2,205, or 7 percent (see Segment Results).

*Advertising and promotion expenses* - Advertising and promotion expenses for quarter ended June 30, 2022 were \$6,065, an increase of 80 percent compared to the year-ago quarter, primarily driven by increased advertising and promotion investment in the Branded Spirits segment, specifically in the ultra premium, super premium and premium price tiers.

*SG&A expenses* - SG&A expenses for quarter ended June 30, 2022 were \$17,859, a decrease of 31 percent compared to the year-ago quarter, primarily due to the one-time acquisition costs in 2021 related to the Merger with Luxco that did not recur in 2022.

*Operating income* - Operating income for quarter ended June 30, 2022 increased to \$35,306 from \$27,663 for quarter ended June 30, 2021, primarily due to an increase in gross profit in the Branded Spirits and Ingredient Solutions segments as well as a decrease in the previously described SG&A expenses. These were partially offset by an increase in the previously described Advertising and promotion expenses and a decrease in gross profit in the Distilling Solutions segment.

<b>Operating income, quarter versus quarter</b>	<b>Operating Income</b>	<b>Change</b>	
Operating income for quarter ended June 30, 2021	\$ 27,663		
Increase in gross profit - Branded Spirits segment <sup>(a)</sup>	2,526	9	pp <sup>(b)</sup>
Increase in gross profit - Ingredient Solutions segment <sup>(a)</sup>	2,076	8	pp
Decrease in gross profit - Distilling Solutions segment <sup>(a)</sup>	(2,205)	(8)	pp
Increase in Advertising and promotion expenses	(2,694)	(10)	pp
Decrease in SG&A expenses	7,934	29	pp
Increase in Other operating income (expense), net	6	—	pp
<b>Operating income for quarter ended June 30, 2022</b>	<b>\$ 35,306</b>	<b>28 %</b>	

(a) See segment discussion.  
(b) Percentage points ("pp").

*Income tax expense* - Income tax expense for quarter ended June 30, 2022 was \$7,339, for an effective tax rate of 22.4 percent. Income tax expense for the quarter ended June 30, 2021, was \$6,412, for an effective tax rate of 24.2 percent. The increase in Income tax expense, quarter versus quarter, was due to higher Income before income taxes. The decrease in effective tax rate, quarter versus quarter, was due to favorable tax benefits, related to certain tax credits concerning our capital spend, and related to our foreign operations.

*Earnings per common share ("EPS")* - EPS was \$1.15 for quarter ended June 30, 2022, compared to \$0.91 for quarter ended June 30, 2021. The change in EPS, quarter versus quarter, was primarily due to an increase in Operating income.

<b>Change in basic and diluted EPS, quarter versus quarter</b>	<b>Basic and Diluted EPS</b>	<b>Change</b>	
Basic and diluted EPS for quarter ended June 30, 2021	\$ 0.91		
Increase in Operating income <sup>(a)</sup>	0.26	28	pp <sup>(b)</sup>
Increase in other income (expense), net <sup>(a)</sup>	(0.03)	(3)	pp
Tax: Change in effective tax rate	0.04	4	pp
Change in income allocated to participating securities	(0.01)	(1)	pp
Change in interest expense, net <sup>(a)</sup>	(0.02)	(2)	pp
<b>Basic and diluted EPS for quarter ended June 30, 2022</b>	<b>\$ 1.15</b>	<b>26 %</b>	

(a) Item is net of tax based on the effective tax rate for the base year (2021).  
(b) Percentage points ("pp").



The table below details the consolidated results for year to date ended June 30, 2022 and 2021:

	<b>Year to Date Ended June 30,</b>		<b>2022 v. 2021</b>
	<b>2022</b>	<b>2021</b>	
Sales	\$ 390,217	\$ 283,262	38 %
Cost of sales	259,172	194,136	34
Gross profit	131,045	89,126	47
Gross margin %	33.6 %	31.5 %	2.1 pp <sup>(a)</sup>
Advertising and promotion expenses	11,569	4,224	174
SG&A expenses	34,125	36,739	(7)
Other operating income, net	(35)	—	N/A
Operating income	85,386	48,163	77
Operating margin %	21.9 %	17.0 %	4.9 pp
Interest expense, net	(3,141)	(1,592)	(97)
Other income (expense), net	(1,008)	(58)	(1,638)
Income before income taxes	81,237	46,513	75
Income tax expense	18,504	11,027	68
Effective tax expense rate %	22.8 %	23.7 %	(0.9) pp
Net income	\$ 62,733	\$ 35,486	77 %
Net income margin %	16.1 %	12.5 %	3.6 pp

(a) Percentage points ("pp").

*Sales* - Sales for year to date ended June 30, 2022 were \$390,217, an increase of 38 percent compared to the year-ago period, which was the result of increased sales in the Branded Spirits, Distilling Solutions and Ingredient Solutions segments. Within the Branded Spirits segment, sales were up 87 percent, primarily due to the additional brands acquired as part of the April 1, 2021 Merger. Within the Distilling Solutions segment, sales were up 22 percent, primarily due to an increase in the sales of brown goods within premium beverage alcohol and distillers feed and related co-products. Within the Ingredient Solutions segment, sales were up 32 percent, primarily due to increased sales of specialty wheat starches and proteins, and commodity wheat starches (see Segment Results).

*Gross profit* - Gross profit for year to date ended June 30, 2022 was \$131,045, an increase of 47 percent compared to the year-ago period. The increase was driven by an increase in gross profit in the Branded Spirits, Distilling Solutions, and Ingredient Solutions segments. In the Branded Spirits segment, gross profit increased by \$27,222, or 147 percent. In the Distilling Solutions segment, gross profit increased by \$8,483, or 14 percent. In the Ingredient Solutions segment, gross profit increased by \$6,214, or 60 percent (see Segment Results).

*Advertising and promotion expenses* - Advertising and promotion expenses for year to date ended June 30, 2022 were \$11,569, an increase of 174 percent compared to the year-ago period, primarily driven by the assumption of Luxco's Advertising and promotion expenses.

*SG&A expenses* - SG&A expenses for year to date ended June 30, 2022 were \$34,125, a decrease of 7 percent compared to the year-ago period. The decrease in SG&A expenses was driven primarily by the one-time acquisition costs in 2021 related to the Merger with Luxco that did not recur in 2022, partially offset by the assumption of Luxco's SG&A expenses.

*Operating income* - Operating income for year to date ended June 30, 2022 increased to \$85,386 from \$48,163 for year to date period ended June 30, 2021, primarily due to an increase in gross profit in the Branded Spirits, Distilling Solutions, and Ingredient Solutions segments as well as a decrease in the previously described SG&A expenses. These were partially offset by an increase in the above-described Advertising and promotion expenses.

<b>Operating income, year to date versus year to date</b>	<b>Operating Income</b>	<b>Change</b>	
Operating income for year to date ended June 30, 2021	\$ 48,163		
Increase in gross profit - Branded Spirits segment <sup>(a)</sup>	27,222	57	pp(b)
Increase in gross profit - Distilling Solutions segment <sup>(a)</sup>	8,483	17	pp
Increase in gross profit - Ingredient Solutions segment <sup>(a)</sup>	6,214	13	pp
Increase in Advertising and promotion expenses	(7,345)	(15)	pp
Decrease in SG&A expenses	2,614	5	pp
Increase in Other operating income (expense), net	35	—	pp
<b>Operating income for year to date ended June 30, 2022</b>	<b>\$ 85,386</b>	<b>77 %</b>	

(a) See segment discussion.

(b) Percentage points ("pp").

*Income tax expense* - Income tax expense for year to date ended June 30, 2022 was \$18,504, for an effective tax rate of 22.8 percent. Income tax expense for the year to date ended June 30, 2021, was \$11,027, for an effective tax rate of 23.7 percent. The increase in Income tax expense, year to date versus year to date, was primarily due to higher Income before income taxes. The decrease in effective tax rate, year to date versus year to date, was due to favorable tax benefits, related to certain tax credits concerning our capital spend, and related to our foreign operations.

*Earnings per common share* - EPS was \$2.84 for year to date ended June 30, 2022, compared to \$1.81 for year to date ended June 30, 2021. EPS increased, year to date versus year to date, primarily due to an increase in operating income, partially offset by an increase in shares outstanding as a result of shares issued as part of the consideration paid for the Merger.

<b>Change in basic and diluted EPS, year to date versus year to date</b>	<b>Basic and Diluted EPS</b>	<b>Change</b>	
Basic and diluted EPS for year to date ended June 30, 2021	\$ 1.81		
Increase in operating income <sup>(a)</sup>	1.60	88	pp(b)
Change in interest expense, net <sup>(a)</sup>	(0.07)	(4)	pp
Increase in other income (expense), net <sup>(a)</sup>	(0.03)	(1)	pp
Tax: Change in effective tax rate	0.04	2	pp
Change in weighted average shares outstanding	(0.51)	(28)	pp
<b>Basic and diluted EPS for year to date ended June 30, 2022</b>	<b>\$ 2.84</b>	<b>57 %</b>	

(a) Item is net of tax based on the effective tax rate for the base year (2021).

(b) Percentage points ("pp").

## SEGMENT RESULTS

### Distilling Solutions

The following tables show selected financial information for the Distilling Solutions segment for the quarters ended June 30, 2022 and 2021.

DISTILLING SOLUTIONS SALES				
	Quarter Ended June 30,		Quarter versus Quarter Sales Change Increase/(Decrease)	
	2022	2021	\$ Change	% Change
Brown goods	\$ 56,331	\$ 43,766	\$ 12,565	29 %
White goods	17,441	18,205	(764)	(4)
<b>Premium beverage alcohol</b>	<b>73,772</b>	<b>61,971</b>	<b>11,801</b>	<b>19</b>
Industrial alcohol	12,885	14,770	(1,885)	(13)
<b>Food grade alcohol</b>	<b>86,657</b>	<b>76,741</b>	<b>9,916</b>	<b>13</b>
Fuel grade alcohol	3,312	4,753	(1,441)	(30)
Distillers feed and related co-products	11,267	4,672	6,595	141
Warehouse services	5,902	4,182	1,720	41
<b>Total Distilling Solutions</b>	<b>\$ 107,138</b>	<b>\$ 90,348</b>	<b>\$ 16,790</b>	<b>19 %</b>

Change in Quarter versus Quarter Sales Attributed to:			
Total <sup>(a)</sup>	Volume <sup>(b)</sup>	Net Price/Mix <sup>(c)</sup>	
Premium beverage alcohol	19%	(5)%	24%

Other Financial Information				
	Quarter Ended June 30,		Quarter versus Quarter Increase / (Decrease)	
	2022	2021	\$ Change	% Change
Gross profit	\$ 29,780	\$ 31,985	\$ (2,205)	(7)%
Gross margin %	27.8 %	35.4 %		(7.6) pp <sup>(d)</sup>

(a) Total sales change is calculated by taking the difference between current period sales dollars and prior period sales dollars, divided by prior period sales dollars.

(b) Volume change is calculated by taking the difference between current period sales volume and prior period sales volume, multiplied by prior period sales per unit. The product is then divided by prior period sales dollars.

(c) Price/Mix change is calculated by taking the difference between current period sales-per-unit and prior period sales-per unit, multiplied by current period sales volume. The product is then divided by prior period sales dollars.

(d) Percentage points ("pp").

Total sales of Distilling Solutions for quarter ended June 30, 2022 increased by \$16,790, or 19 percent, compared to the prior year quarter. Sales of brown goods within premium beverage alcohol, distillers feed and related co-products, and warehouse services increased while industrial alcohol, fuel grade alcohol and white goods within premium beverage alcohol decreased compared to the prior year quarter. The increase in sales of brown goods was driven by higher average selling price. The increase in sales of distillers feed and related co-products was due to higher average selling price, partially offset by lower sales volumes, both of which primarily resulted from the previously disclosed dryer fire at our Atchison facility which occurred in 2020. These increases were partially offset by a decrease in sales of industrial alcohol, fuel grade alcohol and white goods which was driven primarily by lower sales volume.

Gross profit decreased quarter versus quarter by \$2,205, or 7 percent. Gross margin for the quarter ended June 30, 2022 decreased to 27.8 percent from 35.4 percent for the prior year quarter. The decrease in gross profit was primarily due to higher input costs for industrial alcohol, white goods, and fuel grade alcohol. The average selling price for these products also increased, but not enough to offset the higher input costs. This decrease in gross profit was partially offset by an increase in brown goods gross profit, as increased average selling price offset the higher input costs.

The following tables show selected financial information for the Distilling Solutions segment for the year to date ended June 30, 2022 and 2021.

<b>DISTILLING SOLUTIONS SALES</b>				
	<b>Year to Date Ended June 30,</b>		<b>Year to Date versus Year to Date Sales Change Increase/(Decrease)</b>	
	<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
Brown Goods	\$ 118,476	\$ 86,807	\$ 31,669	36 %
White Goods	37,527	34,862	2,665	8
<b>Premium beverage alcohol</b>	<b>156,003</b>	<b>121,669</b>	<b>34,334</b>	<b>28</b>
Industrial alcohol	24,380	32,106	(7,726)	(24)
<b>Food grade alcohol</b>	<b>180,383</b>	<b>153,775</b>	<b>26,608</b>	<b>17</b>
Fuel grade alcohol	6,594	7,270	(676)	(9)
Distillers feed and related co-products	20,184	9,644	10,540	109
Warehouse services	11,486	8,283	3,203	39
<b>Total Distilling Solutions</b>	<b>\$ 218,647</b>	<b>\$ 178,972</b>	<b>\$ 39,675</b>	<b>22 %</b>

<b>Change in Year to Date versus Year to Date Sales Attributed to:</b>			
	<b>Total<sup>(a)</sup></b>	<b>Volume<sup>(b)</sup></b>	<b>Net Price/Mix<sup>(c)</sup></b>
Premium beverage alcohol	<b>28%</b>	<b>8%</b>	<b>20%</b>

<b>Other Financial Information</b>				
	<b>Year to Date Ended June 30,</b>		<b>Year to Date versus Year to Date Increase / (Decrease)</b>	
	<b>2022</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
Gross profit	\$ 68,713	\$ 60,230	\$ 8,483	14 %
Gross margin %	31.4 %	33.7 %		(2.3) pp <sup>(d)</sup>

(a) Total sales change is calculated by taking the difference between current period sales dollars and prior period sales dollars, divided by prior period sales dollars.

(b) Volume change is calculated by taking the difference between current period sales volume and prior period sales volume, multiplied by prior period sales per unit. The product is then divided by prior period sales dollars.

(c) Price/Mix change is calculated by taking the difference between current period sales-per-unit and prior period sales-per unit, multiplied by current period sales volume. The product is then divided by prior period sales dollars.

(d) Percentage points ("pp").

Total sales of Distilling Solutions for year to date ended June 30, 2022 increased by \$39,675, or 22 percent compared to the year-ago period. Sales of brown goods within premium beverage alcohol, distillers feed and related co-products, warehouse services and white goods within premium beverage alcohol increased while industrial alcohol and fuel grade alcohol decreased compared to the prior year to date period. The increase in sales of brown goods was driven by higher average selling price and higher sales volume. The increase in sales of distillers feed and related co-products was due to higher average selling price, partially offset by lower sales volumes, both of which primarily resulted from the previously disclosed dryer fire at our Atchison facility which occurred in 2020. The increase in sales of white goods was driven by higher average selling price, partially offset by lower sales volume. These increases were partially offset by a decrease in sales of industrial alcohol which was driven by lower sales volume primarily due to the discontinuing of third party sales and marketing services, partially offset by higher average selling price.

Gross profit for year to date ended June 30, 2022 increased by \$8,483, or 14 percent compared to the year-ago period. Gross margin for year to date ended June 30, 2022 decreased to 31.4 percent from 33.7 percent for the prior year period. The increase in gross profit was due primarily to higher average selling price and higher sales volume on brown goods. These increases were partially offset by higher input costs for industrial alcohol, white goods, and fuel grade alcohol. The average selling price for these products also increased, but not enough to offset the higher input costs.

## Branded Spirits

The following tables show selected financial information for the Branded Spirits segment for the quarters ended June 30, 2022 and 2021.

	BRANDED SPIRITS SALES				
	Quarter Ended June 30,		Quarter versus Quarter Sales Change Increase/(Decrease)		
	2022	2021	\$ Change	% Change	
Ultra premium	\$ 9,435	\$ 8,002	\$ 1,433	18 %	
Super premium	3,226	3,184	42	1	
Premium	5,775	5,303	472	9	
Mid	23,301	25,407	(2,106)	(8)	
Value	12,908	13,228	(320)	(2)	
Other	3,921	5,302	(1,381)	(26)	
<b>Total Branded Spirits</b>	<b>\$ 58,566</b>	<b>\$ 60,426</b>	<b>\$ (1,860)</b>	<b>(3)%</b>	

	Change in Quarter versus Quarter Sales Attributed to:		
	Total <sup>(a)</sup>	Volume <sup>(b)</sup>	Net Price/Mix <sup>(c)</sup>
Total Branded Spirits	(3)%	(9)%	6%

	Other Financial Information				
	Quarter Ended June 30,		Quarter versus Quarter Increase / (Decrease)		
	2022	2021	\$ Change	% Change	
Gross profit	\$ 20,960	\$ 18,434	\$ 2,526	14 %	
Gross margin %	35.8 %	30.5 %		5.3 pp <sup>(d)</sup>	

(a) Total sales change is calculated by taking the difference between current period sales dollars and prior period sales dollars, divided by prior period sales dollars.

(b) Volume change is calculated by taking the difference between current period sales volume and prior period sales volume, multiplied by prior period sales per unit. The product is then divided by prior period sales dollars.

(c) Price/Mix change is calculated by taking the difference between current period sales-per-unit and prior period sales-per unit, multiplied by current period sales volume. The product is then divided by prior period sales dollars.

(d) Percentage points ("pp").

Total sales of Branded Spirits for quarter ended June 30, 2022 decreased by \$1,860, or 3 percent compared to the prior year quarter. Sales decreased primarily due to a decrease in sales of brands within the mid price tier as a result of the re-opening of on-premise locations during the prior year period as well as a change in product mix. Sales in the other price tier decreased due to the timing of certain contracted private label sales. These decreases were partially offset by an increase in the ultra premium price tier due primarily to increased sales of American whiskey brands.

Gross profit increased quarter versus quarter by \$2,526, or 14 percent. Gross margin for the quarter ended June 30, 2022 increased to 35.8 percent from 30.5 percent for the prior year quarter. The increase in gross profit was primarily driven by a required step up in value of certain assets due to purchase accounting related to the Merger in 2021 that did not recur in 2022. Of the purchase accounting step ups, \$2,529 was associated with marking the finished goods inventory to fair value and fully flowed through in the prior year period.

The following tables show selected financial information for the Branded Spirits segment for year to date ended June 30, 2022 and 2021.

**BRANDED SPIRITS SALES**

	Year to Date Ended June 30,		Year to Date versus Year to Date Sales Change Increase/(Decrease)	
	2022	2021	\$ Change	% Change
	Ultra premium	\$ 22,032	\$ 8,128	\$ 13,904
Super premium	6,172	3,595	2,577	72
Premium	11,915	5,329	6,586	124
Mid	42,574	25,407	17,167	68
Value	24,207	13,228	10,979	83
Other	7,417	5,309	2,108	40
<b>Total Branded Spirits</b>	<b>\$ 114,317</b>	<b>\$ 60,996</b>	<b>\$ 53,321</b>	<b>87 %</b>

**Change in Year to Date versus Year to Date Sales Attributed to:**

	Total <sup>(a)</sup>	Volume <sup>(b)</sup>	Net Price/Mix <sup>(c)</sup>
Total Branded Spirits	87%	66%	21%

**Other Financial Information**

	Year to Date Ended June 30,		Year to Date versus Year to Date Increase / (Decrease)	
	2022	2021	\$ Change	% Change
	Gross profit	\$ 45,742	\$ 18,520	\$ 27,222
Gross margin %	40.0 %	30.4 %		9.6 pp <sup>(d)</sup>

(a) Total sales change is calculated by taking the difference between current period sales dollars and prior period sales dollars, divided by prior period sales dollars.

(b) Volume change is calculated by taking the difference between current period sales volume and prior period sales volume, multiplied by prior period sales per unit. The product is then divided by prior period sales dollars.

(c) Price/Mix change is calculated by taking the difference between current period sales-per-unit and prior period sales-per unit, multiplied by current period sales volume. The product is then divided by prior period sales dollars.

(d) Percentage points ("pp").

Total sales of Branded Spirits for year to date ended June 30, 2022 increased by \$53,321, or 87 percent compared to the year-ago period. Sales across all pricing tiers increased compared to the year-ago period, primarily due to the additional brands acquired as part of the Merger.

Gross profit for year to date ended June 30, 2022 increased by \$27,222, or 147 percent. Gross margin for year to date ended June 30, 2022 increased 9.6 percent to 40.0 percent from 30.4 percent for the prior year. The increase in gross profit was primarily driven by the additional brands acquired as part of the Merger as well as a required step up in value of certain assets due to purchase accounting related to the Merger in 2021 that did not recur in 2022. Of the purchase accounting step ups, \$2,529 was associated with marking the finished goods inventory to fair value and fully flowed through in the prior year period.

## Ingredient Solutions

The following tables show selected financial information for the Ingredient Solutions segment for the quarters ended June 30, 2022 and 2021.

	INGREDIENT SOLUTIONS SALES			
	Quarter Ended June 30,		Quarter versus Quarter Sales Change Increase / (Decrease)	
	2022	2021	\$ Change	% Change
Specialty wheat starches	\$ 16,001	\$ 12,598	\$ 3,403	27 %
Specialty wheat proteins	10,109	8,352	1,757	21
Commodity wheat starches	3,130	2,663	467	18
Commodity wheat proteins	38	552	(514)	(93)
<b>Total Ingredient Solutions</b>	<b>\$ 29,278</b>	<b>\$ 24,165</b>	<b>\$ 5,113</b>	<b>21 %</b>

	Change in Quarter versus Quarter Sales Attributed to:		
	Total <sup>(a)</sup>	Volume <sup>(b)</sup>	Net Price/Mix <sup>(c)</sup>
Total Ingredient Solutions	21%	1%	20%

	Other Financial Information			
	Quarter Ended June 30,		Quarter versus Quarter Increase / (Decrease)	
	2022	2021	\$ Change	% Change
Gross profit	\$ 8,484	\$ 6,408	\$ 2,076	32 %
Gross margin %	29.0 %	26.5 %		2.5 pp <sup>(d)</sup>

(a) Total sales change is calculated by taking the difference between current period sales dollars and prior period sales dollars, divided by prior period sales dollars.

(b) Volume change is calculated by taking the difference between current period sales volume and prior period sales volume, multiplied by prior period sales per unit. The product is then divided by prior period sales dollars.

(c) Price/Mix change is calculated by taking the difference between current period sales-per-unit and prior period sales-per unit, multiplied by current period sales volume. The product is then divided by prior period sales dollars.

(d) Percentage points ("pp").

Total Ingredient Solutions sales for quarter ended June 30, 2022 increased by \$5,113, or 21 percent, compared to the prior year quarter. The increase was primarily driven by higher sales of specialty wheat starches due to higher average selling prices and higher sales volume. Specialty wheat proteins increased due to higher average selling price, partially offset by lower sales volume. These increases were partially offset by a decrease in commodity wheat proteins due to lower sales volume.

Gross profit increased quarter versus quarter by \$2,076, or 32 percent. Gross margin for the quarter ended June 30, 2022 increased to 29.0 percent from 26.5 percent for the prior year quarter. The increase in gross profit was primarily driven by higher average selling price of specialty wheat proteins and starches, and commodity wheat starches, partially offset by higher input costs for specialty wheat starches and proteins, and commodity starches.

The following tables show selected financial information for the Ingredient Solutions segment for the year to date June 30, 2022 and 2021.

#### INGREDIENT SOLUTIONS SALES

	Year to Date Ended June 30,		Year to Date versus Year to Date Sales Change Increase/(Decrease)	
	2022	2021	\$ Change	% Change
	Specialty wheat starches	\$ 31,204	\$ 22,820	\$ 8,384
Specialty wheat proteins	19,528	14,398	5,130	36
Commodity wheat starches	6,483	4,946	1,537	31
Commodity wheat proteins	38	1,130	(1,092)	(97)
Total Ingredient Solutions	<u>\$ 57,253</u>	<u>\$ 43,294</u>	<u>\$ 13,959</u>	<u>32 %</u>

#### Change in Year to Date versus Year to Date Sales Attributed to:

	Total <sup>(a)</sup>	Volume <sup>(b)</sup>	Net Price/Mix <sup>(c)</sup>
	Total Ingredient Solutions	32%	11%

#### Other Financial Information

	Year to Date Ended June 30,		Year to Date versus Year to Date Increase / (Decrease)	
	2022	2021	\$ Change	% Change
	Gross profit	\$ 16,590	\$ 10,376	\$ 6,214
Gross margin %	29.0 %	24.0 %		5.0 pp <sup>(d)</sup>

(a) Total sale changes is calculated by taking the difference between current period sales dollars and prior period sales dollars, divided by prior period sales dollars.

(b) Volume change is calculated by taking the difference between current period sales volume and prior period sales volume, multiplied by prior period sales per unit. The product is then divided by prior period sales dollars.

(c) Price/Mix change is calculated by taking the difference between current period sales-per-unit and prior period sales-per unit, multiplied by current period sales volume. The product is then divided by prior period sales dollars.

(d) Percentage points ("pp").

Total Ingredient Solutions sales for year to date ended June 30, 2022 increased by \$13,959, or 32 percent, compared to the prior year period. The increase in Ingredient Solutions sales was primarily driven by higher sales of specialty wheat starches and proteins, primarily due to higher average selling price and higher sales volume. Commodity wheat starches increased due to higher average selling price, partially offset by lower sales volume. These increases were partially offset by a decrease in sales of commodity wheat proteins due to lower sales volume.

Gross profit increased by \$6,214, or 60 percent for year to date ended June 30, 2022 compared to the prior year period. Gross margin for the year to date ended June 30, 2022 increased to 29.0 percent from 24.0 percent for the prior year period. The increase in gross profit was primarily driven by higher average selling price and higher sales volumes of specialty wheat starches and proteins. Gross profit in the prior year to date period was impacted by a temporary curtailment of natural gas usage due to extreme weather conditions which caused the Company to shut down the Atchison facilities for several days.



## CASH FLOW, FINANCIAL CONDITION AND LIQUIDITY

We believe our financial condition continues to be of high quality, as evidenced by our ability to generate adequate cash from operations while having ready access to capital at competitive rates.

Operating cash flow and borrowings through our Credit Agreement, Convertible Senior Notes and Note Purchase Agreement (Note 5) provide the primary sources of cash to fund operating needs and capital expenditures. These same sources of cash are used to fund shareholder dividends and other discretionary uses. Our overall liquidity reflects our strong business results and an effective cash management strategy that takes into account liquidity management, economic factors, and tax considerations. We expect our sources of cash to be adequate to provide for budgeted capital expenditures, potential merger or acquisitions, and anticipated operating requirements for the foreseeable future.

### Cash Flow Summary

	Year to Date Ended June 30,		Changes, year versus year Increase / (Decrease)
	2022	2021	
Cash provided by operating activities	\$ 43,019	\$ 47,454	\$ (4,435)
Cash used in investing activities	(19,484)	(170,235)	150,751
Cash provided by (used in) financing activities	(7,649)	138,359	(146,008)
Effect of exchange rate changes on cash	(39)	3	(42)
<b>Increase in cash and cash equivalents</b>	<b>\$ 15,847</b>	<b>\$ 15,581</b>	<b>\$ 266</b>

Cash increased \$15,847 for year to date ended June 30, 2022, compared to an increase of \$15,581 for year to date ended June 30, 2021, for a net increase in cash of \$266, period versus period.

**Operating Activities.** Cash provided by operating activities for year to date ended June 30, 2022 was \$43,019. The cash provided by operating activities resulted primarily from net income of \$62,733, adjustments for non-cash or non-operating charges of \$13,262, including depreciation and amortization, and share-based compensation, partially offset by cash used in operating assets and liabilities of \$32,976. The primary drivers of the changes in operating assets and liabilities were \$27,508 use of cash related to an increase in inventories, primarily due to an increase in barreled distillate and finished goods inventory, \$13,142 use of cash related to increased accounts receivables, net due to increased sales during the year to date period, as well as timing of customer payments, and \$4,791 use of cash related to accrued expenses and other primarily related to increase in incentive compensation. These uses of cash were partially offset, primarily, by \$11,438 cash provided by an increase in accounts payable.

Cash provided by operating activities for year to date ended June 30, 2021 was \$47,454. The cash provided by operating activities resulted primarily from net income of \$35,486, adjustments for non-cash or non-operating charges of \$11,555, including depreciation and amortization, and share-based compensation, as well as cash provided by operating assets and liabilities of \$413. The primary drivers of the changes in operating assets and liabilities, excluding the asset and liability balances acquired as part of the Merger were \$7,987 provided by accrued expenses and other primarily related to legally committed insurance recovery amounts obtained prior to contingencies related to the insurance claim being resolved, and \$7,531 cash provided by accounts receivables, net due to increased sales during the quarter as well as an increase in insurance recoveries receivable. These sources of cash were partially offset by \$12,996 use of cash related to decrease in accounts payable.

**Investing Activities.** Cash used in investing activities for year to date ended June 30, 2022 was \$19,484, which primarily resulted from additions to property, plant and equipment of \$18,087 (see Capital Spending). Cash used in investing activities for year to date ended June 30, 2021 was \$170,235, which primarily resulted from \$149,599 related to the Merger with Luxco, and additions to property, plant and equipment of \$18,336 (see Capital Spending).

**Capital Spending.** We manage capital spending to support our business growth plans. We have incurred \$14,553 and \$14,961 of capital expenditures and have paid \$18,087 and \$18,336 for capital expenditures for year to date ended June 30, 2022 and 2021, respectively. The difference between the amount of capital expenditures incurred and amount paid is due to the change in capital expenditures in accounts payable. We expect approximately \$47,200 in capital expenditures in 2022, which will be used for facility improvement and expansion, facility sustaining projects, and environmental health and safety projects.

**Financing Activities.** Cash used in financing activities for year to date ended June 30, 2022 was \$7,649, due to payments of dividends and dividend equivalents of \$5,322 (see Dividends and Dividend Equivalents), net payments on debt of \$1,614 (see Long-Term and Short-Term Debt) and purchases of treasury stock of \$713 (see Treasury Purchases).

Cash provided by financing activities for year to date ended June 30, 2021 was \$138,359, due to net proceeds from debt of \$231,328 (see Long-term and Short-term Debt), partially offset by \$87,497 payment on assumed debt as part of the Merger, payments of dividends and dividend equivalents of \$4,707 (see Dividends and Dividend Equivalents) and purchases of treasury stock of \$765 (see Treasury Purchases).

**Treasury Purchases.** 29,356 RSUs vested and converted to common shares for employees during year to date ended June 30, 2022, of which we withheld and purchased for treasury 9,025 shares valued at \$713 to cover payment of associated withholding taxes.

38,009 RSUs vested and converted to common shares for employees during year to date ended June 30, 2021, of which we withheld and purchased for treasury 11,865 shares valued at \$765 to cover payment of associated withholding taxes.

**Share Repurchases.** On February 25, 2019, our Board of Directors approved a \$25,000 share repurchase authorization commencing February 27, 2019, through February 27, 2022. The Company did not repurchase any shares during 2022 prior to the expiration of the program on February 27, 2022.

## Dividends and Dividend Equivalents

### Dividend and Dividend Equivalent Information (per Share and Unit)

Declaration date	Record date	Payment date	Declared	Paid	Dividend payment	Dividend equivalent payment <sup>(a)(b)</sup>	Total payment <sup>(b)</sup>
<b>2022</b>							
February 22, 2022	March 11, 2022	March 25, 2022	\$ 0.12	\$ 0.12	\$ 2,638	\$ 23	\$ 2,661
May 5, 2022	May 20, 2022	June 3, 2022	0.12	0.12	2,638	23	2,661
			<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 5,276</u>	<u>\$ 46</u>	<u>\$ 5,322</u>
<b>2021</b>							
February 23, 2021	March 12, 2021	March 26, 2021	\$ 0.12	\$ 0.12	\$ 2,033	\$ 19	\$ 2,052
May 3, 2021	May 21, 2021	June 4, 2021	0.12	0.12	2,635	20	2,655
			<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 4,668</u>	<u>\$ 39</u>	<u>\$ 4,707</u>

(a) Dividend equivalent payments on unvested participating securities.

(b) Includes estimated forfeitures.

On August 4, 2022, our Board of Directors declared a quarterly dividend payable to stockholders of record as of August 19, 2022, of the Company's Common Stock, and a dividend equivalent payable to holders of certain RSUs as of August 19, 2022, of \$0.12 per share and per unit, payable on September 2, 2022.

**Long-Term and Short-Term Debt.** We maintain debt levels we consider appropriate after evaluating a number of factors, including cash flow expectations, cash requirements for ongoing operations, investment and financing plans (including brand development and share repurchase activities) and the overall cost of capital. Total debt was \$231,953 (net of unamortized loan fees of \$6,286) at June 30, 2022, and \$233,399 (net of unamortized loan fees of \$6,454) at December 31, 2021.

**Financial Condition and Liquidity.** Our principal uses of cash in the ordinary course of business are for input costs used in our production processes, salaries, capital expenditures, and investments supporting our strategic plan, such as the aging of barreled distillate and potential mergers and acquisitions. Generally, during periods when commodities prices are rising, our operations require increased use of cash to support inventory levels.

Our principal sources of cash are product sales and borrowing on our various debt agreements. Under our debt agreements, we must meet certain financial covenants and restrictions, and at June 30, 2022, we met those covenants and restrictions.

At June 30, 2022, our current assets exceeded our current liabilities by \$329,268, largely due to our inventories, at cost, of \$272,948. At June 30, 2022, our cash balance was \$37,415 and we have used our Credit Agreement, Convertible Senior Notes and Note Purchase Agreement for liquidity purposes, with \$400,000 under our Credit Agreement remaining for additional borrowings and up to \$120,000 potentially available under the Note Purchase Agreement. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We regularly assess our cash needs and the available sources to fund these needs. We utilize short-term and long-term debt to fund discretionary items, such as capital investments and dividend payments. In addition, we have strong operating results such that we believe financial institutions should provide sufficient credit funding to meet short-term financing requirements, if needed.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to commodity price and interest rate market risks. We monitor and manage these exposures as part of our overall risk management program. Our risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results.

**Commodity Costs.** Certain commodities we use in our production process, or input costs, expose us to market price risk due to volatility in the prices for those commodities. Through our grain supply contracts for our Atchison and Lawrenceburg facilities, our wheat flour supply contract for our Atchison facility, and our natural gas contracts for both facilities, we purchase grain, wheat flour, and natural gas, respectively, for delivery from one to 24 months into the future at negotiated prices. We have determined that the firm commitments to purchase grain, wheat flour, and natural gas under the terms of our supply contracts meet the normal purchases and sales exception as defined under Accounting Standards Codification (“ASC”) 815, *Derivatives and Hedging*, because the quantities involved are for amounts to be consumed within the normal expected production process.

**Interest Rate Exposures.** Our various debt agreements (Note 5) expose us to market risks arising from adverse changes in interest rates. Established procedures and internal processes govern the management of this market risk.

Increases in market interest rates would cause interest expense under our variable interest rate debt to increase and earnings before income taxes to decrease. The change in interest expense and earnings before income taxes would be dependent upon the weighted average outstanding borrowings under variable interest rate debt during the reporting period following an increase in market interest rates. Based on weighted average outstanding variable-rate borrowings at June 30, 2022, a 100 basis point increase over the non-default rates actually in effect at such date would have a minimal impact on interest expense. Based on weighted average outstanding fixed-rate borrowings at June 30, 2022, a 100 basis point increase in market rates would result in a decrease in the fair value of our outstanding fixed-rate debt of \$30,260, and a 100 basis point decrease in market rates would result in an increase in the fair value of our outstanding fixed-rate debt of \$38,295.

### ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures.** As of the quarter ended June 30, 2022, our Chief Executive Officer and Chief Financial Officer have each reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have each concluded that our current disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Controls.** There were no changes in the Company’s internal controls over financial reporting during the fiscal quarter ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Reference is made to Part I, Item 3, Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2021, and Note 8 to this Report on Form 10-Q for information on certain proceedings to which we are subject.

### ITEM 1A. RISK FACTORS

The risk factors are described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021 have not materially changed, except for the following additional risk factors.

#### **Higher costs or unavailability of raw materials, product ingredients, energy resources or labor could adversely affect our financial results.**

Our production facilities use a large volume of agricultural and other raw materials, including grain and water, to produce their products. Our bottling operations use large amounts of various packaging materials, including glass, aluminum, plastics, cardboard, and other paper products. Our production facilities also use electricity, natural gas, and diesel fuel in their operations. The independent distributors and third-party transportation companies that we use to obtain our raw materials and deliver our finished products are dependent upon gasoline and diesel for their vehicles.

Our ability to make and sell our products depends upon the availability of these raw materials and energy resources. Higher costs or insufficient availability of suitable grain, agave, water, wood, glass, plastics, closures, and other input materials, or higher associated labor costs or insufficient availability of labor, may adversely affect our financial results. Similarly, when energy costs rise, our transportation, freight, and other operating costs, such as distilling and bottling expenses, also may increase. Our freight cost and the timely delivery of our products could be adversely affected by a number of factors that could reduce the profitability of our operations, including driver or equipment shortages, higher fuel costs, weather conditions, traffic congestion, shipment container availability, rail shut down, increased government regulation, and other matters.

Although these have not been material to date, our overall supply chain logistics and transportation have been negatively impacted as a result of global supply chain challenges arising from the COVID-19 pandemic. In addition, in late February of 2022, Russia initiated a military operation in Ukraine. Ukraine is the third largest exporter of grain in the world. Russia is one of the largest producers of natural gas and oil and is the largest exporter of fertilizers. The commodity price impact of the war in Ukraine has been a sharp and sustained rise in grain and energy prices, including corn, wheat and natural gas. Lower fertilizer supplies may also impact future growing seasons, further impacting grain supplies and prices. Also, given high global grain prices, U.S. farmers may prefer to lock in prices and export additional volumes, reducing domestic grain supplies and resulting in further inflationary pressures.

In addition, following the invasion of Ukraine by Russia, the US, UK and EU, along with others, imposed significant new sanctions and export controls against Russia, Russian banks and certain Russian individuals and may implement additional sanctions or take further punitive actions in the future. The full economic and social impact of the sanctions imposed on Russia (as well as possible future punitive measures that may be implemented), as well as the counter measures imposed by Russia, in addition to the ongoing military conflict between Ukraine and Russia, which could conceivably expand into the surrounding region, remains uncertain; however, both the conflict and related sanctions have resulted and could continue to result in disruptions to trade, commerce, pricing stability, credit availability, and/or supply chain continuity, in both Europe and globally, and has introduced significant uncertainty into global markets.

Without sufficient quantities of one or more key materials, our business and financial results could suffer. If any of our key suppliers were no longer able to meet our timing, quality, or capacity requirements, ceased doing business with us, or significantly raised prices, and we are not able to promptly develop alternative cost-effective sources of supply or production, our operations and financial results could suffer. If we cannot offset higher raw material costs with higher selling prices, increased sales volume, or reductions in other costs, our profitability could be adversely affected. There can be no assurance that we can cover these potential cost increases through future pricing actions. Also, as a result of these pricing actions, consumers could purchase less or move from purchasing higher-margin products to lower-margin products.

#### **An increase in interest rates would increase the cost of servicing our debt and could reduce our profitability.**

Our revolving credit facility bears interest at variable rates. The Federal Reserve has raised, and may again raise, interest rates in response to concerns about inflation. Increases in interest rates could increase the cost of servicing our debt and could materially reduce our profitability and cash flows. In addition, an increase in interest rates could increase the future cost to refinance our convertible notes or the cost of financing any future acquisitions. Assuming our revolving credit facility was fully

drawn up to the \$400 million maximum commitment, each 1% increase in interest rates would result in a \$4.0 million increase in annual interest expense under the revolving credit facility.

**Rising inflation may adversely affect us by increasing costs of materials, labor, and other costs beyond what we can recover through price increases.**

Currently, due to a number of factors including the ongoing conflict between Russia and Ukraine and supply chain problems caused in part by the COVID-19 pandemic, many of the markets in which we sell our products, including our primary market in the United States, are experiencing inflationary pressures not seen in a significant period of time. Inflation can adversely affect us by increasing the costs of materials, labor, and other costs required to operate and grow our business. Inflation may depress demand for our products and reduce our profitability if we are unable to raise prices enough to keep up with increases in our costs. Inflationary pressures have resulted in increases in the cost of certain of the raw materials and other supplies necessary for the production of our products, and such increases may continue to impact us in the future. We are not able to predict the timing and effect of inflation, or its duration and severity. Because we typically purchase our raw materials and other supplies based on short-term commitments from our suppliers, we are exposed to risks associated with significant levels of cost inflation. If we are unable to increase our prices to offset the effects of inflation, our business, operating results, and financial condition could be materially and adversely affected.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There was no unregistered sale of equity securities during the quarter ended June 30, 2022.

**ISSUER PURCHASES OF EQUITY SECURITIES**

	(1) Total Number of Shares (or Units) Purchased	(2) Average Price Paid per Share (or Unit)	(3) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(4) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1, 2022 through April 30, 2022	—	\$ —	\$ —	— (b)
May 1, 2022 through May 31, 2022	—	\$ —	\$ —	— (b)
June 1, 2022 through June 30, 2022	4 (a)	\$ 91.33	\$ —	—
<b>Total</b>	<u>4</u>		<u>\$ —</u>	

(a) Vested RSUs awarded under the 2014 Plan purchased to cover employee withholding taxes.

(b) On February 25, 2019, our Board of Directors approved a \$25,000 share repurchase authorization commencing February 27, 2019 through February 27, 2022. The share repurchase program was not renewed and expired on the term date of February 27, 2022.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
*** 10.1	<a href="#">Amended and Restated Executive Severance Plan dated May 25, 2022</a>
** 10.2	<a href="#">Letter agreement relating to additional severance benefits, dated June 27, 2022, between MGP Ingredients, Inc and David Bratcher (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed June 30, 2022 (File number 000-17196))</a>
*31.1	<a href="#">CEO Certification pursuant to Rule 13a-14(a)</a>
*31.2	<a href="#">CFO Certification pursuant to Rule 13a-14(a)</a>
*32.1	<a href="#">CEO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350</a>
*32.2	<a href="#">CFO Certification furnished pursuant to Rule 13a-14(b) and 18 U.S.C. 1350</a>
*101	The following financial information from MGP Ingredients, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in iXBRL (Inline Extensible Business Reporting Language) includes: (i) Condensed Consolidated Balance Sheets as of June 30, 2022, and December 31, 2021, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2022 and 2021, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2022 and 2021, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2022 and 2021, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity for the three and six months ended June 30, 2022 and 2021, and (vi) the Notes to Condensed Consolidated Financial Statements.
*104	Cover Page Interactive Data Filed - formatted in iXBRL (Inline Extensible Business Reporting Language ) and contained in Exhibit 101
*Filed herewith ** Management contract or compensatory plan or arrangement	

**SIGNATURES**

Pursuant to the requirements on the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MGP INGREDIENTS, INC.

Date: August 4, 2022

By /s/ David J. Colo  
David J. Colo, President and Chief Executive Officer

Date: August 4, 2022

By /s/ Brandon M. Gall  
Brandon M. Gall, Vice President, Finance and Chief Financial Officer

**MGP Ingredients, Inc.**  
**Amended and Restated**  
**Executive Severance Plan**

**ARTICLE I**  
**PURPOSE**

This Amended and Restated Executive Severance Plan has been established by the Company on May 25, 2022 (the "**Effective Date**") to provide Participants with the opportunity to receive severance benefits in the event of certain terminations of employment. The purpose of the Plan is to attract and retain qualified executives. The Plan is intended to be a top hat welfare benefit plan under ERISA.

Capitalized terms used but not otherwise defined herein have the meanings set forth in ARTICLE II.

**ARTICLE II**  
**DEFINITIONS**

"**ACA**" has the meaning set forth in Section 4.01(d).

"**Administrator**" means the Compensation Committee duly authorized by the Board to administer the Plan.

"**Applicable Severance Multiplier**" means:

- (a) two for any Participant who is the chief executive officer of the Company; and
- (b) one for any Participant other than the chief executive officer.

"**Benefit Continuation**" has the meaning set forth in Section 4.01(d).

"**Benefit Continuation Period**" means:

(a) for any Participant who is the chief executive officer of the Company, the earliest of (i) the end of the twenty-four-month period following the date on which the Participant's employment with the Company terminates; (ii) the date on which the Participant becomes eligible to receive substantially similar coverage from another employer; and (iii) the date the Participant is no longer eligible to receive COBRA continuation coverage; and

(b) for any Participant other than the chief executive officer, the earliest of (i) the end of the six-month period following the date on which the Participant's employment with the Company terminates; (ii) the date on which the Participant becomes eligible to receive substantially similar coverage from another employer; and (iii) the date the Participant is no longer eligible to receive COBRA continuation coverage.

"**Board**" means the Board of Directors of the Company.

"**Cause**" means:



(a) the Participant's willful failure to perform his or her duties (other than any such failure resulting from incapacity due to physical or mental illness);

(b) the Participant's failure to comply with any valid and legal directive of the Board or the person to whom the Participant reports;

(c) the Participant's engagement in dishonesty, illegal conduct or gross misconduct, which is, in each case, materially injurious to the Company or its affiliates;

(d) the Participant's embezzlement, misappropriation or fraud, whether or not related to the Participant's employment with the Company;

(e) the Participant's conviction of or plea of guilty or *nolo contendere* to a crime that constitutes a felony (or state law equivalent) or a crime that constitutes a misdemeanor involving moral turpitude, if such felony or other crime is work-related, materially impairs the Participant's ability to perform services for the Company or results in reputational or financial harm to the Company or its affiliates; or

(f) the Participant's material violation of the Company's written policies or codes of conduct, including written policies related to, discrimination, harassment, performance of illegal or unethical activities, and ethical misconduct.

(g) the Participant's engagement in conduct that brings or is reasonably likely to bring the Company negative publicity or into public disgrace, embarrassment, or disrepute.

"**COBRA**" means the Consolidated Omnibus Budget Reconciliation Act of 1985.

"**Code**" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

"**Company**" means MGP Ingredients, Inc., a Kansas corporation, and any successor thereto.

"**Compensation Committee**" means the Human Resources and Compensation Committee of the Board.

"**Effective Date**" has the meaning set forth in ARTICLE I.

"**Eligible Employee**" means any full-time employee of the Company who is a member of the Company's executive leadership team. Eligible Employees shall be limited to a select group of management or highly compensated employees within the meaning of Sections 201, 301, and 404 of ERISA.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended.

"**Exchange Act**" means the Securities and Exchange Act of 1934, as amended.

"**Good Reason**" means:

(a) a material reduction in the Participant's base salary other than a general reduction in base salary that affects all similarly situated executives in substantially the same proportions;

(b) a material reduction in the Participant's target annual bonus opportunity other than a general reduction in target annual bonus opportunity that affects all similarly situated executives in substantially the same proportions;

(c) a relocation of the Participant's principal place of employment by more than 75 miles;

(d) the Company's failure to obtain an agreement from any successor to the Company to assume and agree to perform the obligations under the Plan in the same manner and to the same extent that the Company would be required to perform, except where such assumption occurs by operation of law; or

(e) a material, adverse change in the Participant's title, reporting relationship, authority, duties or responsibilities (other than temporarily while the Participant is physically or mentally incapacitated or as required by applicable law).

The Participant cannot terminate his or her employment for Good Reason unless he or she has provided written notice to the Company of the existence of the circumstances providing grounds for termination for Good Reason within 30 days of the initial existence of such grounds and the Company has had at least 30 days from the date on which such notice is provided to cure such circumstances, if curable. If the Participant does not terminate his or her employment for Good Reason within 90 days after the first occurrence of the applicable grounds, then the Participant will be deemed to have waived his or her right to terminate for Good Reason with respect to such grounds.

"**Participant**" has the meaning set forth in Section 3.01.

"**Person**" has the meaning ascribed to it in Section 13(d)(3) of the Exchange Act.

"**Plan**" means this Amended and Restated MGP Ingredients, Inc. Executive Severance Plan, as may be amended and/or restated from time to time.

"**Prior Year Bonus**" has the meaning set forth in Section 4.01(b).

"**Pro-Rata Bonus**" has the meaning set forth in Section 4.01(c).

"**Qualifying Termination**" means the termination of a Participant's employment either (a) by the Company without Cause; or (b) by the Participant for Good Reason.

"**Severance**" has the meaning set forth in Section 4.01(a).

"**Severance Agreement**" has the meaning set forth in Section 6.01.

"**Specified Employee Payment Date**" has the meaning set forth in Section 9.13(b).

### **ARTICLE III PARTICIPATION**

**Section 1.01 Participants.** The Administrator shall designate and provide written notice to each Eligible Employee chosen by the Administrator to participate in the Plan (each, a "**Participant**"). Appendix A of the Plan, as it may be updated from time to time by the Administrator, shall at all times contain a current list of Participants.

#### **ARTICLE IV SEVERANCE**

**Section 1.02 Severance.** If a Participant experiences a Qualifying Termination, then, subject to ARTICLE VI, the Company will provide the Participant with the following:

- (a) Severance in an amount equal to the product of the Participant's Applicable Severance Multiplier times the sum of the Participant's base salary in effect immediately prior to the date of the Qualifying Termination ("**Severance**"). Subject to Section 9.13, Severance will be paid in substantially equal installment payments over the one-year period following the Qualifying Termination, payable in accordance with the Company's normal payroll practices, but no less frequently than monthly, which payments in the aggregate are equal to the Severance and which shall begin on the 61st day following the Qualifying Termination;
- (b) The annual short term incentive payment, if any, that the Participant earned in the year prior to which the Qualifying Termination occurs based on the level of achievement of the applicable performance goals of such year, to the extent it remains unpaid as of the date of the Qualifying Termination (a "**Prior Year Bonus**"). Subject to Section 9.13, a Participant's unpaid Prior Year Bonus, if any, shall be paid at the same time in the year of the Qualifying Termination as such payment would be made if the Participant continued to be employed by the Company;
- (c) A prorated annual bonus equal to the product of (i) the annual short-term incentive payment, if any, that the Participant would have earned for the entire calendar year in which the Qualifying Termination occurs based on the level of achievement of the applicable performance goals for such year; and (ii) a fraction, the numerator of which is the number of days the Participant was employed by the Company during the calendar year in which the Qualifying Termination occurs and the denominator of which is the number of days in such year (a "**Pro-Rata Bonus**").
- (d) Subject to Section 9.13, a Participant's Pro-Rata Bonus shall be paid on the date that annual short-term incentive payments are paid to the members of the Company's executive leadership team, but in no event later than two-and-a-half (2 1/2) months following the end of the calendar year in which the Qualifying Termination occurs; and
- (e) During the Participant's Benefit Continuation Period, reimbursement for the difference between the monthly COBRA premium paid by the Participant for himself or herself and his or her eligible dependents and the monthly premium amount paid by similarly situated active members of the executive leadership team ("**Benefit Continuation**"). Notwithstanding the foregoing, if the Company's providing Benefit Continuation under this Section 4.01(d) would violate the nondiscrimination rules applicable to non-grandfathered plans, or would result in the imposition of penalties under the Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Reconciliation Act of 2010, and the related regulations and guidance promulgated thereunder (the "**ACA**"), the Company shall reform this Section 4.01(d) in a manner as is necessary to comply with the ACA. Subject to Section 9.13, Benefit Continuation reimbursement shall be paid to the Participant

on the tenth day of the month immediately following the month in which the Participant timely remits the premium payment.

## **ARTICLE V EQUITY AWARDS**

**Section 1.01 Equity Awards** The Plan does not affect the terms of any outstanding equity awards. The treatment of any outstanding equity awards shall be determined in accordance with the terms of the Company equity plan or plans under which they were granted and any applicable award agreements.

## **ARTICLE VI CONDITIONS**

**Section 1.01 Conditions** A Participant's entitlement to any severance benefits under ARTICLE IV and ARTICLE V will be subject to:

- (a) the Participant experiencing a Qualifying Termination;
- (b) the Participant executing a severance agreement (the "**Severance Agreement**") to the reasonable satisfaction of the Company and such Severance Agreement becoming effective and irrevocable within 60 days following the Participant's Qualifying Termination. Any such Severance Agreement will include, without limitation, (i) a release of claims in favor of the Company, its affiliates and their respective officers and directors; and (ii) non-solicitation, non-disparagement, confidentiality and further cooperation provisions no more restrictive than those set forth on Appendix B.
- (c) with respect to Benefit Continuation only, the Participant timely and properly electing continuation coverage under COBRA.

## **ARTICLE VII CLAIMS PROCEDURES**

**Section 1.01 Initial Claims.** A Participant who believes he or she is entitled to a payment under the Plan that has not been received may submit a written claim for benefits to the Plan within 60 days after the Participant's Qualifying Termination. Claims should be addressed and sent to:

MGP Ingredients, Inc.

100 Commercial Street

Atchison, Kansas 66002

Attention: Human Resources and Compensation Committee

If the Participant's claim is denied, in whole or in part, the Participant will be furnished with written notice of the denial within 90 days after the Administrator's receipt of the Participant's written claim, unless special circumstances require an extension of time for processing the claim, in which case a period not to exceed 180 days will apply. If such an extension of time is required, written notice of the extension will be furnished to the Participant

before the termination of the initial 90-day period and will describe the special circumstances requiring the extension, and the date on which a decision is expected to be rendered. Written notice of the denial of the Participant's claim will contain the following information:

- (a) the specific reason or reasons for the denial of the Participant's claim;
- (b) references to the specific Plan provisions on which the denial of the Participant's claim was based;
- (c) a description of any additional information or material required by the Administrator to reconsider the Participant's claim (to the extent applicable) and an explanation of why such material or information is necessary; and
- (d) a description of the Plan's review procedures and time limits applicable to such procedures, including a statement of the Participant's right to bring a civil action under Section 502(a) of ERISA following a benefit claim denial on review.

**Section 1.02 Appeal of Denied Claims.** If the Participant's claim is denied and he or she wishes to submit a request for a review of the denied claim, the Participant or his or her authorized representative must follow the procedures described below:

- (a) Upon receipt of the denied claim, the Participant (or his or her authorized representative) may file a request for review of the claim in writing with the Administrator. This request for review must be filed no later than 60 days after the Participant has received written notification of the denial.
- (b) The Participant has the right to submit in writing to the Administrator any comments, documents, records or other information relating to his or her claim for benefits.
- (c) The Participant has the right to be provided with, upon request and free of charge, reasonable access to and copies of all pertinent documents, records and other information that is relevant to his or her claim for benefits.
- (d) The review of the denied claim will take into account all comments, documents, records and other information that the Participant submitted relating to his or her claim, without regard to whether such information was submitted or considered in the initial denial of his or her claim.

**Section 1.03 Administrator's Response to Appeal.** The Administrator will provide the Participant with written notice of its decision within 60 days after the Administrator's receipt of the Participant's written claim for review. There may be special circumstances which require an extension of this 60-day period. In any such case, the Administrator will notify the Participant in writing within the 60-day period and the final decision will be made no later than 120 days after the Administrator's receipt of the Participant's written claim for review. The Administrator's decision on the Participant's claim for review will be communicated to the Participant in writing and will clearly state:

- (e) the specific reason or reasons for the denial of the Participant's claim;

- (f) reference to the specific Plan provisions on which the denial of the Participant's claim is based;
- (g) a statement that the Participant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, the Plan and all documents, records, and other information relevant to his or her claim for benefits; and
- (h) a statement describing the Participant's right to bring an action under Section 502(a) of ERISA.

**Section 1.04 Exhaustion of Administrative Remedies.** The exhaustion of these claims procedures is mandatory for resolving every claim and dispute arising under the Plan. As to such claims and disputes:

- (a) no claimant shall be permitted to commence any legal action to recover benefits or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, until these claims procedures have been exhausted in their entirety; and
- (b) in any such legal action, all explicit and implicit determinations by the Administrator (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.

**Section 1.05 Arbitration.** Subject to Section 7.04, any dispute, controversy or claim arising out of or related to the Plan shall be submitted to and decided by binding arbitration. Arbitration shall be administered exclusively by the American Arbitration Association and shall be conducted consistent with the rules, regulations and requirements thereof as well as any requirements imposed by state law. Any arbitral award determination shall be final and binding.

**Section 1.06 Attorney's Fees.** The Company and each Participant shall bear their own attorneys' fees incurred in connection with any disputes between them.

## **ARTICLE VIII ADMINISTRATION, AMENDMENT AND TERMINATION**

**Section 1.07 Administration.** The Administrator has the exclusive right, power and authority, in its sole and absolute discretion, to administer and interpret the Plan. The Administrator has all powers reasonably necessary to carry out its responsibilities under the Plan including (but not limited to) the sole and absolute discretionary authority to:

- (e) administer the Plan according to its terms and to interpret Plan provisions;
- (f) resolve and clarify inconsistencies, ambiguities, and omissions in the Plan and among and between the Plan and other related documents;
- (g) take all actions and make all decisions regarding questions of eligibility and entitlement to benefits, and benefit amounts;

- Plan;
- (h) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan;
  - (i) process and approve or deny all initial claims for benefits; and
  - (j) decide or resolve any and all questions, including benefit entitlement determinations and interpretations of the Plan, as may arise in connection with the Plan.

The decision of the Administrator on any disputes arising under the Plan, including (but not limited to) questions of construction, interpretation and administration shall be final, conclusive and binding on all persons having an interest in or under the Plan. Any determination made by the Administrator shall be given deference in the event the determination is subject to judicial review and shall be overturned by a court of law only if it is arbitrary and capricious.

**Section 1.08 Amendment and Termination.** The Company reserves the right to amend or terminate the Plan at any time, by providing at least 90 days advance written notice to each Participant; provided that no such amendment or termination that has the effect of reducing or diminishing the right of any Participant will be effective without the written consent of such Participant.

## **ARTICLE IX GENERAL PROVISIONS**

**Section 1.09 At-Will Employment.** The Plan does not alter the status of any Participant as an at-will employee of the Company. Nothing contained herein shall be deemed to give any Participant the right to remain employed by the Company or to interfere with the rights of the Company to terminate the employment of any Participant at any time, with or without Cause.

### **Section 1.010 Effect on Other Plans, Agreements, and Benefits.**

(c) Any severance benefits payable to a Participant under the Plan will be reduced by any severance benefits to which the Participant would otherwise be entitled under any general severance policy or severance plan maintained by the Company or any agreement between the Participant and the Company that provides for severance benefits (unless the policy, plan, or agreement expressly provides for severance benefits to be in addition to those provided under the Plan); and (ii) any severance benefits payable to a Participant under the Plan will be reduced by any severance benefits to which the Participant is entitled by operation of a statute or government regulations.

(d) Any severance benefits payable to a Participant under the Plan will not be counted as compensation for purposes of determining benefits under any other benefit policies or plans of the Company, except to the extent expressly provided therein.

**Section 1.011 Mitigation and Offset.** If a Participant obtains other employment after a Qualifying Termination, such other employment will not affect the Participant's rights or the Company's obligations under the Plan.

The Company's obligation to make the payments and provide the benefits required under the Plan will not be affected by any circumstances, including, without limitation, any set-off,

counterclaim, recoupment, defense, or other rights that the Company may have against the Participant.

**Section 1.012 Severability.** The invalidity or unenforceability of any provision of the Plan shall not affect the validity or enforceability of any other provision of the Plan. If any provision of the Plan is held by a court of competent jurisdiction to be illegal, invalid, void or unenforceable, such provision shall be deemed modified, amended and narrowed to the extent necessary to render such provision legal, valid, and enforceable, and the other remaining provisions of the Plan shall not be affected but shall remain in full force and effect.

**Section 1.013 Headings and Subheadings.** Headings and subheadings contained in the Plan are intended solely for convenience and no provision of the Plan is to be construed by reference to the heading or subheading of any section or paragraph.

**Section 1.014 Unfunded Obligations.** The amounts to be paid to Participants under the Plan are unfunded obligations of the Company. The Company is not required to segregate any monies or other assets from its general funds with respect to these obligations. Participants shall not have any preference or security interest in any assets of the Company other than as a general unsecured creditor.

**Section 1.015 Successors.** The Plan will be binding upon any successor to the Company, its assets, its businesses or its interest, in the same manner and to the same extent that the Company would be obligated under the Plan if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by the Plan, the Company shall require any successor to the Company to expressly and unconditionally assume the Plan in writing and honor the obligations of the Company hereunder, in the same manner and to the same extent that the Company would be required to perform if no succession had taken place. All payments and benefits that become due to a Participant under the Plan will inure to the benefit of his or her heirs, assigns, designees, or legal representatives.

**Section 1.016 Transfer and Assignment.** Neither a Participant nor any other person shall have any right to sell, assign, transfer, pledge, anticipate or otherwise encumber, transfer, hypothecate or convey any amounts payable under the Plan prior to the date that such amounts are paid, except that, in the case of a Participant's death, such amounts shall be paid to the Participant's beneficiaries.

**Section 1.017 Waiver.** Any party's failure to enforce any provision or provisions of the Plan will not in any way be construed as a waiver of any such provision or provisions, nor prevent any party from thereafter enforcing each and every other provision of the Plan.

**Section 1.10 Governing Law.** To the extent not pre-empted by federal law, the Plan shall be construed in accordance with and governed by the laws of Kansas, without regard to conflicts of law principles. Subject to Section 7.05, any action or proceeding to enforce the provisions of the Plan will be brought only in a state or federal court located in the state of Kansas, county of Atchison, and each party consents to the venue and jurisdiction of such court. The parties hereby irrevocably submit to the exclusive jurisdiction of such courts and waive the defense of inconvenient forum to the maintenance of any such action or proceeding in such venue.

**Section 1.11 Clawback.** Any amounts payable under the Plan are subject to any policy (whether in existence as of the Effective Date or later adopted) established by the Company providing for clawback or recovery of amounts that were paid to the Participant. The Company



will make any determination for clawback or recovery in its sole discretion and in accordance with any applicable law or regulation.

**Section 1.12 Withholding.** The Company shall have the right to withhold from any amount payable hereunder any Federal, state, and local taxes in order for the Company to satisfy any withholding tax obligation it may have under any applicable law or regulation.

**Section 1.13 Section 409A.**

(a) The Plan is intended to comply with Section 409A of the Code or an exemption thereunder and shall be construed and administered in accordance with Section 409A of the Code. Notwithstanding any other provision of the Plan, payments provided under the Plan may only be made upon an event and in a manner that complies with Section 409A of the Code or an applicable exemption. Any payments under the Plan that may be excluded from Section 409A of the Code either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A of the Code to the maximum extent possible. For purposes of Section 409A of the Code, each installment payment provided under the Plan shall be treated as a separate payment. Any payments to be made under the Plan upon a termination of employment shall only be made upon a "separation from service" under Section 409A of the Code. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under the Plan comply with Section 409A of the Code and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by a Participant on account of non-compliance with Section 409A of the Code.

(b) Notwithstanding any other provision of the Plan, if any payment or benefit provided to a Participant in connection with his or her Qualifying Termination is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code and the Participant is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i) of the Code, then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the Qualifying Termination or, if earlier, on the Participant's death (the "**Specified Employee Payment Date**"). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date and interest on such amounts calculated based on the applicable federal rate published by the Internal Revenue Service for the month in which the Participant's separation from service occurs shall be paid to the Participant in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule. Notwithstanding any other provision of the Plan, if any payment or benefit is conditioned on the Participant's execution of a Severance Agreement, the first payment shall include all amounts that would otherwise have been paid to the Participant during the period beginning on the date of the Qualifying Termination and ending on the payment date if no delay had been imposed.

(c) To the extent required by Section 409A of the Code, each reimbursement or in-kind benefit provided under the Plan shall be provided in accordance with the following: (i) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot

affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; and (ii) any right to reimbursements or in-kind benefits under the Plan shall not be subject to liquidation or exchange for another benefit.

**APPENDIX A**  
**PARTICIPANTS**

*[Reserved]*

## APPENDIX B

### NON-SOLICITATION, NON-DISPARAGEMENT, CONFIDENTIALITY AND FURTHER COOPERATION

- a. Participant agrees and acknowledges that all information which is treated as confidential by the Company, including, without limitation, trade secrets, technical data, financial data, proprietary information, nonpublic information, privileged information, work product, customer information, account information and any unique technological information of Company that Participant has learned, obtained or possessed, or continues to possess, will be kept in utter, absolute and strictest confidence and secrecy and not disclosed to any person, company, or entity.
- b. Participant further agrees not to solicit any employee of the Company to resign from the Company or to begin work for any other employer for a period of eighteen months after the effective date of the Separation Agreement.
- c. With recognition of Participant's obligation to be truthful, Participant agrees otherwise not to make disparaging statements or negative remarks about the Company or Company Releasees.
- d. Participant agrees that Participant will provide cooperation and support to the Company if the Company needs reasonable assistance, for example, answering questions on matters about which Participant has knowledge. Participant further agrees to cooperate with the Company if the Company needs information from Participant concerning legal or business claims asserted or threatened against the Company or Company Releasees by a third party or government agency or concerning legal or business claims asserted by the Company or Company Releasees against a third party or a government agency. This duty of cooperation includes but is not limited to communications with Company's counsel, preparation for and participation in depositions or hearings. Company will pay Participant reasonable compensation for Participant's time as well as reasonable out of pocket expenses for Participant's cooperation. "**Company Releasees**" shall mean Company and its affiliates and related entities, parent and subsidiary entities, past, current and future, including, but not limited to MGP Ingredients, Inc., and its and their shareholders, owners, officers, directors, members, managers, attorneys, insurers, agents, employees, successors, and assigns.

**CERTIFICATION**

I, David J. Colo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MGP Ingredients, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

/s/ David J. Colo

David J. Colo, President and Chief Executive Officer

**CERTIFICATION**

I, Brandon M. Gall, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MGP Ingredients, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

/s/ Brandon M. Gall

Brandon M. Gall, Vice President, Finance and Chief Financial Officer

**CERTIFICATION**  
**OF**  
**PERIODIC REPORT**

I, David J. Colo, President and Chief Executive Officer of MGP Ingredients, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2022

/s/ David J. Colo

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David J. Colo

President and Chief Executive Officer

[A signed original of this written statement required by Section 906 has been provided to MGP Ingredients, Inc. and will be retained by MGP Ingredients, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]

**CERTIFICATION**  
**OF**  
**PERIODIC REPORT**

I, Brandon M. Gall, Vice President and Chief Financial Officer of MGP Ingredients, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2022

/s/ Brandon M. Gall

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Brandon M. Gall

Vice President, Finance and Chief Financial Officer

[A signed original of this written statement required by Section 906 has been provided to MGP Ingredients, Inc. and will be retained by MGP Ingredients, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]