MGP INGREDIENTS INC
Form 10-K
March 10, 2016

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2015
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)	48-0531200 (I.R.S. Employer Identification No.)
100 Commercial Street, Box 130, 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	Name of Each Exchange on Which Registered
Common Stock, no par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes __ No X

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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). Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to their Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company": in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___ Smaller reporting company ___

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No X

The aggregate market value of common equity held by non-affiliates, computed by reference to the last sales price as reported by NASDAQ on June 30, 2015, was $225,098,022.

The number of shares of the registrant's common stock, no par value ("Common Stock") outstanding as of March 2, 2016 was 16,687,127.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

(1) Portions of the MGP Ingredients, Inc. Proxy Statement for the Annual Meeting of Stockholders to be held on May 19, 2016 are incorporated by reference into Part III of this report to the extent set forth herein.

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The calculation of the aggregate market value of the Common Stock held by non-affiliates is based on the assumption that affiliates include directors and executive officers. Such assumption does not constitute an admission by the Company or any director or executive officer that any director or executive officer is an affiliate of the Company.

PART I

ITEM 1. BUSINESS

MGP Ingredients, Inc. was incorporated in 2011 in Kansas, continuing a business originally founded by Cloud L. Cray, Sr. in Atchison, Kansas 75 years ago. The Company's ticker symbol is MGPI. As used herein, the term "MGP," "Company," "we," "our," or "us" refers to MGP Ingredients, Inc. and its subsidiaries unless the context indicates otherwise. In this document, for any references to Note 1 through Note 18 refer to the Notes to Consolidated Financial Statements in Item 8.

AVAILABLE INFORMATION

We make available through our website (www.mgpingredients.com) under "Investors - Investor Relations," our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, special reports and other information, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission.

METHOD OF PRESENTATION

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

GENERAL INFORMATION

MGP is a leading producer and supplier of premium distilled spirits and specialty wheat proteins and starches. Distilled spirits include premium bourbon and rye whiskeys, and grain neutral spirits, including vodka and gin. The Company's proteins and starches provide a host of functional, nutritional and sensory benefits for a wide range of food products to serve the packaged goods industry. MGP is also a top producer of high quality industrial alcohol for use in both food and non-food applications. Our distillery products are derived from corn and other grains (including rye, barley, wheat, barley malt, and milo), and our ingredient products are derived from wheat flour. The majority of our sales are made directly or through distributors to manufacturers and processors of finished packaged goods or to bakeries.

The Company is headquartered in Atchison, Kansas, where distilled alcohol products and food ingredients are produced at the Company's production facility ("Atchison facility"). Premium spirits are also distilled and matured at the Company's facility in Lawrenceburg and Greendale, Indiana ("Lawrenceburg facility").

INFORMATION ABOUT SEGMENTS

As of December 31, 2015, the Company has two reportable segments: distillery products and ingredient solutions. On February 8, 2013, we sold all of the assets included in a third segment, our other segment, which included a bioplastics manufacturing business. Additional information about our reportable segments can be found in Management's Discussion & Analysis ("MD&A") and Note 11.

Distillery Products Segment - We process corn and other grains into food grade alcohol and distillery co-products, such as distillers feed (commonly called dried distillers grain in the industry), fuel grade alcohol, and corn oil. We also provide warehouse services, including barrel put away, barrel storage, and barrel retrieval services. We have certain contracts with customers to supply distilled products (or "distillate"), as well as certain contracts with customers to provide barreling and warehousing services. Contracts with customers may be monthly, annual, and multi-year with periodic review of pricing. Sales of fuel grade alcohol are made on the spot market. During 2015, our five largest distillery products customers, combined, accounted for about 23.3 percent of our consolidated net sales.

Food Grade Alcohol - The majority of our distillery capacities are dedicated to the production of high quality, high purity food grade alcohol for beverage and industrial applications.

Food grade alcohol sold for beverage applications consists primarily of premium bourbon and rye whiskeys, and grain neutral spirits, including vodka and gin. Our premium bourbon is created by distilling grains, primarily corn. Our whiskey is made from fermented grain mash, including rye and corn. Our whiskeys are primarily sold as unaged new distillate, which are then aged by our customers from two to four years and are sold at various proof concentrations. Grain neutral spirits are sold in bulk quantities at various proof concentrations. Our gin is created by redistilling grain neutral spirits together with proprietary customer formulations of botanicals or botanical oils.

In July 2015, we announced our first retail-distributed brand which was made available for retail sale in September 2015. The brand, Metze's Select, is a limited edition Indiana Straight Bourbon Whiskey.

Food-grade industrial alcohol is used as an ingredient in foods (e.g., vinegar and food flavorings), personal care products (e.g., hair sprays and hand sanitizers), cleaning solutions, pharmaceuticals, and a variety of other products. We sell food-grade industrial alcohol in tank truck or rail car quantities direct to a number of industrial processors.

Distillers Feed and related Co-Products - The bulk alcohol co-products sales include distillers feed, fuel grade alcohol, and corn oil. Distillers feed is principally derived from the mash from alcohol processing operations. The mash is dried and sold primarily to processors of animal feeds as a high protein additive. We produce fuel grade alcohol as a co-product of our food grade alcohol business at our distillery in Atchison. We produce corn oil as a value-added co-product through a corn oil extraction process.

Fuel grade alcohol is sold primarily for blending with gasoline to increase the octane and oxygen levels of the gasoline. As an octane enhancer, fuel grade alcohol can serve as a substitute for lead and petroleum-based octane enhancers. As an oxygenate, fuel grade alcohol has been used in gasoline to meet certain environmental regulations and laws relating to air quality by reducing carbon monoxide, hydrocarbon particulates and other toxic emissions generated from the burning of gasoline.

Warehouse revenue - Customers who purchase unaged barreled whiskey distillate may, and in most cases do, also enter into separate warehouse service agreements with us for the storage of product for aging that include services for barrel put away, barrel storage and barrel retrieval. Revenue from warehousing services is recognized upon providing the service and/or over the passage of time, as in the case of storage fees.

Ingredient Solutions Segment - Our ingredient solutions segment consists primarily of specialty wheat starches, specialty wheat proteins, commodity wheat starch and commodity wheat protein. Contracts with ingredients customers are generally price, volume, and term agreements which are fixed for three or six month periods, with very few agreements of 12 months duration or more. During 2015, our five largest ingredient solutions customers, combined, accounted for about 11.2 percent of our consolidated net sales.

Specialty Wheat Starches - Wheat starch constitutes the carbohydrate-bearing portion of wheat flour. We produce a premium wheat starch powder by extracting the starch from the starch slurry, substantially free of all impurities and fibers, and then dry the starch in spray, flash or drum dryers.

A substantial portion of our premium wheat starch is altered during processing to produce certain unique specialty wheat starches designed for special applications. We sell our specialty starches on a global basis, primarily to food processors and distributors.

We market our specialty wheat starches under the trademarks Fibersym® Resistant Starch series, FiberRite® RW Resistant Starch, Pregel® Instant Starch series, and Midsol® Cook-up Starch series. They are used primarily for food applications as an ingredient in a variety of food products to affect their nutritional profile, appearance, texture, tenderness, taste, palatability, cooking temperature, stability, viscosity, binding and freeze-thaw characteristics. Important physical properties contributed by wheat starch include whiteness, clean flavor, viscosity and texture. For example, our starches are used to improve the taste and texture of cream puffs, éclairs, puddings, pie fillings, breading and batters; to improve the size, symmetry and taste of angel food cakes; to alter the viscosity of soups, sauces and gravies; to improve the freeze-thaw stability and shelf life of fruit pies and other frozen foods; to improve moisture retention in microwavable foods; and to add stability and to improve spreadability in frostings, mixes, glazes and sugar coatings.

Our wheat starches, as a whole, generally compete primarily with corn starch, which dominates the United States starch market. However, the unique characteristics of our specialty wheat starches provide a number of advantages over corn and other starches for certain baking and other end uses.

Specialty Wheat Proteins - We have developed a number of specialty wheat proteins for food applications. Specialty wheat proteins are derived from vital wheat gluten through a variety of proprietary processes which change its molecular structure. Specialty wheat proteins for food applications include products in the Arise® , Optein®, and Trutex®. Our specialty wheat proteins generally compete with other ingredients and modified proteins having similar characteristics, primarily soy proteins and other wheat proteins, with differentiation being based on factors such as functionality, price and, in the case of food applications, flavor.

Commodity Wheat Starch - As is the case with value-added wheat starches, our commodity wheat starch has both food and non-food applications, but such applications are more limited than those of value-added wheat starches and typically sell for a lower price in the marketplace. Commodity wheat starch competes primarily with corn starches, which dominate the marketplace and prices generally track the fluctuations in the corn starch market.

Commodity Wheat Proteins - Commodity wheat protein, or vital wheat gluten, is a free-flowing light tan powder which contains approximately 70 to 80 percent protein. When we process wheat flour to derive starch, we also derive vital wheat gluten. Vital wheat gluten is added by bakeries and food processors to baked goods, such as breads, and to pet foods, cereals, processed meats, and fish and poultry to improve the nutritional content, texture, strength, shape and volume of the product. The neutral flavor and color of vital wheat gluten also enhances the flavor and color of certain foods. The cohesiveness and elasticity of the gluten enables the dough in wheat and other high protein breads to rise and to support added ingredients, such as whole cracked grains, raisins and fibers. This allows bakers to make an array of different breads by varying the gluten content of the dough. Vital wheat gluten is also added to white breads, hot dog buns, and hamburger buns to improve the strength and cohesiveness of the product.

COMPETITIVE CONDITION

The markets in which our products are sold are competitive. Our products compete against similar products of many large and small companies. In our distillery products segment, competition is based primarily on product innovation, product characteristics, functionality, price, service and quality factors such as flavor. In our ingredient solutions segment competition is based primarily on product innovation, product characteristics, price, name, color, flavor, or other properties that affect how the ingredient is being used.

PATENTS

We are involved in a number of patent-related activities. We have filed patent applications to protect a range of inventions made in our expanding research and development efforts, including inventions relating to applications for our products. Some of these patents or licenses cover significant product formulation and processes used to manufacture our products.

RESEARCH AND DEVELOPMENT

During 2015, 2014 and 2013, we spent $748, $1,622, and $2,472, respectively, on research and development activities. Research and development activities allow us to develop products across both of our segments to respond to changing consumer trends.

SEASONALITY

Our sales are generally not seasonal.

TRANSPORTATION

Historically, our output has been transported to customers by truck and rail, most of which is provided by common carriers. We use third party transportation companies to help us manage truck and rail carriers who deliver our products to our North American customers. As of December 31, 2015, we leased 200 rail cars under operating leases.

RAW MATERIALS AND PACKAGING MATERIALS

Our principal distillery products segment raw materials are corn and other grains (including rye, barley, wheat, barley malt, and milo), which are processed into food grade alcohol and distillery co-products consisting of distillers feed, fuel grade alcohol, and corn oil. Our principal ingredient solutions segment raw material is wheat flour, which is processed into starches and proteins. The cost of grain has at times been subject to substantial fluctuation.

In 2015, we purchased most of our grain requirements from two suppliers, Bunge Milling and Consolidated Grain and Barge ("CGB"). Our current grain supply contracts with Bunge Milling and CGB both expire December 31, 2017. These contracts permit us to purchase grain for delivery up to 12 months into the future at negotiated prices, based on a formula using several factors. We also order wheat flour anywhere from one to 12 months into the future. We provide for our wheat flour requirements through a supply contract with Ardent Mills, which has a term that expires July 10, 2019. We typically enter contracts for future delivery only to protect margins on contracted alcohol sales, expected ingredient sales, and general usage.

Our principal packaging material for our distillery products segment is oak barrels. Both new and used barrels are utilized for the aging of premium bourbon and rye whiskeys. We purchase oak barrels from multiple suppliers and some customers supply their own barrels.

We also source food grade alcohol from Illinois Corn Processing, LLC ("ICP"), our 30 percent-owned joint venture. See additional information related to ICP in "Equity Method Investments" below, MD&A, and Note 3.

ENERGY

We seek to assure the availability of fuels at competitive prices. We use natural gas to operate boilers that we use to make steam heat. We procure natural gas for our facilities in the open market from various suppliers. We have a risk management program whereby we may purchase contracts for the delivery of natural gas in the future at pre-determined prices or we can purchase futures contracts on the exchange. Depending on existing market conditions, in Atchison we have the ability to transport gas through a gas pipeline owned by a wholly-owned subsidiary. Historically, prices of natural gas have been higher in the late fall and winter months than during other periods.

EMPLOYEES

As of December 31, 2015, we had a total of 293 employees. A collective bargaining agreement covering 102 employees at the Atchison facility expires on August 31, 2019. Another collective bargaining agreement covering 56 employees at the Lawrenceburg facility expires on December 31, 2017. As of December 31, 2014 and 2013, we had a total of 268 and 268 employees, respectively. We consider our relations with our personnel generally to be good.

REGULATION

We are subject to a broad range of federal, state, local and foreign laws and regulations intended to protect public health and the environment. Our operations are also subject to regulation by various federal agencies, including the Alcohol and Tobacco Tax Trade Bureau ("TTB"), the Occupational Safety and Health Administration, the Food and Drug Administration and the United States Environmental Protection Agency ("USEPA"), and by various state and local authorities. Such regulations cover virtually every aspect of our operations, including production facilities, marketing, pricing, labeling, packaging, advertising, water usage, waste water discharge, disposal of hazardous wastes and emissions and other matters.

TTB regulation includes periodic TTB audits of all production reports, shipping documents, and licenses to assure that proper records are maintained. We are also required to file and maintain monthly reports with the TTB of alcohol inventories and shipments.

EQUITY METHOD INVESTMENTS

Illinois Corn Processing, LLC ("ICP"). On November 20, 2009, we completed a series of related transactions pursuant to which we contributed our Pekin facility and certain maintenance and repair materials to a newly-formed company, ICP, and then sold 50 percent of the membership interest in ICP to ICP Holdings, an affiliate of SEACOR. ICP reactivated distillery operations at the Pekin facility during the quarter ended March 31, 2010, and now produces high quality food grade alcohol, chemical intermediates, and fuel.

In connection with these transactions, we entered into various agreements with ICP and ICP Holdings, including a Contribution Agreement, an LLC Interest Purchase Agreement and a Limited Liability Company Agreement. Under the LLC Interest Purchase Agreement, we sold ICP Holdings 50 percent of the membership interest in ICP. This agreement gave ICP Holdings the option to purchase up to an additional 20 percent of the membership interest in ICP at any time between the second and fifth anniversary based on an agreed to criteria. On February 1, 2012, ICP Holdings exercised its option and purchased an additional 20 percent from us for $9,103, reducing our ownership from 50 percent to 30 percent.

Pursuant to the Limited Liability Company Agreement, control of day to day operations generally is retained by the members, acting by a majority in interest. Following ICP Holdings' exercise of its option referred to above, ICP Holdings owns 70 percent of ICP and generally is entitled to control its day to day operations. The Limited Liability Company Agreement also provides for the creation of an advisory board which consists of two advisers appointed by us and four advisers appointed by ICP Holdings. All actions of the advisory board require majority approval of the entire board, except that any transaction between ICP and ICP Holdings or its affiliates must be approved by the advisers appointed by us. The Limited Liability Company Agreement gives either member certain rights to shut down the facility if it operates at a loss. Such rights are conditional in certain instances but absolute if EBITDA (as defined in the agreement) losses are an aggregate $1,500 over any three consecutive quarters or if ICP's net working capital is less than $2,500. ICP Holdings also has the right to shut down the facility if ICP is in default under its loan agreement for failure to pay principal or interest for two months.

On April 9, 2015, ICP obtained a $30,000 revolving credit facility with JPMorgan Chase Bank, N.A., which may be increased in the future by an additional $20,000, subject to lender approval. The revolver matures on April 9, 2018. Simultaneous with the execution of the new revolving credit facility, ICP terminated its $15,000 amended and restated revolving credit facility with an affiliate of SEACOR, which would have matured January 31, 2016. The Company has no funding requirement to ICP.

D.M. Ingredients GmbH ("DMI"). In 2007, we acquired a 50 percent interest in DMI, a German joint venture company that produces certain of our specialty ingredients products through a toller for distribution in the European Union ("E.U.") and elsewhere.

On December 29, 2014, we gave notice to D.M. Ingredients, GmbH, ("DMI") and to our partner in DMI, Crespel and Dieters GmbH & Co. KG ("C&D"), to terminate our joint venture effective June 30, 2015. C&D also provided notice to terminate DMI effective June 30, 2015. On June 22, 2015, a termination agreement was executed by and between us, DMI, and C&D to dissolve DMI effective June 30, 2015. On June 22, 2015 a termination agreement was executed by and between us and DMI to terminate our distribution agreement effective June 29, 2015. Under German law, commencing on June 30, 2015, normal operations for DMI ceased and a one-year winding down process began.

EXECUTIVE OFFICERS OF THE REGISTRANT

The Company’s officers as of December 31, 2015 and their ages as of March 10, 2016 are listed below.

Name	Age	Position	First elected to officer position
Augustus C. Griffin	56	President and Chief Executive Officer	2014
Thomas K. Pigott	51	Vice President, Finance and Chief Financial Officer	2015
Stephen J. Glaser	55	Vice President, Production and Engineering	2015
David E. Dykstra	52	Vice President, Alcohol Sales and Marketing	2009
Michael R. Buttshaw	53	Vice President, Ingredient Sales and Marketing	2014
David E. Rindom	60	Vice President and Chief Administrative Officer	2000

Mr. Griffin has served as President and Chief Executive Officer of MGP since July 2014 and as a member of the Board of Directors since August 2014. Prior to joining MGP, Mr. Griffin served from April 2013 to January 2014 as Executive Vice President of Marketing for Next Level Spirits, a northern California-based producer, importer and distributor of premium wine and spirits brands. Between November 2011 and March 2013, he served as Brand and Business Consultant for Nelson’s Green Brier Distillery. From January 2008 to April 2011, Mr. Griffin was Senior Vice President, Global Managing Director of Brown Forman Corporation's flagship Jack Daniels business. Prior to 2008, he served for over 20 years in increasingly important brand management and general management leadership roles at Brown Forman.

Mr. Pigott has served as Vice President of Finance and Chief Financial Officer since September 2015. Prior to joining MGP, Mr. Pigott served in various Vice President roles with Kraft Foods Group. He was Vice President of Finance for the Meal Solutions Division from March 2015 to August 2015, Vice President of Finance for the Meals and Desserts Business Unit from May 2014 to March 2015, and Vice President of Finance and Chief Audit Executive from October 2012 to April 2014. From April 2010 to October 2012, Mr. Pigott was Vice President of Finance for the Pizza Division at Nestle, U.S.A., and from March 2010 to May 2010, he was Senior Director of Finance for the Pizza Division at Nestle, U.S.A. Prior to joining Nestle, between 1994 and 2010, Mr. Pigott held a succession of CFO and other financial leadership positions across a wide number of operating divisions at Kraft Foods. His experience spans financial planning, analysis, audit and investor relations functions.

Mr. Glaser has served as Vice President, Production and Engineering at MGP since October 2015. Previously, he was Corporate Director of Operations since January 2014 and Plant Manager of the Company’s Atchison, Kansas, facility from May 2011 to December 2013. Prior to joining the Company, Mr. Glaser served for three years, from March 2008 to April 2011, as President and CEO of Briggs Industries, a leading, multi-site international kitchen and bath products business. That followed three years as Vice President of Operations for the company. Preceding his employment at Briggs, he held supply chain-related positions with increased responsibility at Sony Electronics, Ingersoll Rand’s Schlage Lock Company, and Electrolux Home Products.

Mr. Dykstra has served as Vice President of Alcohol Sales and Marketing at MGP since 2009. He previously had been Industrial Alcohol Sales manager since 2006. He first joined the Company in 1988 eventually serving as Director of Sales for both beverage and fuel grade alcohol. In 1999, he left the Company to assume the role of Vice President of Sales and Marketing for Abengoa Bio Energy. He remained in that position until 2003, when he joined United Bio Energy Fuels, L.L.C. as Vice President of the alcohol marketing division. He returned to MGP in 2006.

Mr. Buttshaw has served as Vice President of Ingredients Sales and Marketing at MGP since December 2014. He previously served from October 2010 to November 2014 as Vice President of Sales for the ingredient group at

Southeastern Mills, Inc. Just prior to that, Mr. Buttshaw was Vice President of Sales and Marketing for Penford Food Ingredients. This followed two years as Vice President of Sales and Business Development-specialty enzymes for DSM Food Specialties. From 1985 to 2008, Mr. Buttshaw was employed with Hormel Foods Corporation.

Mr. Rindom has served as Vice President and Chief Administrative Officer at MGP since December 2015. He previously served as the Company's Vice President, Human Resources since June 2000. Mr. Rindom was Corporate Director of Human Relations from 1992 to June 2000, Personnel Director from 1988 to 1992, and Assistant Personnel Director from 1984 to 1988 after his employment with the Company began in 1980.

ITEM 1A. RISK FACTORS

Our business is subject to certain risks and uncertainties. The following discussion identifies those which we consider to be most important. The following discussion of risks is not all inclusive. Additional risks not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition, or results of operations.

RISKS THAT AFFECT OUR BUSINESS AS A WHOLE

An interruption of operations, a catastrophic event at our facilities, or a disruption of transportation services could negatively affect our business.

Although we maintain insurance coverage for various property damage and loss events, an interruption in or loss of operations at either of our facilities, or the facilities of ICP, could reduce or postpone production of our products, which could have a material adverse effect on our business, results of operations and/or financial condition. To the extent that our value-added products rely on unique or proprietary processes or techniques, replacing lost production by purchasing from outside suppliers becomes more difficult.

Our customers store a substantial amount of barreled inventory of aged premium bourbon and rye whiskeys at our Lawrenceburg facility. If there was a catastrophic event at our Lawrenceburg facility, our customers' business could be adversely affected. The loss of a significant amount of aged inventory - through fire, natural disaster, or otherwise - could result in a significant reduction in supply of the affected product or products and, if we are negligent in the custodial care of our customers' inventory, this could result in customer claims against us.

We also store a substantial amount of our own inventory of aged premium bourbon and rye whiskeys at our Lawrenceburg facility. If there was a catastrophic event at our Lawrenceburg facility, our business could be adversely affected. The loss of a significant amount of our aged inventory - through fire, natural disaster, or otherwise - could result in a reduction in supply of the affected product or products and could affect our long-term growth.

A disruption in transportation services could result in difficulties supplying materials to our facilities and impact our ability to deliver products to our customers in a timely manner.

Any business interruptions and the timing of the associated insurance recovery, if any, may cause volatility in our operating results.

In January 2014, we experienced a fire at our Lawrenceburg facility. During October 2014, we experienced a fire at our Atchison facility. We have reached final settlements for these business interruptions.

Because the timing and amount of a business interruption and the associated insurance recovery may differ, in the event of a business interruption, we may experience volatility in our future operating results.

Our profitability is affected by the costs of energy, grain, and wheat flour that we use in our business, the availability and cost of which are subject to weather and other factors beyond our control. We may not be able to recover the costs of commodities and energy by increasing our selling prices.

Grain and wheat flour costs are a significant portio