InvenSense Inc
Form 10-Q
November 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2012

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 001-35269

(Exact name of registrant as specified in its charter)

INVENSENSE, INC.

Delaware	**01-0789977**
(State or other jurisdiction of Incorporation or organization)	**(I.R.S. Employer Identification No.)**

1197 Borregas Avenue Sunnyvale, CA 94089

(Address of principal executive offices and zip code)

(408) 988-7339

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant 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). Yes x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Shares Outstanding at October 26, 2012**
Common Stock, $0.001 par value	83,076,782

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

INVENSENSE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par value)

	September 30, 2012	April 1, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 66,366	$ 153,643
Short-term investments	51,207	4,129
Accounts receivable	30,112	11,931
Inventories	21,208	12,240
Prepaid expenses and other current assets	3,929	4,188
Total current assets	172,822	186,131
Property and equipment, net	5,069	4,011
Restricted time deposit	194	192
Long-term investments	48,842	
Other assets	2,288	2,984
Total assets	$ 229,215	$ 193,318
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 8,786	$ 5,446
Accrued liabilities	7,807	7,726
Long-term debt current portion	20	28
Total current liabilities	16,613	13,200
Long-term debt	15	22
Other long-term liabilities	4,488	3,219
Total liabilities	21,116	16,441
Commitments and contingencies (note 4)		
Stockholders equity:		
Preferred stock:		
Preferred stock, $0.001 par value 20,000 shares authorized, no shares issued and outstanding at September 30, 2012 and April 1, 2012		
Common stock:		
Common stock, $0.001 par value 750,000 shares authorized, 82,954 shares issued and outstanding at September 30, 2012, 80,890 shares issued and outstanding at April 1, 2012	146,615	136,792
Accumulated other comprehensive income	84	1
Retained earnings	61,400	40,084
Total stockholders equity	208,099	176,877

Total liabilities and stockholders equity	$ 229,215	$ 193,318

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net revenue	$ 55,294	$ 43,034	$ 94,496	$ 78,661
Cost of revenue	24,923	19,372	42,562	34,381
Gross profit	30,371	23,662	51,934	44,280
Operating expenses:				
Research and development	5,918	4,965	11,574	9,341
Selling, general and administrative	7,202	3,898	13,459	8,409
Total operating expenses	13,120	8,863	25,033	17,750
Income from operations	17,251	14,799	26,901	26,530
Other income, net	54	28	90	209
Income before income taxes	17,305	14,827	26,991	26,739
Income tax provision	3,641	3,372	5,676	6,260
Net income	13,664	11,455	21,315	20,479
Net income allocable to convertible preferred stockholders		8,626		15,462
Net income allocable to common stockholders	$ 13,664	$ 2,829	$ 21,315	$ 5,017
Basic	$ 0.17	$ 0.15	$ 0.26	$ 0.28
Diluted	$ 0.16	$ 0.14	$ 0.24	$ 0.25
Weighted average shares outstanding in computing net income per share allocable to common stockholders:				
Basic	82,429	18,296	81,806	18,210
Diluted	87,257	22,865	87,168	22,706

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
Net income	$ 13,664	$ 11,455	$ 21,315	$ 20,479
Other comprehensive income, net of tax:				
Unrealized gain on available-for-sale securities	157		83	4
Total comprehensive income	$ 13,821	$ 11,455	$ 21,398	$ 20,483

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INVENSENSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	September 30, 2012	October 2, 2011
Cash flows from operating activities:		
Net income	$ 21,315	$ 20,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,158	952
Gain on disposal of property and equipment		(165)
Stock-based compensation expense	3,692	1,606
Deferred income tax assets	(4)	(12)
Tax effect of employee benefit plans	2,707	
Excess tax benefit from stock-based compensation	(2,707)	
Changes in operating assets and liabilities:		
Accounts receivable	(18,181)	(2,530)
Inventories	(8,968)	(6,243)
Prepaid expenses and other current assets	259	508
Other assets	696	(1,710)
Accounts payable	3,375	4,715
Accrued liabilities	1,839	2,631
Net cash provided by operating activities	5,181	20,231
Cash flows from investing activities:		
Purchase of property and equipment	(2,249)	(1,296)
Proceeds from the sale of property and equipment		188
Sale of available-for-sale investments	7,926	5,777
Purchase of available-for-sale investments	(103,765)	(6,025)
Net cash used in investing activities	(98,088)	(1,356)
Cash flows from financing activities:		
Net proceeds from exercise of warrants	81	499
Proceeds from issuance of common stock	3,321	702
Offering costs	(465)	(654)
Payments of long-term debt and capital lease obligations	(14)	(9)
Excess tax benefit from stock-based compensation	2,707	
Net cash provided by financing activities	5,630	538
Net (decrease) increase in cash and cash equivalents	(87,277)	19,413
Cash and cash equivalents:		
Beginning of period	$ 153,643	$ 28,795
End of period	$ 66,366	$ 48,208

Supplemental disclosures of cash flow information:				
Cash paid for interest	$	1	$	1
Cash paid for income taxes	$	20	$	3,900
Noncash investing and financing activities:				
Unpaid accounts payable for property and equipment purchased	$	236	$	213
Unrealized gain from available-for-sale investments	$	83	$	4
Net exercise of warrants	$	70	$	
Unpaid offering costs	$	6	$	727

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Business

InvenSense, Inc. (the Company) was incorporated in California in June 2003 and reincorporated in Delaware in January 2004. The Company designs, develops, markets and sells micro-electro-mechanical system (MEMS) gyroscopes for MotionTracking devices in consumer electronics and is dedicated to bringing the best-in-class size, performance and cost solutions to market. Targeting applications in smartphones and tablets, console and portable video gaming devices, digital still and video cameras, smart TVs (including digital set-top boxes, televisions and multi-media HDDs), 3D mice, navigation devices, toys, and health and fitness accessories, the Company delivers leading generation of motion interface solutions based on its advanced multi-axis gyroscope technology.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the fiscal year ended April 1, 2012 included in the Company s Annual Report on Form 10-K filed on June 19, 2012 with the Securities and Exchange Commission (SEC).

Fiscal Year

The Company s fiscal year is a 52 or 53 week period ending on the Sunday closest to March 31. The Company s most recent fiscal year (Fiscal 2012) ended on April 1, 2012 (April 2012). The second fiscal quarter in each of the two most recent fiscal years ended on September 30, 2012 (three months ended September 30, 2012 or September 2012) and October 2, 2011 (three months ended October 2, 2011 or October 2011), respectively, each quarter period included 13 weeks and the six-month periods ended September 30, 2012 and October 2, 2011 both included 26 weeks.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and applicable rules and regulations of the SEC regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations.

The condensed consolidated balance sheet as of April 1, 2012, included herein was derived from the audited financial statements as of that date, but does not include all disclosures required by GAAP. The unaudited interim condensed consolidated financial statements, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the Company s financial position, results of operations, comprehensive income and cash flows for the interim periods. The results of operations for the period ended September 30, 2012 is not necessarily indicative of the results to be expected for the fiscal year ending March 31, 2013 or for any future year or interim period.

Basis of Consolidation

All intercompany transactions and balances have been eliminated upon consolidation. The functional currency of each of the Company s subsidiaries is the U.S. dollar. Foreign currency gains or losses are recorded as other income, net in the condensed consolidated statements of income.

Use of Estimates

The preparation of the Company s condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates included in the condensed consolidated financial statements include inventory valuation, valuation allowance for recorded deferred tax assets, stock based compensation, and valuation of common and convertible preferred stock for periods prior to the completion of the Company s initial public offering. These estimates are based upon information available as of the date of the condensed consolidated financial statements, and actual results could differ from those estimates.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Concentration of Credit Risk

At September 2012, five customers accounted for 23%, 19%, 15%, 12%, and 11% of total accounts receivable. At April 2012, five customers accounted for 18%, 17%, 13%, 12% and 10% of total accounts receivable.

For the three months ended September 30, 2012, three customers each accounted for 29%, 19% and 17% of total net revenue. For the six months ended September 30, 2012, three customers each accounted for 22%, 19% and 15% of total net revenue. For the three months ended October 2, 2011, three customers each accounted for 44%, 13% and 12% of total net revenue. For the six months ended October 2, 2011, three customers each accounted for 30%, 18% and 11% of total net revenue.

Warranty

The Company s warranty agreements are contract and component specific and can be up to three years for selected components. The Company accrues for anticipated warranty costs upon shipment based on the number of shipped units, historical analysis of the volume of product returned under the warranty program and management s judgment regarding anticipated rates of warranty claims and associated repair costs. The following table summarizes the activity related to the product warranty liability during the six months ended September 30, 2012 and October 2, 2011:

	Six Months Ended September 30, 2012	Six months Ended October 2, 2011
	(in thousands)	
Beginning balance	$ 361	$ 697
Provision for warranty	102	300
Less: actual warranty costs	(27)	(63)
Ending balance	$ 436	$ 934

Net Income Per Share

Basic and diluted net income per common share are presented in conformity with the two-class method required for participating securities for the period prior to their conversion upon the Company s initial public offering (IPO) in November 2011, when all preferred shares were converted to common stock.

Prior to the IPO, holders of the Company s preferred stock were entitled to receive noncumulative dividends prior to the payment of dividends on shares of the Company s common stock. In the event a dividend were paid on common stock, the preferred stockholders would have also been entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as-if converted basis).

Under the two-class method, net income allocable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period non-cumulative dividends allocable to the preferred stockholders for the period prior to their conversion upon the Company s initial public offering. In computing diluted net income attributed to common stockholders, undistributed earnings are reallocated to reflect the potential impact of dilutive securities. Basic net income per common share is computed by dividing the net income allocable to common stockholders by the weighted average number of common shares outstanding during the period, which excludes dilutive unvested restricted stock.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Diluted net income per share allocable to common stockholders is computed by dividing the net income allocable to common stockholders by the weighted average number of common shares outstanding, including unvested restricted stock, certain preferred stock warrants, (which were converted into common stock warrants at the completion of the Company s IPO), and potential dilutive common shares assuming the dilutive effect of outstanding stock options and restricted stock units using the treasury stock method.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the calculation of basic and diluted net income per share:

	Three Months Ended		Six Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(in thousands, except per share data)			
Net income allocable to common stockholders:				
Numerator:				
Basic:				
Net income	$ 13,664	$ 11,455	$ 21,315	$ 20,479
Non-cumulative dividends on convertible preferred stock		(769)		(1,530)
Undistributed earnings allocable to convertible preferred stockholders		(7,857)		(13,932)
Net income allocable to common stockholders basic	$ 13,664	$ 2,829	$ 21,315	$ 5,017
Diluted:				
Net income	$ 13,664	$ 11,455	$ 21,315	$ 20,479
Non-cumulative dividends on convertible preferred stock		(787)		(1,574)
Undistributed earnings allocable to convertible preferred stockholders		(7,400)		(13,136)
Net income allocable to common stockholders diluted	$ 13,664	$ 3,268	$ 21,315	$ 5,769
Denominator:				
Basic shares:				
Weighted average shares used in computing basic net income per common share	82,429	18,296	81,806	18,210
Diluted shares:				
Weighted average shares used in computing basic net income per common share	82,429	18,296	81,806	18,210
Effect of potentially dilutive securities:				
Stock options and unvested restricted stock	4,657	4,569	5,166	4,496
Common stock warrants	171		196	
Weighted average shares used in computing diluted net income per common share	87,257	22,865	87,168	22,706
Net income per common share:				
Basic	$ 0.17	$ 0.15	$ 0.26	$ 0.28
Diluted	$ 0.16	$ 0.14	$ 0.24	$ 0.25

The following summarizes the potentially dilutive securities outstanding at the end of each period that were excluded from the computation of diluted net income per common share for the periods presented as their effect would have been antidilutive:

	Three Months Ended		Six Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(in thousands)			
Employee stock options	2,304	1,979	2,304	1,980
Unvested restricted stock units	152		152	
Total antidilutive securities	2,456	1,979	2,456	1,980

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income which requires that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement in changes of stockholders equity. ASU No. 2011-05 became effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which is the Company s fiscal interim period ended July 1, 2012 of fiscal year ending March 31, 2013. Upon adoption of ASU No. 2011-05, the Company has separately reported Condensed Consolidated Statements of Comprehensive Income and the adoption did not impact the Company s financial condition or results of operations.

2. Cash Equivalents and Available-for-sale Investments

Short-term available-for-sale investments consist of securities with original maturities of three through twelve months. Long-term available-for-sale investments which have maturities exceeding twelve months beyond the balance sheet date are classified as long-term investments in the Company s condensed consolidated balance sheets. The Company s investments are classified as available-for-sale since the sale of these investments may be required prior to their stated maturity to implement management s liquidity-related strategies. Available-for-sale securities are carried at fair value with temporary unrealized gains and losses, net of taxes, reported as a component of stockholders equity.

At September 30, 2012, of the $66.4 million of the Company s cash and cash equivalents, $44.3 million was cash and $22.1 million was cash equivalents invested primarily in money market funds. As of September 30, 2012, $29.8 million of the $66.4 million of cash and cash equivalents were held by our foreign subsidiaries. If these funds are needed for our operations in the United States, the Company would be required to accrue and pay U.S. taxes to repatriate these funds. However, the Company s intent is to indefinitely reinvest these funds outside of the United States, and the Company s current plans do not demonstrate a need to repatriate them to fund U.S. operations. Additionally, as of September 30, 2012, the Company had short-term available-for-sale investments of $51.2 million and long-term available-for-sale investments of $48.8 million totaling $100.0 million.

At April 1, 2012, of the $153.6 million of the Company s cash and cash equivalents, $135.0 million was cash and $18.6 million was cash equivalents invested in money market funds. As of April 1, 2012, $29.3 million of the $153.6 million of cash and cash equivalents were held by our foreign subsidiaries. Additionally, the Company had available-for-sale investments totaling $4.1 million.

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INVENSENSE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company applies the provisions of ASC 820-10, *Fair Value Measurements*, for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. ASC 820-10 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. The inputs for the first two levels are considered observable and the last is unobservable and include the following:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; or

Level 3 Unobservable inputs in which there is little or no market data, and as a result, prices or valuation techniques are employed that require inputs that are significant to the fair value measurement.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value. The Company chose not to elect the fair value option as prescribed by ASC 825-10-05 Fair Value Option for its financial assets and liabilities that had not been previously carried at fair value. Therefore, financial assets and liabilities not carried at fair value, such as accounts payable, are still reported at their carrying values.

Fair value measurements at each reporting date were as follows:

September 2012:

Assets measured at fair value on a recurring basis were presented in the Company s condensed consolidated balance sheet as of September 30, 2012.

	September 2012 Balance	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3
		(in thousands)		
Money Market Funds	$ 22,072	$ 22,072	$	$
Corporate Notes and Bonds	91,059		91,059	
Commercial Paper	4,987		4,987	
U.S. Agency Securities	4,003		4,003	
Total	$ 122,121	$ 22,072	$ 100,049	$
Cash equivalents	$ 22,072	$ 22,072	$	$
Short-term investments	51,207		51,207	
Long-term investments	48,842		48,842	

Total	$ 122,121	$ 22,072	$ 100,049	$

	September 2012 Amortized Cost	Unrealized Loss	September 2012 Estimated FMV
Corporate Notes and Bonds	$ 90,972	$ 87	$ 91,059
Commercial Paper	4,990	(3)	4,987
U.S. Agency Securities	4,004	(1)	4,003
Total Available-for-sale investments	$ 99,966	$ 83	$ 100,049
Cash			44,294

Cash equivalents				223,795	18,777	554,540
	2014	220,917	82,950	130,050	18,347	452,264
David E. Dykstra (d)	2016	247,000	165,605	145,903	21,153	579,661
	2015	205,626	83,052	207,000	15,022	510,700
	2014	182,420	82,950	109,453	14,646	389,469
Michael Buttshaw (e)	2016	235,000	154,137	137,992	14,250	541,379

(a) Mr. Griffin has served as President and Chief Executive Officer since July 28, 2014.

(b) Mr. Pigott has served as Vice President of Finance and Chief Financial Officer since September 14, 2015.

(c) Mr. Rindom served as Vice President, Human Resources from June 2000 until December 2015, when he was appointed Vice President and Chief Administrative Officer.

(d) Mr. Dykstra has served as Vice President, Alcohol and Marketing since 2009.

(e) Mr. Buttshaw has served as Vice President of Ingredients Sales and Marketing since December 2014.

(1) The amount shown is the grant date fair value of awards made during the period computed in accordance with FASB ASC Topic 718. Accelerated full or pro rata vesting may be permitted upon a change of control or if employment is terminated as a result of death, disability, retirement or termination without cause. We pay dividends on these shares during the vesting period, which are not taken into account in determining their grant date fair value. Mr. Griffin, Mr. Pigott, Mr. Rindom, Mr. Dykstra, and Mr. Buttshaw were granted Restricted Stock Units based on 2016 performance in February 2017 in the amounts of $411,525, $146,990, $130,115, $116,584 and $110,920, respectively. These grants are not included in the table.

(2) Amounts due under the cash incentive payments for 2014 performance were made in the first quarter of 2015 and are reflected in the table above. Amounts due under the cash incentive payments for 2015 performance were made in the first quarter of 2016 and are reflected in the table above. Amounts due under the cash incentive payments for 2016 performance were made in the first quarter of 2017 and are reflected in the table above.

(3) Includes dividends paid on unvested restricted stock awards in 2016 in the following amounts: Mr. Rindom - $1,650; Mr. Dykstra - $1,250. Includes dividend equivalents paid on restricted stock unit awards in 2016 in the following amounts: Mr. Griffin – $6,847; Mr. Pigott - $1,056; Mr. Rindom - $7,413; Mr. Dykstra - $6,689; Mr. Buttshaw $1,507. Includes the Company’s contributions to the Company’s 401(k) plan allocated to the accounts of each named executive officer for 2016 in the following amounts: Mr. Griffin – $13,250; Mr. Pigott - $14,256; Mr. Rindom - $13,133; Mr. Dykstra - $12,540; and Mr. Buttshaw - $12,069. Includes an automobile allowance for Mr. Griffin. Also includes amount paid by the Company towards the purchase of life insurance, accidental death and dismemberment insurance, and long-term disability insurance.

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CORE/3001926.0002/131169639.14

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information with respect to each named executive officer concerning grants during the year ended December 31, 2016, of awards under both the Company's equity and non-equity plans.

		Estimated future payouts under non-equity incentive plan awards			Estimated future payouts under equity incentive plan awards				
Name (a)	Grant date (b)	Threshold ($) (c)	Target ($) (d)	Max ($) (e)	Threshold (#) (f)	Target (#) (g)	Max (#) (h)	All other stock awards: Number of shares of stock or units (#) (i)	Grant date fair value of stock and option awards ($) (l)
Augustus C. Griffin									
LTI Opportunity	2/17/16(1)(3)				4,062	8,124	16,248		
STI Opportunity	2/17/16 (2)	$174,375	$348,750	$697,500					
RSUs	2/17/16 (3)							24,638	$578,993
Thomas K. Pigott									
LTI Opportunity	2/17/16 (1)(3)				1,444	2,887	5,775		
STI Opportunity	2/17/16 (2)	77,475	154,950	309,900					
RSUs	2/17/16 (3)							2,799	65,777
David E. Rindom									
LTI Opportunity	2/17/16 (1)(3)				1,284	2,569	5,137		
STI Opportunity	2/17/16 (2)	68,917	137,834	275,668					
RSUs	2/17/16 (3)							7,619	179,047
David E. Dykstra									
LTI Opportunity	2/17/16 (1)(3)				1,151	2,301	4,603		
STI Opportunity	2/17/16 (2)	61,750	123,500	247,000					
RSUs	2/17/16 (3)							7,047	165,605
Michael Buttshaw									
LTI Opportunity	2/17/16 (1)(3)				1,095	2,190	4,379		
STI Opportunity	2/17/16 (2)	58,750	117,500	235,000					
RSUs	2/17/16 (3)							6,559	154,137

(1) The amounts reported under the Threshold, Target and Maximum columns in this table are the possible incentive compensation awards calculated in accordance with the provisions set forth in the LTI Plan. The Threshold column reports the awards that would have been paid if 90% of the performance targets were met. If less than 90% of a performance target is met, no incentive award is paid with respect to that target. The Target column reports the awards that would have been paid if 100% of the performance targets were met and the Maximum column reports the amount that would have been paid if 150% of the performance targets were met and represents the maximum awards available under the plan regardless of the amount by which the performance targets are exceeded. The performance targets performance goals relate to both quantitative and qualitative criteria. For 2016, each executive received an award amount that fell between the target and maximum award payable under the LTI Plan as described in “Compensation Discussion and Analysis - Long-Term Incentives”.

(2) The amounts reported under the Threshold, Target and Maximum columns in this table are the possible incentive compensation awards calculated in accordance with the provisions set forth in the STI Plan. The Threshold column reports the awards that would have been paid if 90% of the performance targets were met. If less than 90% of a performance target is met, no incentive award is paid with respect to that target. The Target column reports the awards that would have been paid if 100% of the performance targets were met and the Maximum column reports the amount that would have been paid if 150% of the performance targets were met and represents the maximum awards available under the plan regardless of the amount by which the performance targets are exceeded. The performance targets performance goals relate to both quantitative and qualitative criteria. For 2016, each executive received an award amount that fell between the target and maximum award payable under the STI Plan as reported in the Summary Compensation Table.

(3) The grant of RSUs reported for this award will vest on the third anniversary of each such award’s grant date.

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OUTSTANDING EQUITY AWARDS ON DECEMBER 31, 2016

The following table shows information concerning restricted stock and restricted stock unit awards outstanding held by the named executive officers on December 31, 2016. No options were outstanding to any named executive officers as of such date. Amounts shown are based on a price of $49.98 per share, the closing market price on December 30, 2016.

Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value Of Shares or Units of Stock That Have Not Vested ($)
Augustus C. Griffin**	12,000 (1)	$ 599,760
	20,422 (6)	1,020,692
	24,638 (7)	1,231,407
Thomas K. Pigott**	6,000 (2)	299,880
	2,799 (7)	139,894
David E. Rindom**	18,250 (3)	912,135
	15,000 (4)	749,700
	15,000 (5)	749,700
	5,903 (6)	295,032
	7,619 (7)	380,798
David E. Dykstra**	13,250 (3)	662,235
	15,000 (4)	749,700
	15,000 (5)	749,700
	5,446 (6)	272,191
	7,047 (7)	352,209
Michael Buttshaw**	5,000 (8)	249,900
	1,000 (6)	49,980
	6,559 (7)	327,819

(1) These shares will vest on July 31, 2017.
(2) These shares will vest on September 14, 2018.
(3) These shares vested on February 28, 2017.
(4) These shares will vest on November 28, 2017.
(5) These shares will vest on January 22, 2019.
(6) These shares will vest on February 25, 2018.
(7) These shares will vest on February 16, 2019.
(8) These shares will vest on December 15, 2017.
** Mr. Griffin, Mr. Pigott, Mr. Rindom, Mr. Dykstra and Mr. Buttshaw received grants of restricted stock units, based on 2016 operating results, in February 2017 in the following amounts: 9,586, 3,424, 3,031, 2,716 and 2,584, respectively. These grants will vest on February 14, 2020 and are not reflected in this table.

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OPTION EXERCISES AND STOCK VESTED

The following table sets forth information with respect to each named executive officer concerning the exercise of options and the vesting of stock during the year ended December 31, 2016.

	Option Awards		Stock Awards	
Name (a)	Number of shares acquired on exercise (#) (b)	Value realized on exercise ($) (c)	Number of shares acquired on vesting (#) (d)	Value realized on vesting ($) (1) (e)
Augustus C. Griffin	-	-	-	-
Thomas K. Pigott	-	-	-	-
David E. Rindom	-	-	16,500	$624,525
David E. Dykstra	-	-	12,500	473,125
Michael Buttshaw	-	-	-	-

(1) The value realized upon vesting was calculated using the closing price of the Company’s Common Stock on the date the shares vested multiplied by the number of shares vested.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL

General

As noted above, our long-term incentive plans contain change-in-control provisions. The employment agreements with some of our named executive officers discussed above in “Compensation Discussion and Analysis - Employment Agreements and Other Arrangements” contain change-in-control provisions as well.

Employment Agreements

As discussed above, the Company entered into an employment agreement with Mr. Griffin upon his retention as President and Chief Executive Officer. Pursuant to his employment agreement, in the event of his termination of employment, Mr. Griffin would have the right to receive any annual bonus with respect to a year ending prior to the date of such termination but unpaid at such date, payable at the same time as such payment would be made if Mr. Griffin remained employed. Unless Mr. Griffin’s employment is terminated by the Company for Cause (as defined in the agreement) or he terminates his employment, he would receive an amount equal to his annual base salary paid in equal installments on the dates on which his base salary would have been paid had he continued employment. Unless Mr. Griffin were terminated for Cause or terminated his own employment, Mr. Griffin would receive any performance bonus related to the year in which his termination occurred, calculated based on actual performance through the end of the performance period prorated for the number of days of his employment during the year in which his termination occurred. In the event of a termination due to death or disability, Mr. Griffin would receive the same amounts as if the Company were to have terminated him without cause.

Additionally, as discussed above, the Company entered into an offer letter with Mr. Pigott upon his retention as the Company’s Vice President of Finance and Chief Financial Officer. The offer letter provides that the Company will provide one year’s base salary as severance in the event of a termination of Mr. Pigott without cause.

Restricted Stock and Restricted Stock Unit Awards

2004 Plan

For awards under our 2004 Plan, immediate vesting occurs under our restricted stock unit awards upon a change of control. Accelerated or pro-rata vesting is permitted for restricted stock units if employment is terminated as a result of death, disability, retirement or, in the discretion of the Human Resources and Compensation Committee, termination without cause. The following summarizes the arrangements provided for outstanding restricted stock unit awards in the event of termination or change in control, although the Committee has discretion under the 2004 Plan to modify these arrangements and has generally exercised such discretion in the event of involuntary termination. We provide for change- in-control payments in our long-term incentive plans so that employees will remain focused on our business in the event of potential or actual changes in control.

Under our 2004 Plan, restricted stock unit awards vested in five years. In the event of a participant's death, disability, retirement or, in the sole discretion of the Human Resources and Compensation Committee, involuntary termination of employment without cause, in any such case after three years from the date of grant specified in the agreement evidencing the stock award, restricted stock units issued on March 1, 2012, November 29, 2012, and January 23, 2014 vest as to the number of restricted stock units issued to the participant multiplied by a fraction, the numerator of which equals the number of months (including fractional months as full months) that such participant was employed by us, commencing as of March 1, 2012, November 29, 2012 and January 23, 2014, respectively, and ending on the date of termination of employment, and the denominator of which is sixty. The balance of restricted stock units issued to the participant is forfeited. Restricted stock unit awards granted in 2012 provide for pro-rata vesting after one year in the event of a participant's death, disability, retirement or, in the sole discretion of the Human Resources and Compensation Committee, involuntary termination of employment without cause. Further, in accordance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), the vested portion of a participant's restricted stock unit award will be distributed in shares of the Company's Common Stock on the earliest to occur of (i) the end of the five-year vesting period, (ii) the participant's death or "separation from service" (as defined in the Section 409A Treasury regulations) or (iii) certain change-in-control events described below. If a participant is a "specified employee" under the Section 409A Treasury regulations (generally an officer whose annual compensation exceeds $160,000), a distribution of vested restricted stock unit award shares on account of the participant's separation from service will be delayed until the first business day immediately following the six-month anniversary of the date the participant separates from service.

The 2004 Plan permits accelerated vesting on a pro-rata basis of restricted stock unit awards not intended to be qualified under Section 162(m) of the Internal Revenue Code when employment is terminated by reason of disability, death, retirement or, at the discretion of Human Resources and Compensation Committee, involuntarily without cause. The Committee has exercised its discretion to waive minimum vesting periods to permit such pro-rata vesting of awards.

All restricted stock unit awards under the 2004 Plan become fully vested in the event of a change of control. A change in control is deemed to occur in the event of (i) certain acquisitions of 30% or more of our outstanding Common Stock and 50% of our outstanding Preferred Stock, or 30% of the combined voting power of our then outstanding voting securities entitled to vote generally in the election of directors, (ii) certain changes of more than a majority of the membership of the Board of Directors, or (iii) certain mergers which result in our stockholders owning less than 50% of the combined voting power of the surviving corporation. All restricted stock unit awards also become fully vested and the shares of Company Common Stock covered by the awards are immediately distributed to the participants upon a "change in the ownership" of the Company or the subsidiary for which a participant performs services, a "change in effective control" of the Company or a "change in the ownership of a substantial portion of the assets" of the Company (in each case as defined in the Section 409A Treasury regulations). Generally, (i) a change in ownership of the Company or a subsidiary occurs upon an acquisition that gives the acquirer ownership of more than 50% of the total fair market value or voting power of the Company or a subsidiary, respectively, (ii) a change in effective control of the Company occurs upon either (A) the acquisition of 30% or more of the total voting power of the Company during a twelve-month period or (B) the replacement of a majority of the members of the Company's Board of Directors during a twelve-month period where such replacement was not endorsed by a majority of the existing members and (iii) a change in the ownership of a substantial portion of assets of the Company occurs upon an acquisition during a twelve-month period of 50% or more of the total gross fair market value of all the assets of the Company.

2014 Plan

Restricted stock units granted under the 2014 Plan will generally vest over a period of not less than three (3) years from the date of grant of such Award, provided that such Award may vest earlier on a pro-rata basis over any vesting period. Upon the occurrence of a change in control (as defined in the 2014 Equity Incentive Plan) or upon the participant's death or disability any restricted stock units that have not previously vested will vest. Upon termination of employment or separation from service without cause, or upon the occurrence of such other event to the extent specified in the applicable Award Agreement, any restricted stock units that have not previously vested shall be forfeited. The Committee may, in its sole discretion, waive such vesting requirement, or provide for continued vesting consistent with the vesting period in an Award; provided that it shall not waive such requirement or continue such vesting to the extent such action would create adverse tax consequences for a Participant under Code Section 409A or result in any Awards that are intended to constitute performance-based compensation for purposes of Code Section 162(m) to cease to so constitute performance-based compensation. Generally, any Award under the 2014 Equity Incentive Plan to a participant who has experienced a termination of employment, separation from service, or termination of some other service relationship with the Company and its affiliates may be cancelled, accelerated, paid or continued, as provided in the applicable Award Agreement, or, as the Committee may otherwise determine to the extent not prohibited by the 2014 Equity Incentive Plan.

Assuming retirement at or after age 62, termination without cause, the holder's death or disability, or that a change in control occurred as of December 31, 2016, the value of the restricted stock unit awards outstanding as of such date held by the named executive officers that would vest (a) in accordance with the terms of their grant awards for each event other than termination without cause and (b) if the Human Resources and Compensation Committee were to waive all vesting requirements in the event of a termination without cause or upon another event, is as shown below. In the event of a termination without cause, no amounts would vest absent waiver of vesting requirements. Amounts shown are based on a price of $49.98 per share, the closing market price on December 30, 2016.

	Termination Value ($)			
Name	Retirement at or after Age 62	Termination Without Cause if Vesting Waived	Change in Control Value ($)	Death Or Disability Value (S)
Augustus C. Griffin	--	$2,851,859	$2,851,859	$2,851,859
David E. Rindom	$1,956,317	2,632,147	3,087,365	2,632,147
David E. Dykstra	--	2,339,114	2,786,035	2,339,114
Thomas K. Pigott	--	439,774	439,774	439,774
Michael Buttshaw	--	627,699	627,699	627,699

Annual Incentive Plan

If an employee's employment during a plan year terminates for any reason, he or she shall not be entitled to the payment of incentive compensation for the plan year. However, the Human Resources and Compensation Committee has full discretion to determine that payment of a prorated annual component may be made when termination results from job elimination, reduction in work force or other similar Company initiative or is otherwise without cause, or is encouraged or induced by incentives offered by us. Upon a change in control, the annual incentive plan terminates. The Committee will determine payments on an annualized basis, based on our performance through the most recently completed quarter for which financial results are available. Incentive compensation will be paid on a pro-rata basis (measured through the end of such quarter) in accordance with the guidelines for payment of annual incentive compensation described in "Compensation Overview – Annual Cash Incentive." The Committee may elect to make a partial incentive compensation payment on the basis of estimated results before the end of the year. Payment is to be made in a lump sum as soon as feasible following the change in control, but in no event later than two and one-half months following the end of the plan year in which the change in control occurs.

DIRECTOR COMPENSATION
YEAR ENDED DECEMBER 31, 2016

The following table shows compensation earned by or paid to all persons who were directors during 2016 who were not also executive officers during such period.

Name	Fees Earned or Paid in Cash ($)(1)(3)(4)	Common Stock (vested) ($)(2)(3)	All Other Compensation ($)	Total ($)
James L. Bareuther	$ 43,758	$ 44,492	-	$ 88,250
John P. Bridendall, Former Director	10,801	10,699	-	21,500
David J. Colo	83	110,167	-	110,250
Terrence P. Dunn	85	111,915	-	112,000
Anthony P. Foglio	16,322	91,678	-	108,000
George W. Page, Jr.	75,027	29,973	-	105,000
Daryl R. Schaller	75,027	29,973	-	105,000
Karen L. Seaberg	104,527	29,973	-	134,500
M. Jeannine Strandjord	69,296	49,704	-	119,000

(1) Employee directors do not receive any fees for attendance of any meeting of the Board of Directors. Non-employee directors receive an annual retainer of $95,000 payable as follows: $65,000 in cash paid in quarterly installments (in advance at the election of the director) and $30,000 in restricted stock (which shall vest upon the election of the director). The chairperson of the Audit Committee is paid an additional retainer of $14,000, the chairperson of the Human Resources and Compensation Committee is paid an additional retainer of $7,000 and the chairperson of the Nominating and Governance Committee is paid an additional retainer of $7,000. The annual fee for serving as Chairperson of the Board is $35,000. Additionally, non-employee directors are paid additional compensation for meetings in excess of four board meetings and twelve committee meetings of $3,000 for unscheduled "on-site" meetings, $1,500 for a telephonic Board call and $1,000 for a telephonic committee call.

(2) Pursuant to the Non-Employee Directors' Restricted Stock Plan, on the first business day following the date of each Annual Meeting of stockholders, each non-employee director was awarded shares of restricted stock with a fair market value of $30,000, as determined on such first business day following the Annual Meeting. Fractional shares were paid in cash. The amount shown in the table is the grant date fair value of the awards computed in accordance with FASB ASC Topic 718. Grant date fair value per share was assumed to be the closing price of the Company's Common Stock on the grant date.

(3) Mr. Bridendall elected to receive half of his cash compensation in shares of Common Stock. Mr. Bareuther elected to receive a quarter of his cash compensation in shares of Common Stock. Mrs. Strandjord elected to receive all of her cash compensation relating to first quarter 2016 in shares of Common Stock. Mr. Foglio elected to receive all of his cash compensation relating to the second, third and fourth quarters of 2016 in shares of Common Stock. Messrs. Colo and Dunn elected to receive all of their cash compensation in shares of Common Stock.

(4) Fees for fourth quarter 2016 meetings and retainers were paid during first quarter 2017.

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PRINCIPAL STOCKHOLDERS

The following table sets forth, as of March 17, 2017, the number of shares beneficially owned and the percentage of ownership of the Company's Preferred Stock and Common Stock by (i) each person who is known by the Company to own beneficially more than 5% of either class of the Company's capital stock outstanding, (ii) each director and director nominee of the Company, (iii) each of the named executive officers named in the Summary Compensation Table, (iv) all directors and executive officers of the Company as a group.

	Amount and nature of beneficial ownership (a)			
Name of beneficial owner	Common Stock		Preferred Stock	
	No. of Shares	%	No. of Shares	%
James L. Bareuther	1,572	*	–	–
David J. Colo	5,038	*	–	–
Terrence P. Dunn (b)	58,170	*	–	–
David E. Dykstra (c)	29,440	*	–	–
Anthony P. Foglio (d)	31,648	*	–	–
Michael Buttshaw	–	*	–	–
Augustus C. Griffin	44,681	*	–	–
George W. Page, Jr. (e)	35,818	*	18	4.1
Thomas Pigott	5,500	*	–	–
David E. Rindom (f)	88,290	*	–	–
Daryl R. Schaller, Ph.D. (g)	71,095	*	–	–
Karen L. Seaberg (h)	3,518,645	21.1	297	68.0
M. Jeannine Strandjord (i)	41,560	*	–	–
All executive officers and directors as a group (15)	3,931,769	23.5	315	72.1
Kansas University Endowment Association**	–	–	111	25.4
Dimensional Fund Advisors LP***	1,038,925	6.2	–	–

* less than 1%

** Based on Schedule 13D filed by Karen L. Seaberg on December 12, 2013, Kansas University Endowment Association ("KU") received 111 shares of preferred stock as a result of termination of the MGP Ingredients, Inc. Voting Trust.

***Based on its Schedule 13G/A filed on February 9, 2017, Dimensional Fund Advisors LP ("Dimensional") has a business address of Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas, 78746. Its Schedule 13G/A indicates sole voting power over 1,030,869 shares of the Company's Common Stock and sole dispositive power over 1,038,925 shares of the Company's Common Stock. Dimensional furnishes investment advice to investment companies and serves as investment manager to certain trusts and separate accounts, which hold all of the Company's Common Stock reported as beneficially owned on Dimensional's Schedule 13G/A. Dimensional disclaims beneficial ownership of such securities.

(a) For the purposes of the table, a person is deemed to be a beneficial owner of shares if the person has or shares the power to vote or to dispose of them. Except as otherwise indicated in the table or the footnotes below, as of March 17, 2017, each person had sole voting and investment power over the shares listed in the beneficial ownership table and all stockholders shown in the table as having beneficial ownership of 5% or more of either of the classes of stock had as a business address Cray Business Plaza, 100 Commercial Street, Atchison, Kansas 66002. Stockholders disclaim beneficial ownership in the shares described in the footnotes as being "held by" or "held for the benefit of" other persons.

(b) Includes 1,409 shares of Common Stock held directly and 56,761 shares of Common Stock held in a trust.

(c) Includes 23,702 shares held directly and 5,738 shares held jointly with spouse.

(d) Includes 6,648 shares of Common Stock held directly and 25,000 shares of Common Stock held in an IRA.

(e) Includes 13,545 shares of Common Stock held jointly with a spouse, 16,000 shares held in an IRA, and 6,273 shares held in a family trust and 18 shares of Preferred Stock held directly.

(f) Includes 23,601 shares of Common Stock held directly and 64,689 shares of Common Stock held in a trust.

(g) Includes 2,258 shares of Common Stock held directly, 5,000 shares of Common Stock held in an IRA and 63,837 shares of Common Stock held in a trust.

(h) Includes 10,000 shares of Common Stock held directly, 2,502,945 shares of Common Stock held by the Cray MGP Holdings LP, 212,838 shares of Common Stock held in a trust over which Ms. Seaberg has voting and disposition power, 611,069 shares of Common Stock in spouse's trust over which Ms. Seaberg may be deemed to have voting and disposition power, 112,627 shares of Common Stock in an IRA, 69,166 shares of Common Stock in the Seaberg Family Foundation over which Ms. Seaberg may been deemed to have voting and disposition power, 226 shares of Preferred Stock held directly and 71 shares of Preferred Stock held by spouse.

(i) Includes 41,650 shares of Common Stock held in a trust.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors, and persons who own more than 10% of the Company's Common Stock, to file reports of ownership and changes in ownership with the SEC and NASDAQ. Executive officers, directors and greater-than-10% beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based on a review of the copies of such forms furnished to the Company and the Company's officers' and directors' written representations, the Company believes that during 2016, all required reports were filed except as follows: (i) two Forms 4 were filed late for James L. Bareuther, relating to two total transactions; (ii) two Forms 4 and one Form 5 were filed late for Augustus C. Griffin, relating to four total transactions; (iii) one Form 5 was filed late for M. Jeannine Strandjord, relating to one transaction; (iv) two Forms 4 and one Form 5 (which related to 2015 transactions) were filed late for Karen L. Seaberg, relating to twenty total transactions; and (v) one Form 4 was filed late for David E. Dykstra, relating to one transaction (which occurred in 2014).

RELATED PARTY TRANSACTIONS

Written policies and procedures adopted by the Company's Audit Committee address its review of transactions that would or potentially would be transactions of more than $120,000 in which the Company's participates and in which any "related person" has a direct or indirect material interest. A "related person" is a director, executive officer, 5% or more stockholder, or immediate family member of any such person. The policies and procedures require our directors and executive officers to notify our CEO of the facts and circumstances of the transaction. If our CEO determines that the proposed transaction is a related person transaction as defined in the written policies and procedures, then the proposed transaction is submitted to the Audit Committee for consideration.

For each potential or actual transaction that is or would be a related party transaction, the Audit Committee considers, where applicable:

- the benefits to the Company;
- the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer;
- the availability of other sources for comparable products and services;
- the terms and conditions of the proposed transaction; and
- the terms and conditions available with unrelated third persons.

The policies and procedures prohibit interested Audit Committee members from participating in the review, consideration or approval of any transaction with respect to which such member is directly or indirectly the related person. The Audit Committee only approves those transactions that are in, or not inconsistent with, the best interests of the Company and its stockholders, as the Audit Committee determines in good faith. Annually, the Audit Committee reviews any previously approved related person transaction that remains ongoing, to ensure that the transaction remains in, or is not inconsistent with, the best interests of the Company and its stockholders. The Audit Committee has approved the transactions described below.

Anthony Foglio, a director of the Company, serves as an employee and is trustee of trusts holding 25% of the equity interest in another company that entered into transactions with the Company in 2016. The Company recorded revenue from these transactions that totaled $155,466. Mr. Foglio did not have any involvement in the negotiation of the transactions for either party.

OTHER MATTERS

We know of no other business that will be presented at the meeting. If any other matter properly comes before the stockholders for a vote at the meeting, however, the proxy holders will vote your shares in accordance with their best judgment. A proxy also confers discretionary authority on the persons named to approve minutes of last year's Annual Meeting, to vote on matters incident to the conduct of the meeting and to vote on the election of any person as a director if a nominee herein named should decline or become unable to serve as a director for any reason.

INDEPENDENT PUBLIC ACCOUNTANTS

In 2016, KPMG LLP served as independent registered public accountants. Representatives of KPMG LLP will be present at the stockholders' meeting. They will have the opportunity to make a statement and will be available to respond to appropriate questions.

AUDIT AND CERTAIN OTHER FEES PAID ACCOUNTANTS

Set forth below are the aggregate fees billed the Company by its principal accountant, KPMG LLP, for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 for (i) professional services rendered for the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's reports on Form 10-Q during such year ("Audit Fees"), (ii) assurance and related services that are reasonably related to the performance of the audit or review of the Company financial statements but are not included in Audit Fees (“Audit-Related Fees”), (iii) professional services rendered for tax compliance, tax advice or tax planning (“Tax Fees”) and (iv) other products and services (“Other Fees”).

The Audit Committee considers whether the provision of such services is compatible with maintaining the independence of its principal auditor. The Audit Committee has the sole right to engage and terminate the Company’s independent auditor, to pre-approve the performance of audit services and permitted non-audit services and to approve all audit and non-audit fees. The Audit Committee has empowered its chairman to act on the Committee’s behalf between meetings to approve permitted non-audit services; the chairman must report any such services to the Audit Committee at its next scheduled meeting. The Audit Committee may provide for the pre-approval of services through the adoption of additional pre-approval policies and procedures, provided the policies and procedures are detailed as to the particular services, the Audit Committee is informed of each service and the procedures do not include delegation to management of audit committee responsibilities under the Securities Exchange Act of 1934, as amended. The Audit Committee pre-approved of all services KPMG LLP rendered to the Company for 2016.

Type of Fee	Amount		
	2016	2015	2014
Audit Fees	$866,300	$836,400	$856,350
Audit Related Fees	0	0	0
Tax Fees	0	0	0
All Other Fees	0	0	0
Total	$866,300	$836,400	$856,350

PROXY SOLICITATIONS

This proxy is being solicited by the Board of Directors of the Company. The cost of soliciting proxies will be borne directly by the Company. In addition to soliciting proxies by mail, certain officers and employees of the Company, without extra compensation, may also solicit proxies personally or by telephone. Copies of proxy solicitation materials will be furnished to fiduciaries, custodians and brokerage houses for forwarding to the beneficial owners of shares held in their names. The Company will reimburse brokers, banks or other persons for reasonable expenses in sending proxy material to beneficial owners.

STOCKHOLDER PROPOSALS

Including Stockholder Proposals in the 2018 Annual Meeting Proxy Statement. Stockholders who intend to present proposals for inclusion in the Company’s proxy statement for the 2018 Annual Meeting of Stockholders pursuant to Rule 14a-8 under the Exchange Act (“Rule 14a-8”) must forward them to the Company at Cray Business Plaza, 100 Commercial Street, P.O. Box 130, Atchison, Kansas 66002, Attention: Lori Norlen, Corporate Secretary, so that they are received on or before December 11, 2017. The proposal must comply with applicable securities regulations. In addition, proxies solicited by management may confer discretionary authority to vote on matters which are not included in the proxy statement but which are raised at the Annual Meeting by stockholders.

Stockholder Proposals Presented at the 2018 Annual Meeting. With respect to stockholder proposals to be presented at the 2018 Annual Meeting that are not intended to be included in our proxy statement relating to that meeting, pursuant to the Company’s Amended and Restated Bylaws (the “Bylaws”), a stockholder’s written notice of such proposal, in the form specified in the Bylaws, must be delivered to or mailed and received at our principal executive offices no earlier than February 1, 2018 and no later than March 3, 2018. Pursuant to Rule 14a-4(c)(1) promulgated under the Exchange Act, the Company’s management will have discretionary authority to vote on any matter of which the Company does not receive notice of by March 3, 2018, with respect to proxies submitted for the 2018 Annual Meeting of the Company’s stockholders.

Stockholder Director Nominations. Pursuant to the Bylaws, in order to nominate persons for election to the Board of Directors at the 2018 Annual Meeting of the Company’s stockholders, a stockholder must deliver notice of the intention to submit nominations at the meeting, in the form specified in the Bylaws, to the Secretary of the Company no earlier than February 1, 2018 and no later than March 3, 2018.

MGP reserves the right to reject, rule out of order, or take other appropriate actions with respect to any proposal or nomination that does not comply with these and other applicable requirements.

HOUSEHOLDING

Only one copy of the Company’s Notice, and if applicable, our annual report (as amended) and the Proxy Statement, has been sent to multiple stockholders of the Company who share the same address and last name, unless the Company has received contrary instructions from one or more of those stockholders. This procedure is referred to as “householding.” In addition, the Company has been notified that certain intermediaries, i.e., brokers or banks, will household proxy materials. The Company will deliver promptly and free of charge, upon oral or written request, a separate copy of the Notice, and if applicable, annual report (as amended) and Proxy Statement, to any stockholder at the same address. If you wish to receive a separate copy of the Notice, annual report (as amended) and Proxy Statement, free of charge, you may write to the Corporate Secretary of the Company at MGP Ingredients, Inc., Cray

Business Plaza, 100 Commercial Street, P.O. Box 130, Atchison, Kansas 66002 or call the Corporate Secretary at 913-360-5448. You can contact your broker or bank to make a similar request. Stockholders sharing an address who now receive multiple copies of the proxy materials may request delivery of a single copy by writing or calling the Company at the above address or by contacting their broker or bank, provided they have determined to household proxy materials.

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COMMUNICATIONS WITH DIRECTORS AND DIRECTOR
ATTENDANCE AT STOCKHOLDER MEETINGS

The Company’s policy is to ask directors to attend the Annual Meeting of stockholders, and all of the directors attended last year’s Annual Meeting. Stockholders may communicate directly with Board members by writing the Board or individual Board members in care of the Company’s Secretary at the Company’s executive offices. Letters should be addressed as follows: Name of director - In care of Lori Norlen, Corporate Secretary - MGP Ingredients, Inc. – Cray Business Plaza, 100 Commercial Street, P.O. Box 130 - Atchison, Kansas 66002.
By Order of the Board of Directors
Karen Seaberg
Chairperson of the Board
April 18, 2017
Cray Business Plaza 100 Commercial Street
P.O. Box 130
Atchison, Kansas 66002-0130
Phone: 913-367-1480
www.mgpingredients.com

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