

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2021**

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: **000-21467**

ALTO INGREDIENTS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

41-2170618

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

1300 South Second Street, Pekin, Illinois

(Address of principal executive offices)

61554

(zip code)

(916) 403-2123

(Registrant's telephone number, including area code)

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

Title of each Class	Trading Symbol	Name of Exchange on Which Registered
Common Stock, \$0.001 par value	ALTO	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting company

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

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

As of November 11, 2021, there were 72,799,485 shares of Alto Ingredients, Inc. common stock, \$0.001 par value per share, and 896 shares of Alto Ingredients, Inc. non-voting common stock, \$0.001 par value per share, outstanding.

PART I
FINANCIAL INFORMATION

ITEM 1.	<u>FINANCIAL STATEMENTS.</u>	
	<u>Consolidated Balance Sheets as of September 30, 2021 (unaudited) and December 31, 2020</u>	1
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2021 and 2020 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2021 and 2020 (unaudited)</u>	4
	<u>Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended September 30, 2021 and 2020 (unaudited)</u>	5
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	6
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.</u>	19
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.</u>	35
ITEM 4.	<u>CONTROLS AND PROCEDURES.</u>	35

PART II
OTHER INFORMATION

ITEM 1.	<u>LEGAL PROCEEDINGS.</u>	36
ITEM 1A.	<u>RISK FACTORS.</u>	36
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.</u>	46
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES.</u>	46
ITEM 4.	<u>MINE SAFETY DISCLOSURES.</u>	46
ITEM 5.	<u>OTHER INFORMATION.</u>	46
ITEM 6.	<u>EXHIBITS.</u>	47
	<u>SIGNATURES</u>	48

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ALTO INGREDIENTS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2021 <u>(unaudited)</u>	December 31, 2020 *
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 36,029	\$ 47,667
Accounts receivable, net (net of allowance for doubtful accounts of \$360 and \$260, respectively)	78,424	43,491
Inventories	58,117	37,925
Prepaid inventory	5,480	891
Derivative instruments	12,977	17,149
Assets held-for-sale	30,158	58,295
Other current assets	5,413	8,628
Total current assets	<u>226,598</u>	<u>214,046</u>
Property and equipment, net	<u>224,319</u>	<u>229,486</u>
Other Assets:		
Right of use operating lease assets, net	12,715	11,046
Notes receivable	12,423	14,337
Intangible assets	2,678	2,678
Other assets	4,671	5,225
Total other assets	<u>32,487</u>	<u>33,286</u>
Total Assets	<u><u>\$ 483,404</u></u>	<u><u>\$ 476,818</u></u>

* Amounts derived from the audited consolidated financial statements for the year ended December 31, 2020.

See accompanying notes to consolidated financial statements.

ALTO INGREDIENTS, INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(in thousands, except par value)

	September 30, 2021	December 31, 2020
	<u>(unaudited)</u>	<u>*</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable – trade	\$ 28,387	\$ 13,047
Accrued liabilities	15,455	11,101
Current portion – operating leases	3,216	2,180
Current portion – long-term debt	17,687	25,533
Derivative instruments	2,735	—
Liabilities held-for-sale	10,500	19,542
Other current liabilities	6,468	15,524
Total current liabilities	<u>84,448</u>	<u>86,927</u>
Long-term debt, net of current portion	70,621	71,807
Operating leases, net of current portion	9,365	8,715
Other liabilities	13,774	13,134
Total Liabilities	<u>178,208</u>	<u>180,583</u>
Commitments and Contingencies (Note 7)		
Stockholders' Equity:		
Alto Ingredients, Inc. Stockholders' Equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; Series A: 1,684 shares authorized; no shares issued and outstanding as of September 30, 2021 and December 31, 2020; Series B: 1,581 shares authorized; 927 shares issued and outstanding as of September 30, 2021 and December 31, 2020; liquidation preference of \$20,609 as of September 30, 2021	1	1
Common stock, \$0.001 par value; 300,000 shares authorized; 72,800 and 72,487 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively	73	72
Non-voting common stock, \$0.001 par value; 3,553 shares authorized; 1 share issued and outstanding as of September 30, 2021 and December 31, 2020	—	—
Additional paid-in capital	1,036,608	1,036,638
Accumulated other comprehensive loss	(3,878)	(3,878)
Accumulated deficit	(727,608)	(736,598)
Total Stockholders' Equity	<u>305,196</u>	<u>296,235</u>
Total Liabilities and Stockholders' Equity	<u>\$ 483,404</u>	<u>\$ 476,818</u>

* Amounts derived from the audited consolidated financial statements for the year ended December 31, 2020.

ALTO INGREDIENTS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net sales	\$ 305,556	\$ 204,727	\$ 822,400	\$ 728,205
Cost of goods sold	308,955	183,797	796,729	688,983
Gross profit (loss)	(3,399)	20,930	25,671	39,222
Selling, general and administrative expenses	(5,533)	(6,404)	(19,777)	(25,245)
Asset impairments	—	—	(3,100)	—
Gain on litigation settlement	—	11,750	—	11,750
Income (loss) from operations	(8,932)	26,276	2,794	25,727
Interest expense, net	(429)	(4,199)	(3,359)	(14,153)
Income from loan forgiveness	5,973	—	9,860	—
Fair value adjustments	—	(6,856)	—	(7,497)
Other income (expense), net	256	(6)	641	(1,164)
Income (loss) before benefit for income taxes	(3,132)	15,215	9,936	2,913
Benefit for income taxes	—	—	—	—
Consolidated net income (loss)	(3,132)	15,215	9,936	2,913
Net loss attributed to noncontrolling interests	—	—	—	2,166
Net income (loss) attributed to Alto Ingredients, Inc.	\$ (3,132)	\$ 15,215	\$ 9,936	\$ 5,079
Preferred stock dividends	\$ (319)	\$ (319)	\$ (946)	\$ (949)
Net income (loss) available to common stockholders	\$ (3,451)	\$ 14,896	\$ 8,990	\$ 4,130
Net income (loss) per share, basic	\$ (0.05)	\$ 0.25	\$ 0.13	\$ 0.07
Net income (loss) per share, diluted	\$ (0.05)	\$ 0.24	\$ 0.12	\$ 0.07
Weighted-average shares outstanding, basic	71,383	58,503	71,002	55,620
Weighted-average shares outstanding, diluted	71,383	61,699	72,260	57,958

See accompanying notes to consolidated financial statements.

ALTO INGREDIENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2021	2020
Operating Activities:		
Consolidated net income	\$ 9,936	\$ 2,913
Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of intangibles	17,520	26,855
Asset impairments	3,100	—
Income from loan forgiveness	(9,860)	—
Non-cash compensation	2,282	2,012
Amortization of deferred financing fees	732	587
Fair value adjustments	—	7,497
Interest added to debt	—	133
Bad debt expense	140	1
Changes in operating assets and liabilities:		
Accounts receivable	(35,072)	29,841
Inventories	(20,192)	22,863
Prepaid expenses and other assets	12,362	(234)
Prepaid inventory	(4,588)	313
Operating leases	(3,184)	(2,348)
Assets held-for-sale	(2,874)	1,012
Liabilities held-for-sale	1,467	9,345
Accounts payable and accrued expenses	8,483	(25,097)
Net cash (used in) provided by operating activities	<u>(19,748)</u>	<u>75,693</u>
Investing Activities:		
Proceeds from Madera Sale	19,500	—
Proceeds from PAL Sale	—	19,896
Additions to property and equipment	(12,240)	(4,864)
Net cash provided by investing activities	<u>7,260</u>	<u>15,032</u>
Financing Activities:		
Net proceeds from (payments on) Kinerger's line of credit	38,198	(39,548)
Proceeds from stock option exercises	462	—
Principal payments on borrowings	(37,810)	(52,100)
Proceeds from warrant exercises	—	5,500
Proceeds from issuance of common stock	—	5,296
Proceeds from borrowings	—	9,860
Preferred stock dividends paid	—	—
Net cash provided by (used in) financing activities	<u>850</u>	<u>(70,992)</u>
Net change in cash and cash equivalents	(11,638)	19,733
Cash and cash equivalents at beginning of period	47,667	18,997
Cash and cash equivalents at end of period	<u>\$ 36,029</u>	<u>\$ 38,730</u>
Supplemental Cash Flow Information:		
Interest paid	\$ 3,194	\$ 13,746
Accrued preferred stock dividends	<u>\$ 946</u>	<u>\$ 949</u>

See accompanying notes to consolidated financial statements.

ALTO INGREDIENTS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited, in thousands)

	Preferred Stock		Common Stock		Additional	Accumulated	Accum. Other	Non-	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	Comprehensive Income (Loss)	Controlling Interests	
Balances, January 1, 2021	<u>927</u>	<u>\$ 1</u>	<u>72,487</u>	<u>\$ 72</u>	<u>\$ 1,036,638</u>	<u>\$ (736,598)</u>	<u>\$ (3,878)</u>	<u>\$ —</u>	<u>\$ 296,235</u>
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	550	1	(186)	—	—	—	(185)
Stock-based compensation	—	—	—	—	804	—	—	—	804
Stock option exercises	—	—	124	—	462	—	—	—	462
Preferred stock dividends	—	—	—	—	—	(312)	—	—	(312)
Net income	—	—	—	—	—	4,678	—	—	4,678
Balances, March 31, 2021	<u>927</u>	<u>\$ 1</u>	<u>73,161</u>	<u>\$ 73</u>	<u>\$ 1,037,718</u>	<u>\$ (732,232)</u>	<u>\$ (3,878)</u>	<u>\$ —</u>	<u>\$ 301,682</u>
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	(350)	—	(2,589)	—	—	—	(2,589)
Stock-based compensation	—	—	—	—	851	—	—	—	851
Preferred stock dividends	—	—	—	—	—	(315)	—	—	(315)
Net income	—	—	—	—	—	8,390	—	—	8,390
Balances, June 30, 2021	<u>927</u>	<u>\$ 1</u>	<u>72,811</u>	<u>\$ 73</u>	<u>\$ 1,035,980</u>	<u>\$ (724,157)</u>	<u>\$ (3,878)</u>	<u>\$ —</u>	<u>\$ 308,019</u>
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	(11)	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	628	—	—	—	628
Preferred stock dividends	—	—	—	—	—	(319)	—	—	(319)
Net loss	—	—	—	—	—	(3,132)	—	—	(3,132)
Balances, September 30, 2021	<u>927</u>	<u>\$ 1</u>	<u>72,800</u>	<u>\$ 73</u>	<u>\$ 1,036,608</u>	<u>\$ (727,608)</u>	<u>\$ (3,878)</u>	<u>\$ —</u>	<u>\$ 305,196</u>
Balances, January 1, 2020	<u>927</u>	<u>\$ 1</u>	<u>55,508</u>	<u>\$ 56</u>	<u>\$ 942,307</u>	<u>\$ (720,214)</u>	<u>\$ (2,370)</u>	<u>\$ 7,265</u>	<u>\$ 227,045</u>
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	(38)	(4)	3	—	—	—	(1)
Stock-based compensation	—	—	—	—	865	—	—	—	865
Issuances of common stock	—	—	421	4	278	—	—	—	282
Preferred stock dividends	—	—	—	—	—	(315)	—	—	(315)
Net loss	—	—	—	—	—	(25,100)	—	(2,056)	(27,156)
Balances, March 31, 2020	<u>927</u>	<u>\$ 1</u>	<u>55,891</u>	<u>\$ 56</u>	<u>\$ 943,453</u>	<u>\$ (745,629)</u>	<u>\$ (2,370)</u>	<u>\$ 5,209</u>	<u>\$ 200,720</u>
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	(409)	(1)	6	—	—	—	5
Stock-based compensation	—	—	—	—	576	—	—	—	576
Sale of interests in PAL	—	—	—	—	—	—	—	(5,099)	(5,099)
Preferred stock dividends	—	—	—	—	—	(315)	—	—	(315)
Net income (loss)	—	—	—	—	—	14,964	—	(110)	14,854
Balances, June 30, 2020	<u>927</u>	<u>\$ 1</u>	<u>55,482</u>	<u>\$ 55</u>	<u>\$ 944,035</u>	<u>\$ (730,980)</u>	<u>\$ (2,370)</u>	<u>\$ —</u>	<u>\$ 210,741</u>
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	1,501	1	18	—	—	—	19
Stock-based compensation	—	—	—	—	571	—	—	—	571
Issuances of common stock	—	—	1,000	1	5,013	—	—	—	5,014
Warrant exercise	—	—	5,500	6	13,969	—	—	—	13,975
Preferred stock dividends	—	—	—	—	—	(319)	—	—	(319)
Net income	—	—	—	—	—	15,215	—	—	15,215
Balances, September 30, 2020	<u>927</u>	<u>\$ 1</u>	<u>63,483</u>	<u>\$ 63</u>	<u>\$ 963,606</u>	<u>\$ (716,084)</u>	<u>\$ (2,370)</u>	<u>\$ —</u>	<u>\$ 245,216</u>

See accompanying notes to consolidated financial statements.

ALTO INGREDIENTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION.

Organization and Business – The consolidated financial statements include, for all periods presented, the accounts of Alto Ingredients, Inc., a Delaware corporation (“Alto Ingredients”), and its direct and indirect subsidiaries (collectively, the “Company”), including its wholly-owned subsidiaries, Kinergy Marketing LLC, an Oregon limited liability company (“Kinergy”), Alto Nutrients LLC, a California limited liability company, Alto Op Co., a Delaware corporation, and all seven of the Company’s production facilities through May 14, 2021. As discussed in Note 2, on May 14, 2021, the Company completed the sale of its production facility located in Madera, California.

The Company is a leading producer and marketer of specialty alcohols and essential ingredients. The Company also produces and markets fuel-grade ethanol. The Company’s production facilities in Pekin, Illinois are located in the heart of the Corn Belt, benefit from low-cost and abundant feedstock and allow for access to many additional domestic markets. In addition, the Company’s ability to load unit trains and barges from these facilities allows for greater access to international markets. The Company’s three production facilities in California, Oregon and Idaho, located in close proximity to both feed and fuel-grade ethanol customers, enjoy unique advantages in efficiency, logistics and product pricing.

The Company had, as of September 30, 2021, a combined alcohol production capacity of 410 million gallons per year and produces, on an annualized basis, nearly 1.2 million tons of essential ingredients on a dry matter basis, such as dried yeast, corn gluten meal, corn gluten feed, and distillers grains and liquid feed used in commercial animal feed and pet foods. In addition, the Company markets, on an annualized basis, over 250 million gallons combined of its own alcohol production and third-party production. On November 5, 2021, the Company closed the sale of its Stockton facility, reducing its alcohol production capacity by 60 million gallons of fuel-grade ethanol per year.

The Company focuses on four key markets: *Health, Home & Beauty*; *Food & Beverage*; *Essential Ingredients*; and *Renewable Fuels*. Products for the Health, Home & Beauty market include specialty alcohols used in mouthwash, cosmetics, pharmaceuticals, hand sanitizers, disinfectants and cleaners. Products for the Food & Beverage markets include grain neutral spirits used in alcoholic beverages and vinegar as well as corn germ used for corn oils. Products for Essential Ingredients markets include yeast, corn gluten and distillers grains used in commercial animal feed and pet foods. Renewable Fuels includes fuel-grade ethanol and distillers corn oil used as a feedstock for renewable diesel fuel.

As of September 30, 2021, the Company was operating at approximately 71% of its 410 million gallon annual production capacity. As market conditions change, the Company may increase, decrease or idle production at one or more operating facilities or resume operations at any idled facility.

Basis of Presentation—Interim Financial Statements – The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Results for interim periods should not be considered indicative of results for a full year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020. The accounting policies used in preparing these consolidated financial statements are the same as those described in Note 1 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounts Receivable and Allowance for Doubtful Accounts – Trade accounts receivable are presented at face value, net of the allowance for doubtful accounts. The Company sells specialty alcohols to large consumer products companies, sells fuel-grade ethanol to gasoline refining and distribution companies, sells essential ingredients to animal feed customers, including distillers grains and other feed co-products to dairy operators and animal feedlots and corn oil to poultry and biodiesel customers generally without requiring collateral.

The Company maintains an allowance for doubtful accounts for balances that appear to have specific collection issues. The collection process is based on the age of the invoice and requires attempted contacts with the customer at specified intervals. If, after a specified number of days, the Company has been unsuccessful in its collection efforts, a bad debt allowance is recorded for the balance in question. Delinquent accounts receivable are charged against the allowance for doubtful accounts once uncollectibility has been determined. The factors considered in reaching this determination are the apparent financial condition of the customer and the Company's success in contacting and negotiating with the customer. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of ability to make payments, additional allowances may be required.

Of the accounts receivable balance, approximately \$59,997,000 and \$35,839,000 at September 30, 2021 and December 31, 2020, respectively, were used as collateral under Kinergy's operating line of credit. The allowance for doubtful accounts was \$360,000 and \$260,000 as of September 30, 2021 and December 31, 2020, respectively. The Company recorded a bad debt recovery of \$3,000 and no bad debt expense for the three months ended September 30, 2021 and 2020, respectively. The Company recorded bad debt expense of \$140,000 and \$1,000 for the nine months ended September 30, 2021 and 2020, respectively. The Company does not have any off-balance sheet credit exposure related to its customers.

Financial Instruments – The carrying values of cash and cash equivalents, accounts receivable, derivative assets, accounts payable, accrued liabilities and derivative liabilities are reasonable estimates of their fair values because of the short maturity of these items. The Company believes the carrying value of its notes receivable are not considered materially different than fair value due to their recent issuances, and other long-term debt instruments' carrying values are not considered materially different than fair value because the interest rates on these instruments are variable, and are considered Level 2 fair value measurements.

Estimates and Assumptions – The preparation of the 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 revenues and expenses during the reporting period. Significant estimates are required as part of determining the allowance for doubtful accounts, net realizable value of inventory, estimated lives of property and equipment, long-lived asset impairments, fair value of warrants, valuation allowances on deferred income taxes and the potential outcome of future tax consequences of events recognized in the Company's financial statements or tax returns, and the valuation of assets acquired and liabilities assumed as a result of business combinations. Actual results and outcomes may materially differ from management's estimates and assumptions.

2. ASSETS AND LIABILITIES HELD-FOR-SALE.

In October 2020, the Company's Board of Directors approved a plan to sell the Company's fuel-grade ethanol production facilities located in Madera and Stockton, California. As a result, the Company determined the related long-lived asset groups should be classified as held-for-sale. During the nine months ended September 30, 2021, the Company provided for an additional impairment charge of \$1.2 million based on revised fair value estimates.

On May 14, 2021, the Company closed the sale of its Madera facility for total consideration of \$28.3 million, comprised of \$19.5 million in cash and \$8.8 million in assumption of liabilities, resulting in a net loss on sale of less than \$0.1 million, recorded as other income (expense), net in the Company's consolidated statements of operations. All of the cash proceeds were used to repay a significant portion of the Company's term debt and accrued interest.

On November 5, 2021, the Company closed the sale of its Stockton facility for gross proceeds of \$24.0 million in cash. With the net cash proceeds, the Company repaid its parent notes payable and the Pekin and ICP loans in full.

During 2021, the Company has agreed to sell certain assets of the Company's idled facility in Canton, Illinois. As a result, the Company determined the related long-lived asset groups should be classified as held-for-sale at September 30, 2021. During the nine months ended September 30, 2021, the Company recorded an estimated impairment charge of \$1.9 million based on fair value estimates.

The Company classified the following assets and liabilities as held-for-sale as of September 30, 2021 (in thousands):

	<u>Stockton</u>	<u>Canton</u>
Property and equipment, net	\$ 19,535	\$ 1,000
Right of use operating lease assets, net	9,623	—
Assets held-for-sale	<u>\$ 29,158</u>	<u>\$ 1,000</u>
	<u>Stockton</u>	<u>Canton</u>
Liabilities held-for-sale – operating leases	<u>\$ 10,500</u>	<u>\$ —</u>

The Company classified the following assets and liabilities as held-for-sale as of December 31, 2020 (in thousands):

	<u>Stockton</u>	<u>Madera</u>
Property and equipment, net	\$ 19,535	\$ 29,013
Right of use operating lease assets, net	9,747	—
Assets held-for-sale	<u>\$ 29,282</u>	<u>\$ 29,013</u>
	<u>Stockton</u>	<u>Madera</u>
Operating lease obligations	\$ 10,435	\$ —
Assessment financing	—	9,107
Liabilities held-for-sale	<u>\$ 10,435</u>	<u>\$ 9,107</u>

For the three months ended September 30, 2021, net sales attributed to the results of operations for Stockton and Madera were \$1.5 million and \$0, respectively. For the three months ended September 30, 2020, net sales attributed to the results of operations for Stockton and Madera were \$0.2 million and less than \$0.1 million, respectively. For the three months ended September 30, 2021, pre-tax income (loss) attributed to the results of operations for Stockton and Madera was income of \$0.3 million and loss of \$0.2 million, respectively. For the three months ended September 30, 2020, pre-tax loss attributed to the results of operations for Stockton and Madera was \$1.8 million and \$1.8 million, respectively.

For the nine months ended September 30, 2021, net sales attributed to the results of operations for Stockton and Madera were \$2.0 million and \$0, respectively. For the nine months ended September 30, 2020, net sales attributed to the results of operations for Stockton and Madera were \$22.6 million and \$22.5 million, respectively. For the nine months ended September 30, 2021, pre-tax loss attributed to the results of operations for Stockton and Madera was \$1.9 million and \$0.8 million, respectively. For the nine months ended September 30, 2020, pre-tax loss attributed to the results of operations for Stockton and Madera was \$5.4 million and \$5.4 million, respectively.

3. SEGMENTS.

The Company reports its financial and operating performance in three segments: (1) marketing and distribution, which includes marketing and merchant trading for Company-produced alcohols and essential ingredients on an aggregated basis, and third-party fuel-grade ethanol (2) Pekin production, which includes the production and sale of alcohols and essential ingredients produced at the Company's Pekin, Illinois campus ("Pekin Campus"), and (3) Other production, which includes the production and sale of fuel-grade ethanol and essential ingredients produced at all of the Company's other production facilities on an aggregated basis ("Other production"), none of which are individually so significant as to be considered a reportable segment.

The following tables set forth certain financial data for the Company's operating segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<i>Net Sales</i>				
Marketing and distribution:				
Alcohol sales, gross	\$ 112,391	\$ 84,001	\$ 255,702	\$ 212,625
Alcohol sales, net	505	382	1,489	1,117
Intersegment sales	2,415	1,598	7,277	7,751
Total marketing and distribution sales	115,311	85,981	264,468	221,493
Pekin Campus production, recorded as gross:				
Alcohol sales	\$ 114,587	\$ 77,075	\$ 341,967	\$ 255,737
Essential ingredient sales	46,016	27,619	140,670	101,123
Intersegment sales	293	197	920	877
Total Pekin Campus sales	160,896	104,891	483,557	357,737
Other production, recorded as gross:				
Alcohol sales	\$ 25,190	\$ 11,765	\$ 63,311	\$ 120,797
Essential ingredient sales	6,867	3,885	19,261	36,806
Intersegment sales	259	420	896	1,121
Total Other production sales	32,316	16,070	83,468	158,724
Intersegment eliminations	(2,967)	(2,215)	(9,093)	(9,749)
Net sales as reported	<u>\$ 305,556</u>	<u>\$ 204,727</u>	<u>\$ 822,400</u>	<u>\$ 728,205</u>
<i>Cost of goods sold:</i>				
Marketing and distribution	\$ 105,902	\$ 84,589	\$ 245,606	\$ 210,827
Pekin Campus production	169,721	80,280	468,972	302,120
Other production	35,613	20,718	87,055	181,382
Intersegment eliminations	(2,281)	(1,790)	(4,904)	(5,346)
Cost of goods sold as reported	<u>\$ 308,955</u>	<u>\$ 183,797</u>	<u>\$ 796,729</u>	<u>\$ 688,983</u>
<i>Income (loss) before benefit for income taxes:</i>				
Marketing and distribution	\$ 7,517	\$ (479)	\$ 12,925	\$ 3,808
Pekin Campus production	(11,830)	31,715	8,907	50,995
Other production	(4,856)	(7,173)	(12,463)	(40,990)
Corporate activities	6,037	(8,848)	567	(10,900)
	<u>\$ (3,132)</u>	<u>\$ 15,215</u>	<u>\$ 9,936</u>	<u>\$ 2,913</u>
<i>Depreciation:</i>				
Pekin Campus production	\$ 4,372	\$ 4,335	\$ 13,043	\$ 13,101
Other production	1,468	3,690	4,433	13,657
Corporate activities	11	30	44	97
	<u>\$ 5,851</u>	<u>\$ 8,055</u>	<u>\$ 17,520</u>	<u>\$ 26,855</u>
<i>Interest expense (income):</i>				
Marketing and distribution	\$ 295	\$ 334	\$ 721	\$ 1,275
Pekin Campus production	176	1,243	767	4,922
Other production	—	141	182	199
Corporate activities	(42)	2,481	1,689	7,757
	<u>\$ 429</u>	<u>\$ 4,199</u>	<u>\$ 3,359</u>	<u>\$ 14,153</u>

The following table sets forth the Company's total assets by operating segment (in thousands):

	September 30, 2021	December 31, 2020
<u>Total assets:</u>		
Marketing and distribution	\$ 149,316	\$ 89,337
Pekin Campus production	239,275	234,439
Other production	83,217	102,409
Corporate assets	11,596	50,633
	\$ 483,404	\$ 476,818

4. INVENTORIES.

Inventories consisted primarily of bulk ethanol, specialty alcohols, corn, essential ingredients and unleaded fuel, and are valued at the lower of cost or net realizable value, with cost determined on a first-in, first-out basis. Inventory is net of valuation adjustments of \$0 and \$1,033,000 as of September 30, 2021 and December 31, 2020, respectively. Inventory balances consisted of the following (in thousands):

	September 30, 2021	December 31, 2020
Finished goods	\$ 40,836	\$ 25,154
Work in progress	5,539	4,333
Raw materials	10,148	7,074
Other	1,594	1,364
Total	\$ 58,117	\$ 37,925

5. DERIVATIVES.

The business and activities of the Company expose it to a variety of market risks, including risks related to changes in commodity prices. The Company monitors and manages these financial exposures as an integral part of its risk management program. This program recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effects that market volatility could have on operating results.

Commodity Risk – Cash Flow Hedges – The Company uses derivative instruments to protect cash flows from fluctuations caused by volatility in commodity prices for periods of up to twelve months in order to protect gross profit margins from potentially adverse effects of market and price volatility on alcohol sales and purchase commitments where the prices are set at a future date and/or if the contracts specify a floating or index-based price. In addition, the Company hedges anticipated sales of alcohol to minimize its exposure to the potentially adverse effects of price volatility. These derivatives may be designated and documented as cash flow hedges and effectiveness is evaluated by assessing the probability of the anticipated transactions and regressing commodity futures prices against the Company's purchase and sales prices. Ineffectiveness, which is defined as the degree to which the derivative does not offset the underlying exposure, is recognized immediately in cost of goods sold. For the three and nine months ended September 30, 2021 and 2020, the Company did not designate any of its derivatives as cash flow hedges.

Commodity Risk – Non-Designated Hedges – The Company uses derivative instruments to lock in prices for certain amounts of corn and alcohols by entering into exchange-traded forward contracts or options for those commodities. These derivatives are not designated for hedge accounting treatment. The changes in fair value of these contracts are recorded on the balance sheet and recognized immediately in cost of goods sold. The Company recognized net losses of \$976,000 and gains of \$1,582,000 as the change in the fair value of these contracts for the three months ended September 30, 2021 and 2020, respectively. The Company recognized net gains of \$18,435,000 and \$1,582,000 as the change in the fair value of these contracts for the nine months ended September 30, 2021 and 2020, respectively.

Non Designated Derivative Instruments – The classification and amounts of the Company’s derivatives not designated as hedging instruments, and related cash collateral balances, are as follows (in thousands):

As of September 30, 2021				
Type of Instrument	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash collateral balance	Other current assets	\$ 757		
Commodity contracts	Derivative assets	\$ 12,977	Derivative liabilities	\$ 2,735

As of December 31, 2020				
Type of Instrument	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash collateral balance	Other current assets	\$ 520		
Commodity contracts	Derivative assets	\$ 17,149	Derivative liabilities	\$ —

The classification and amounts of the Company’s recognized gains for its derivatives not designated as hedging instruments are as follows (in thousands):

Type of Instrument	Statements of Operations Location	Realized Losses	
		Three Months Ended	
		2021	2020
Commodity contracts	Cost of goods sold	\$ (2,894)	\$ (531)

Type of Instrument	Statements of Operations Location	Unrealized Gains	
		Three Months Ended	
		2021	2020
Commodity contracts	Cost of goods sold	\$ 1,918	\$ 2,113

Type of Instrument	Statements of Operations Location	Realized Gains	
		Nine Months Ended	
		2021	2020
Commodity contracts	Cost of goods sold	\$ 21,449	\$ 47

Type of Instrument	Statements of Operations Location	Unrealized Gains (Losses)	
		Nine Months Ended	
		2021	2020
Commodity contracts	Cost of goods sold	\$ (3,014)	\$ 1,535

6. DEBT.

Long-term borrowings are summarized as follows (in thousands):

	September 30, 2021	December 31, 2020
Kinergy line of credit	\$ 70,710	\$ 32,512
Pekin revolving loan	9,580	20,580
ICP revolving loan	7,384	9,384
Parent notes payable	723	25,533
CARES Act loans	—	9,860
	<u>88,397</u>	<u>97,869</u>
Less unamortized debt premium	—	230
Less unamortized debt financing costs	(89)	(759)
Less short-term portion	(17,687)	(25,533)
Long-term debt	<u>\$ 70,621</u>	<u>\$ 71,807</u>

Parent Notes Payable – On May 14, 2021, with proceeds from the Company’s sale of its Madera, California facility, the Company repaid \$19.3 million of principal on its notes payable, resulting in an aggregate remaining balance of \$0.7 million. On November 5, 2021, with proceeds from the Company’s sale of its Stockton, California facility, the Company repaid the remaining outstanding balance on these notes.

Pekin and ICP Revolving Loans – On November 5, 2021, with proceeds from the Company’s sale of its Stockton, California facility, the Company repaid in full the outstanding balances on these loans.

CARES Act Loans – On May 4, 2020, Alto Ingredients, Inc. and Alto Pekin, LLC, or Alto Pekin, received loan proceeds from Bank of America, NA under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), through the Paycheck Protection Program administered by the U.S. Small Business Administration (“SBA”). Alto Ingredients, Inc. received \$6.0 million and Alto Pekin received \$3.9 million in loan proceeds. Under the terms of the loans, certain amounts may be forgiven if they are used for qualifying expenses as described in the CARES Act. In June 2021, the SBA approved Alto Pekin’s forgiveness application for the full amount of \$3.9 million, and accordingly, the Company recognized income from loan forgiveness for the three months ended June 30, 2021. In September 2021, the SBA approved Alto Ingredients, Inc.’s forgiveness application for the full amount of \$6.0 million, and accordingly, the Company recognized income from loan forgiveness for the three months ended September 30, 2021. The SBA may audit the loan forgiveness applications and further examine eligibility for forgiveness, including the facts and circumstances existing at the time the loans were made. The Company can provide no assurances that any loan forgiven will not require repayment following an audit by the SBA.

Maturities of Long-term Debt – The Company’s long-term debt matures as follows (in thousands):

December 31:	
2021	\$ 723
2022	16,964
2023	70,710
	<u>\$ 88,397</u>

Restrictions – At September 30, 2021, there were approximately \$250.3 million of net assets at the Company’s subsidiaries that were not available for transfer to Alto Ingredients, Inc. in the form of dividends, loans or advances due to restrictions contained in the credit facilities of the Company’s subsidiaries.

7. COMMITMENTS AND CONTINGENCIES.

Sales Commitments – At September 30, 2021, the Company had entered into sales contracts with its major customers to sell certain quantities of alcohol and essential ingredients. The Company had open alcohol indexed-price contracts for 93,403,000 gallons as of September 30, 2021 and open fixed-price alcohol sales contracts totaling \$242,181,000 as of September 30, 2021. The Company had open fixed-price sales contracts for essential ingredients totaling \$18,448,000 and open indexed-price sales contracts of essential ingredients for 5,044,000 tons as of September 30, 2021. These sales contracts are scheduled for completion over the next twelve months.

Purchase Commitments – At September 30, 2021, the Company had indexed-price purchase contracts to purchase 33,233,000 gallons of alcohol and fixed-price purchase contracts to purchase \$54,988,000 of alcohol from its suppliers. The Company had fixed-price purchase contracts to purchase \$29,916,000 of corn from its suppliers as of September 30, 2021. The Company had fixed-price purchase contracts for natural gas totaling \$4,464,000. The Company also had future commitments for certain capital projects totalling \$19,100,000. These purchase commitments are scheduled to be satisfied through mid-2022.

Litigation – General – The Company is subject to various claims and contingencies in the ordinary course of its business, including those related to litigation, business transactions, employee-related matters, environmental regulations, and others. When the Company is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company will record a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the claim if the likelihood of a potential loss is reasonably possible and the amount involved could be material. While there can be no assurances, the Company does not expect that any of its pending legal proceedings will have a material impact on the Company's financial condition or results of operations.

8. PENSION AND RETIREMENT BENEFIT PLANS.

The Company sponsors a defined benefit pension plan (the "Retirement Plan") and a health care and life insurance plan (the "Postretirement Plan"). The Company assumed the Retirement Plan and the Postretirement Plan as part of its acquisition of Aventine Renewable Energy Holdings, Inc. on July 1, 2015.

The Retirement Plan is noncontributory, and covers only "grandfathered" unionized employees at the Company's Pekin, Illinois facility who fulfill minimum age and service requirements. Benefits are based on a prescribed formula based upon the employee's years of service. The Retirement Plan, which is part of a collective bargaining agreement, covers only union employees hired prior to November 1, 2010.

The Company uses a December 31 measurement date for its Retirement Plan. The Company's funding policy is to make the minimum annual contribution required by applicable regulations. As of December 31, 2020, the Retirement Plan's accumulated projected benefit obligation was \$24.6 million, with a fair value of plan assets of \$17.6 million. The underfunded amount of \$7.0 million is recorded on the Company's consolidated balance sheet in other liabilities.

For the three months ended September 30, 2021, the Retirement Plan's net periodic expense was \$22,000, comprised of \$151,000 in interest cost and \$109,000 in service cost, partially offset by \$238,000 of expected return on plan assets. For the three months ended September 30, 2020, the Retirement Plan's net periodic expense was \$48,000, comprised of \$173,000 in interest cost and \$101,000 in service cost, partially offset by \$226,000 of expected return on plan assets.

For the nine months ended September 30, 2021, the Retirement Plan's net periodic expense was \$66,000, comprised of \$453,000 in interest cost and \$327,000 in service cost, partially offset by \$714,000 of expected return on plan assets. For the nine months ended September 30, 2020, the Retirement Plan's net periodic expense was \$144,000, comprised of \$519,000 in interest cost and \$303,000 in service cost, partially offset by \$678,000 of expected return on plan assets.

The Postretirement Plan provides postretirement medical benefits and life insurance to certain "grandfathered" unionized employees. Employees hired after December 31, 2000 are not eligible to participate in the Postretirement Plan. The Postretirement Plan is contributory, with contributions required at the same rate as active employees. Benefit eligibility under the plan declines at age 65 from a defined benefit to a defined dollar cap based upon years of service. As of December 31, 2020, the Postretirement Plan's accumulated projected benefit obligation was \$5.3 million and is recorded on the Company's consolidated balance sheet in other liabilities. The Company's funding policy is to make the minimum annual contribution required by applicable regulations.

For the three months ended September 30, 2021, the Postretirement Plan's net periodic expense was \$42,000, comprised of \$10,000 of interest cost, \$26,000 of service cost and \$6,000 of amortization expense. For the three months ended September 30, 2020, the Postretirement Plan's net periodic expense was \$59,000, comprised of \$38,000 of interest cost, \$14,000 of service cost and \$7,000 of amortization expense.

For the nine months ended September 30, 2021, the Postretirement Plan's net periodic expense was \$126,000, comprised of \$30,000 of interest cost, \$78,000 of service cost and \$18,000 of amortization expense. For the nine months ended September 30, 2020, the Postretirement Plan's net periodic expense was \$177,000, comprised of \$114,000 of interest cost, \$42,000 of service cost and \$21,000 of amortization expense.

9. FAIR VALUE MEASUREMENTS.

The fair value hierarchy prioritizes the inputs used in valuation techniques into three levels, as follows:

- Level 1 – Observable inputs – unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data; and
- Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable. For fair value measurements using significant unobservable inputs, a description of the inputs and the information used to develop the inputs is required along with a reconciliation of Level 3 values from the prior reporting period.

Pooled separate accounts – Pooled separate accounts invest primarily in domestic and international stocks, commercial paper or single mutual funds. The net asset value is used as a practical expedient to determine fair value for these accounts. Each pooled separate account provides for redemptions by the Retirement Plan at reported net asset values per share, with little to no advance notice requirement, therefore these funds are classified within Level 2 of the valuation hierarchy.

Long-Lived Assets Held-for-Sale – The Company recorded its long-lived assets associated with its property and equipment held-for-sale at fair value at September 30, 2021 and December 31, 2020 of \$20,535,000 and \$48,548,000, respectively. The fair values of these assets are based on observable values for the assets through corroboration with market data and are designated as Level 3 inputs.

Other Derivative Instruments – The Company's other derivative instruments consist of commodity positions. The fair values of the commodity positions are based on quoted prices on the commodity exchanges and are designated as Level 1 inputs.

The following table summarizes recurring and nonrecurring fair value measurements by level at September 30, 2021 (in thousands):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Derivative financial instruments	\$ 12,977	\$ 12,977	\$ —	\$ —
Long-lived assets held-for-sale	30,158	—	—	30,158
	<u>\$ 43,135</u>	<u>\$ 12,977</u>	<u>\$ —</u>	<u>\$ 30,158</u>
Liabilities:				
Derivative financial instruments	\$ (2,735)	\$ (2,735)	\$ —	\$ —
	<u>\$ (2,735)</u>	<u>\$ (2,735)</u>	<u>\$ —</u>	<u>\$ —</u>

The following table summarizes recurring and nonrecurring fair value measurements by level at December 31, 2020 (in thousands):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Benefit Plan Percentage Allocation</u>
Assets:					
Derivative financial instruments	\$ 17,149	\$ 17,149	\$ —	\$ —	
Long-lived assets held-for-sale	58,295	—	—	58,295	
Defined benefit plan assets(1) (pooled separate accounts):					
Large U.S. Equity(2)	5,470	—	5,470	—	31%
Small/Mid U.S. Equity(3)	2,605	—	2,605	—	15%
International Equity(4)	2,921	—	2,921	—	17%
Fixed Income(5)	6,592	—	6,592	—	37%
	<u>\$ 93,032</u>	<u>\$ 17,149</u>	<u>\$ 17,588</u>	<u>\$ 58,295</u>	
Liabilities:					
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	

(1) Included in other assets in the consolidated balance sheets.

(2) This category includes investments in funds comprised of equity securities of large U.S. companies. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

(3) This category includes investments in funds comprised of equity securities of small- and medium-sized U.S. companies. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

(4) This category includes investments in funds comprised of equity securities of foreign companies including emerging markets. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

(5) This category includes investments in funds comprised of U.S. and foreign investment-grade fixed income securities, high-yield fixed income securities that are rated below investment-grade, U.S. treasury securities, mortgage-backed securities, and other asset-backed securities. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

10. EARNINGS PER SHARE.

The following tables compute basic and diluted earnings per share (in thousands, except per share data):

	<u>Three Months Ended September 30, 2021</u>		
	<u>Loss Numerator</u>	<u>Shares Denominator</u>	<u>Per-Share Amount</u>
Net loss attributed to Alto Ingredients, Inc.	\$ (3,132)		
Less: Preferred stock dividends	(319)		
Basic and Diluted loss per share:			
Loss available to common stockholders	<u>\$ (3,451)</u>	<u>71,383</u>	<u>\$ (0.05)</u>

	Three Months Ended September 30, 2020		
	Income Numerator	Shares Denominator	Per-Share Amount
Net income attributed to Alto Ingredients, Inc.	\$ 15,215		
Less: Preferred stock dividends	(319)		
Basic income per share:			
Income available to common stockholders	\$ 14,896	58,503	\$ 0.25
Add: Dilutive securities	—	3,196	
Diluted income per share:			
Income available to common stockholders	\$ 14,896	61,699	\$ 0.24

	Nine Months Ended September 30, 2021		
	Income Numerator	Shares Denominator	Per-Share Amount
Net income attributed to Alto Ingredients, Inc.	\$ 9,936		
Less: Preferred stock dividends	(946)		
Basic income per share:			
Income available to common stockholders	\$ 8,990	71,002	\$ 0.13
Add: Dilutive securities	—	1,258	
Diluted income per share:			
Income available to common stockholders	\$ 8,990	72,260	\$ 0.12

	Nine Months Ended September 30, 2020		
	Income Numerator	Shares Denominator	Per-Share Amount
Net income attributed to Alto Ingredients, Inc.	\$ 5,079		
Less: Preferred stock dividends	(949)		
Basic income per share:			
Income available to common stockholders	\$ 4,130	55,620	\$ 0.07
Add: Dilutive securities	—	2,338	
Diluted income per share:			
Income available to common stockholders	\$ 4,130	57,958	\$ 0.07

There were an additional aggregate potentially dilutive weighted-average shares of 964,000 from convertible securities outstanding for the three and nine months ended September 30, 2021 and 2020. These securities were not considered in calculating diluted net income per share for the three and nine months ended September 30, 2021 and 2020, as their effect would have been anti-dilutive.

11. PARENT COMPANY FINANCIALS.

Restricted Net Assets – At September 30, 2021, the Company had approximately \$250.3 million of net assets at its subsidiaries that were not available for transfer to Alto Ingredients in the form of dividends, distributions, loans or advances due to restrictions contained in the credit facilities of these subsidiaries.

Parent company financial statements for the periods covered in this report are set forth below (in thousands):

ASSETS	September 30, 2021	December 31, 2020
Current Assets:		
Cash and cash equivalents	\$ 7,038	\$ 25,632
Receivables from subsidiaries	23,165	15,548
Other current assets	891	1,836
Total current assets	<u>31,094</u>	<u>43,016</u>
Property and equipment, net	<u>98</u>	<u>142</u>
Other Assets:		
Investments in subsidiaries	255,904	246,518
Alto West, LLC receivable	27,592	42,649
Right of use operating lease assets, net	2,773	2,985
Other assets	796	1,088
Total other assets	<u>287,065</u>	<u>293,240</u>
Total Assets	<u>\$ 318,257</u>	<u>\$ 336,398</u>
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 5,405	\$ 2,001
Accrued Alto Op Co. purchase	3,829	3,829
Current portion of long-term debt	723	25,533
Other current liabilities	332	473
Total current liabilities	<u>10,289</u>	<u>31,836</u>
Long-term debt, net of current portion	—	5,564
Other liabilities	2,772	2,763
Total Liabilities	<u>13,061</u>	<u>40,163</u>
Stockholders' Equity:		
Preferred stock	1	1
Common and non-voting common stock	73	72
Additional paid-in capital	1,036,608	1,036,638
Accumulated other comprehensive loss	(3,878)	(3,878)
Accumulated deficit	(727,608)	(736,598)
Total Alto Ingredients, Inc. stockholders' equity	<u>305,196</u>	<u>296,235</u>
Total Liabilities and Stockholders' Equity	<u>\$ 318,257</u>	<u>\$ 336,398</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Management fees from subsidiaries	\$ 2,406	\$ 2,802	\$ 7,418	\$ 8,928
Selling, general and administrative expenses	3,105	3,305	12,149	12,990
Loss from operations	(699)	(503)	(4,731)	(4,062)
Income from loan forgiveness	5,973	—	5,973	—
Interest income (expense), net	42	(1,490)	(1,689)	(4,787)
Fair value adjustments	—	(6,856)	—	(7,497)
Other income (expense)	295	(41)	1,513	(203)
Income (loss) before benefit for income taxes	<u>5,611</u>	<u>(8,890)</u>	<u>1,066</u>	<u>(16,549)</u>
Benefit for income taxes	—	—	—	—
Income (loss) before benefit for income taxes	5,611	(8,890)	1,066	(16,549)
Equity in income (losses) of subsidiaries	(8,743)	24,105	8,870	21,628
Net income (loss)	<u>\$ (3,132)</u>	<u>\$ 15,215</u>	<u>\$ 9,936</u>	<u>\$ 5,079</u>

	For the Nine Months Ended September 30,	
	2021	2020
Operating Activities:		
Net income	\$ 9,936	\$ 5,079
Adjustments to reconcile net income to cash used in operating activities:		
Equity in (income) losses of subsidiaries	(8,870)	(21,628)
Income from loan forgiveness	(5,973)	—
Fair value adjustments	—	7,497
Depreciation	44	97
Amortization of debt discounts	409	(173)
Changes in operating assets and liabilities:		
Accounts receivable	(7,617)	(288)
Other assets	1,449	1,184
Accounts payable and accrued expenses	(2,213)	(19)
Accounts payable with subsidiaries	32	—
Net cash used in operating activities	<u>\$ (12,803)</u>	<u>\$ (8,251)</u>
Investing Activities:		
Additions to property and equipment	\$ —	\$ —
Net cash used in investing activities	<u>\$ —</u>	<u>\$ —</u>
Financing Activities:		
Proceeds from issuances of common stock	\$ 462	\$ 5,296
Proceeds from plant receivables	15,057	5,813
Proceeds from warrant exercises	—	5,500
Proceeds from long-term debt	—	5,973
Payments on senior notes	(24,810)	(5,500)
Dividend from subsidiary	3,500	—
Preferred stock dividend payments	—	—
Net cash (used in) provided by financing activities	<u>\$ (5,791)</u>	<u>\$ 17,082</u>
Net change in cash and cash equivalents	(18,594)	8,831
Cash and cash equivalents at beginning of period	25,632	4,985
Cash and cash equivalents at end of period	<u>\$ 7,038</u>	<u>\$ 13,816</u>

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included elsewhere in this report. This report and our consolidated financial statements and notes to consolidated financial statements contain forward-looking statements, which generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance and our current beliefs regarding revenues we might generate and profits we might earn if we are successful in implementing our business and growth strategies. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including:

- fluctuations in the market prices of alcohols and essential ingredients;
- fluctuations in the costs of key production input commodities such as corn and natural gas;
- the projected growth or contraction in the alcohol and essential ingredients markets in which we operate;
- our strategies for expanding, maintaining or contracting our presence in these markets;
- anticipated trends in our financial condition and results of operations; and
- our ability to distinguish ourselves from our current and future competitors.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report, or in the case of a document incorporated by reference, as of the date of that document. We do not undertake to update, revise or correct any forward-looking statements, except as required by law.

Any of the factors described immediately above, or referenced from time to time in our filings with the Securities and Exchange Commission or in the “Risk Factors” section below could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

Overview

We are a leading producer and marketer of specialty alcohols and essential ingredients, and the largest producer of specialty alcohols in the United States based on annualized volumes.

We operate five alcohol production facilities. Three of our production facilities are located in the Midwestern state of Illinois and two of our facilities are located in the Western states of Oregon and Idaho. We have an annual alcohol production capacity of 350 million gallons. We market all of the alcohols produced at our facilities as well as fuel-grade ethanol produced by third parties. In 2020, we marketed over 500 million gallons combined of our own alcohols as well as fuel-grade ethanol produced by third parties, and nearly 1.5 million tons of essential ingredients on a dry matter basis.

We report our financial and operating performance in three segments: (1) marketing and distribution, which includes marketing and merchant trading for Company-produced alcohols and essential ingredients on an aggregated basis, and third party fuel-grade ethanol, (2) Pekin production, which includes the production and sale of alcohols and essential ingredients produced at our Pekin, Illinois campus, or Pekin Campus, and (3) Other production, which includes the production and sale of fuel-grade ethanol and essential ingredients produced at all of our other production facilities on an aggregate basis, none of which are individually so significant as to be considered a reportable segment.

Our mission is to expand our business as a leading producer and marketer of specialty alcohols and essential ingredients. We intend to accomplish this goal in part by investing in our specialized and higher value specialty alcohol production and distribution infrastructure, expanding production in high-demand essential ingredients, expanding and extending the sale of our products into new regional and international markets, building efficiencies and economies of scale and by capturing a greater portion of the value stream.

Production Segments

We produce specialty alcohols, fuel-grade ethanol and essential ingredients, focusing on four key markets: *Health, Home & Beauty*; *Food & Beverage*; *Essential Ingredients*; and *Renewable Fuels*. Products for the Health, Home & Beauty market include specialty alcohols used in mouthwash, cosmetics, pharmaceuticals, hand sanitizers, disinfectants and cleaners. Products for the Food & Beverage markets include grain neutral spirits used in alcoholic beverages and vinegar as well as corn germ used for corn oils. Products for Essential Ingredients markets include yeast, corn gluten and distillers grains used in commercial animal feed and pet foods. Our Renewable Fuels products include fuel-grade ethanol and distillers corn oil used as a feedstock for renewable diesel fuel.

We produce our alcohols and essential ingredients at our production facilities described below. Our production facilities located in the Midwest are in the heart of the Corn Belt, benefit from low-cost and abundant feedstock and enjoy logistical advantages that enable us to provide our products to both domestic and international markets via truck, rail or barge. Our production facilities located on the West Coast are near their respective fuel and feed customers, offering significant timing, transportation cost and logistical advantages.

We are currently operating at approximately 83% of our estimated maximum annual production capacity. Our Magic Valley facility is currently idled, however, we are preparing to restart the facility during the fourth quarter. As market conditions change, we may increase, decrease or idle production at one or more operating facilities or resume operations at any idled facility.

Production Facility	Location	Annual Production Capacity (estimated, in gallons)	
		Fuel-Grade Ethanol	Specialty Alcohol
Pekin Campus	Pekin, IL	110,000,000	140,000,000
Magic Valley	Burley, ID	60,000,000	—
Columbia	Boardman, OR	40,000,000	—

Marketing Segment

We market all of the alcohols and essential ingredients we produce at our facilities. We also market fuel-grade ethanol produced by third parties.

We have extensive and long-standing customer relationships, both domestic and international, for our specialty alcohols and essential ingredients. These customers include producers and distributors of ingredients for cosmetics, sanitizers and related products, distilled spirits producers, food products manufacturers, producers of personal health/consumer health and personal care hygiene products, and global trading firms.

Our fuel-grade ethanol customers are located throughout the Western and Midwestern United States and consist of integrated oil companies and gasoline marketers who blend fuel-grade ethanol into gasoline. Our customers depend on us to provide a reliable supply of fuel-grade ethanol and manage the logistics and timing of delivery with very little effort on their part. Our customers collectively require fuel-grade ethanol volumes in excess of the supplies we produce at our facilities. We secure additional fuel-grade ethanol supplies from third-party fuel-grade ethanol producers. We arrange for transportation, storage and delivery of fuel-grade ethanol purchased by our customers through our agreements with third-party service providers in the Western United States as well as in the Midwest from a variety of sources.

We market our essential ingredient feed products to dairies and feedlots, in many cases located near our production facilities. These customers use our feed products for livestock as a substitute for corn and other sources of starch and protein. We sell our corn oil to poultry and biodiesel customers. We do not market essential ingredients from other producers.

See “Note 3 – Segments” to our Notes to Consolidated Financial Statements included elsewhere in this report for financial information about our business segments.

Current Initiatives and Outlook

We made significant progress advancing our strategic initiatives in the third quarter by expanding our essential ingredients business and investing in infrastructure improvements. Subsequent to quarter-end, we also completed the realignment of our business.

In September, we launched our first project to produce enhanced protein at our dry mill in Magic Valley, Idaho by installing Harvesting Technology’s patented CoPromax™ system. We chose this facility because of its location near cattle, poultry, pork and aquaculture markets to serve the growing demand for high protein feed. We plan to restart production at this facility by year-end and commission the new system in the first half of 2022. Once completed, we expect the CoPromax system to produce over 33,000 tons of feed annually with a protein content greater than 50%. The system will also increase corn oil yields by 50% to nearly 9.0 million pounds annually. We expect the combination of additional sales of corn oil and premium prices from high protein feed to contribute earnings before interest, taxes, depreciation and amortization, or EBITDA, of over \$9.0 million annually based on current market prices, of which we expect a contribution of \$5.0 million of EBITDA in 2022.

We plan to roll out the CoPromax system at our three other dry mills following its successful installation at our Magic Valley facility. Assuming similar economics across all four dry mills, we conservatively estimate that the systems will contribute EBITDA of \$40.0 million annually, including additional EBITDA of \$34.0 million in 2023 or 2024, or both. This initiative is one example of our efforts to grow and diversify our revenues and bolster the quantity and quality of our earnings.

In the third quarter, we completed our yeast facility expansion project. Our additional yeast production is fully contracted for sale through 2022. We expect to complete our feed dryer upgrades and achieve their full operation by year-end. Beginning in 2022, we anticipate that our yeast facility expansion and feed dryer upgrade projects will contribute EBITDA of approximately \$5.0 million annually. We also completed the expansion of our annual corn oil production capacity by 4,000 tons at our Pekin campus, which we expect will contribute EBITDA of approximately \$4.5 million annually starting in 2022. In addition to our yeast facility expansion, we are pursuing opportunities to expand our yeast product offerings to include higher quality, more versatile products marketable to the food industry.

We have completed the repair and maintenance shutdown, and infrastructure upgrade, of our Pekin campus wet mill. We upgraded the facility’s electrical infrastructure, improved redundancy in the facility’s cooling supply, and replaced condensers and pumps. This project has significantly improved the efficiency and reliability of the facility’s production capabilities to further support customer demand long-term. The project has also extended our planned outage schedule to 24-month intervals. The facility shutdown occurred during a period of volatile market conditions and reduced revenues and increased operating costs, resulting in a net loss for the third quarter. Following its restart, our Pekin campus wet mill returned to profitable operations in September.

We continue to work with new and existing customers to act as their certified producer of a growing variety of specialty alcohols used in common, everyday consumer goods, such as vinegars, spirits, mouthwash, cosmetics and cleaning supplies. To proactively address our customers’ growing needs, we are extending to our Pekin wet mill the certifications we obtained in 2020 for our ICP facility. We expect to complete these certifications by year-end, which will provide redundancy across our entire Pekin campus as well as further quality assurances to our customers.

Due to volatile commodity prices, customers are taking a more measured approach to contracting annual specialty alcohol volumes for 2022 as compared to prior years. As a result, we expect contract negotiations to extend through the rest of 2021. Nevertheless, we expect to contract for more specialty alcohol gallons in 2022 than in 2021.

In November, we completed the sale of our idled fuel-grade ethanol facility in Stockton, California for \$24 million in cash. We retained the right to service our regional customer needs by using the facility's terminal capabilities. We will also act as the facility's exclusive marketer of fuel-grade ethanol when production resumes. The sale of our Stockton facility and the earlier sale of our Madera, California facility collectively remove approximately \$4.0 million in annual negative EBITDA carrying costs for the idled facilities. The sale of our Stockton facility completes the realignment, which began over 21 months ago, of our business. This realignment has contributed significantly to the repayment of approximately \$150.0 million in debt, achieving our goal of repayment by the end of 2021. Retiring this debt has also eliminated over \$16.0 million in annual interest expense and has removed the structural and financial impediments that contributed to our prior financial challenges.

In total, we expect our capital improvement projects and cost savings from the realignment of our business to contribute \$18.5 million of EBITDA in 2022 compared to 2021.

We anticipate full-year 2021 gross profit, on a consolidated basis, of at least \$40.0 million, excluding any fourth quarter impact from derivatives. Many variables could materially impact this projected amount and our overall results, including highly volatile commodity prices, export conditions, and abnormally high logistical costs, including corn basis. Given unusually high positive short-term spreads in fuel-grade ethanol and corn, we have begun locking in margins for our fuel-grade ethanol production through year-end. Moreover, given the volatility we experienced in 2021 in the commodity markets, we have elected to lock in our utility costs for the next twelve months and lock in other variable input costs, including corn, through the first quarter of 2022 to mitigate risk.

We plan to reinvest in sustainable and profitable business segments, strengthening our core operations and further diversifying our product offerings in specialty alcohols and essential ingredients. In addition, we remain actively engaged with third parties to develop a carbon capture and sequestration program at our Pekin campus, which remains an important opportunity, especially given the tax credit enhancements for carbon capture and sequestration included in the Infrastructure Investment and Jobs Act. Finally, we are actively pursuing opportunities to extend our specialty alcohol business through accretive vertical integration.

Use of Non-GAAP Measures

Management believes that certain financial measures not in accordance with generally accepted accounting principles ("GAAP") are useful measures of operations. The company defines EBITDA as unaudited net income (loss) attributed to Alto Ingredients, Inc. before interest expense, provision (benefit) for income taxes, and depreciation and amortization expense. Management provides this non-GAAP measure so that investors will have the same financial information that management uses, which may assist investors in properly assessing the company's performance on a period-over-period basis. EBITDA is not a measure of financial performance under GAAP and should not be considered as an alternative to net income (loss) attributed to Alto Ingredients, Inc. or any other measure of performance under GAAP, or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. EBITDA has limitations as an analytical tool and you should not consider this measure in isolation or as a substitute for analysis of our results as reported under GAAP.

Information reconciling forward-looking EBITDA to forward-looking net income (loss) attributed to Alto Ingredients, Inc. would require a forward-looking statement of net income (loss) attributed to Alto Ingredients, Inc. prepared in accordance with GAAP, which is unavailable to us without unreasonable effort. We are not able to provide a quantitative reconciliation of forward-looking EBITDA to forward-looking net income (loss) attributed to Alto Ingredients, Inc. because items required for reconciliation are uncertain, outside of our control and/or cannot be reasonably predicted, such as provision (benefit) for income taxes and net income (loss), that are not presently estimable.

Critical Accounting Policies

The preparation of our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, requires us to make judgments and estimates that may have a significant impact upon the portrayal of our financial condition and results of operations. We believe that of our significant accounting policies, the following require estimates and assumptions that require complex, subjective judgments by management that can materially impact the portrayal of our financial condition and results of operations: revenue recognition; impairment of long-lived assets and held-for-sale classification; valuation of allowance for deferred taxes and derivative instruments. These significant accounting principles are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Results of Operations

The following selected financial information should be read in conjunction with our consolidated financial statements and notes to our consolidated financial statements included elsewhere in this report, and the other sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this report.

Certain performance metrics that we believe are important indicators of our results of operations include:

	Three Months Ended September 30,		Percentage Variance	Nine Months Ended September 30,		Percentage Variance
	2021	2020		2021	2020	
Fuel-grade ethanol production gallons sold (in millions)	38.3	21.9	74.9%	118.6	148.0	(19.9)%
Specialty alcohol production gallons sold (in millions)	19.7	21.6	(8.8)%	63.1	74.9	(15.8)%
Third party fuel-grade ethanol gallons sold (in millions)	67.2	76.7	(12.4)%	180.5	213.0	(15.3)%
Total gallons sold (in millions)	125.2	120.2	4.2%	362.2	435.9	(16.9)%
Total gallons produced (in millions)	60.6	45.2	34.1%	182.2	209.1	(12.9)%
Production capacity utilization	59%	40%	47.5%	57%	54%	5.6%
Average sales price per gallon	\$ 2.47	\$ 1.71	44.4%	\$ 2.27	\$ 1.60	41.9%
Corn cost per bushel – CBOT equivalent	\$ 6.09	\$ 3.29	85.1%	\$ 5.71	\$ 3.49	63.6%
Average basis ⁽¹⁾	\$ 0.89	\$ 0.22	304.5%	\$ 0.53	\$ 0.29	82.8%
Delivered cost of corn	\$ 6.98	\$ 3.51	98.9%	\$ 6.24	\$ 3.78	65.1%
Total essential ingredients tons sold (in thousands)	305.6	255.5	19.6%	886.5	1,177.5	(24.7)%
Essential ingredients revenues as % of delivered cost of corn ⁽²⁾	29.5%	50.2%	(41.2)%	33.8%	44.6%	(24.2)%
Average CBOT fuel-grade ethanol price per gallon	\$ 2.25	\$ 1.27	77.2%	\$ 2.08	\$ 1.20	73.3%
Average CBOT corn price per bushel	\$ 5.59	\$ 3.40	64.4%	\$ 5.87	\$ 3.49	68.2%

(1) Corn basis represents the difference between the immediate cash price of delivered corn and the future price of corn for Chicago delivery.

(2) Essential ingredients revenues as a percentage of delivered cost of corn shows our yield based on sales of essential ingredients, including wet distillers grains and corn oil, generated from alcohol we produced.

Net Sales, Cost of Goods Sold and Gross Profit (Loss)

The following table presents our net sales, cost of goods sold and gross profit (loss) in dollars and gross profit as a percentage of net sales (in thousands, except percentages):

	Three Months Ended September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2021	2020	Dollars	Percent	2021	2020	Dollars	Percent
Net sales	\$ 305,556	\$ 204,727	\$ 100,829	49.3%	\$ 822,400	\$ 728,205	\$ 94,195	12.9%
Cost of goods sold	308,955	183,797	125,158	68.1%	796,729	688,983	107,746	15.6%
Gross profit (loss)	\$ (3,399)	\$ 20,930	\$ (24,329)	NM*	\$ 25,671	\$ 39,222	\$ (13,551)	(34.5)%
Percentage of net sales	(1.1)%	10.2%			3.1%	5.4%		

* Not meaningful.

Net Sales

The increase in our consolidated net sales for the three months ended September 30, 2021 as compared to the same periods in 2020 was primarily due to an increase in our average sales price per gallon and in our production gallons sold.

Our production gallons and our volume of essential ingredients sold increased for the three months ended September 30, 2021 as compared to the same period in 2020 primarily due to the operation of our Pekin dry mill in the third quarter of 2021, which was idled during the same period in 2020 due to significant logistical constraints arising from closure of the Illinois River for lock repairs, and continued contract sales of our specialty alcohols. Our third-party gallons sold declined as compared to the same period in 2020 because we focused our efforts on selling our own fuel-grade ethanol production.

The increase in our consolidated net sales for the nine months ended September 30, 2021 as compared to the same period in 2020 was primarily due to an increase in our average sales price per gallon, partially offset by a decrease in our total gallons sold.

Our production gallons, our third-party gallons and our volume of essential ingredients sold declined for the nine months ended September 30, 2021 as compared to the same period in 2020 due to an intentional reduction in our production and sale of fuel-grade ethanol as we continued our focus on more profitable operations. In addition, the prior year period includes gallons associated with our production facilities that have since been idled and/or sold. Moreover, we produced and sold fewer gallons of specialty alcohols due to lower spot sales in 2021 compared to 2020 as demand has abated in 2021 for sanitizers and disinfectants.

Three Months Ended September 30, 2021 and 2020

On a consolidated basis, our average sales price per gallon increased by 44% to \$2.47 for the three months ended September 30, 2021 as compared to \$1.71 for the same period in 2020. The average Chicago Board of Trade, or CBOT, fuel-grade ethanol price per gallon, increased 77% to \$2.25 for the three months ended September 30, 2021 as compared to \$1.27 for the same period in 2020.

Marketing Segment

Net sales of fuel-grade ethanol from our marketing segment reported gross, excluding intersegment sales, increased by \$28.4 million, or 34%, to \$112.4 million for the three months ended September 30, 2021 as compared to \$84.0 million for the same period in 2020.

Our volume of third party fuel-grade ethanol gallons sold reported gross by our marketing segment declined by 8.5 million gallons, or 17%, to 43.0 million gallons for the three months ended September 30, 2021 as compared to 51.5 million gallons for the same period in 2020. At our marketing segment's average sales price per gallon of \$2.61 for the three months ended September 30, 2021, we generated \$22.2 million less in net sales from our marketing segment from the 8.5 million fewer gallons of third-party fuel-grade ethanol sold gross in the three months ended September 30, 2021 as compared to the same period in 2020.

The \$0.98 per gallon, or 60%, increase in our marketing segment's average sales price per gallon for the three months ended September 30, 2021 as compared to the same period in 2020 resulted in a \$51.0 million increase in our net sales from third-party fuel-grade ethanol sold reported gross by our marketing segment.

Our volume of third party fuel-grade ethanol gallons sold reported net by our marketing segment decreased by 1.0 million gallons, or 4%, to 24.2 million gallons for the three months ended September 30, 2021 as compared to 25.2 million gallons for the same period in 2020. The decrease in third-party fuel-grade ethanol gallons sold reported net decreased net sales by \$0.4 million.

Pekin Campus Production Segment

Net sales of alcohol from our Peking Campus production segment increased by \$37.5 million, or 49%, to \$114.6 million for the three months ended September 30, 2021 as compared to \$77.1 million for the same period in 2020. Our total volume of production gallons sold increased by 12.7 million gallons, or 35%, to 49.2 million gallons for the three months ended September 30, 2021 as compared to 36.5 million gallons for the same period in 2020. At our Peking Campus production segment's average sales price per gallon of \$2.33 for the three months ended September 30, 2021, we generated \$29.6 million in additional net sales from our Peking Campus production segment from the 12.7 million additional gallons of alcohol sold in the three months ended September 30, 2021 as compared to the same period in 2020. The increase of \$0.22, or 10%, in our Peking Campus production segment's average sales price per gallon in the three months ended September 30, 2021 as compared to the same period in 2020 improved our net sales from our Peking Campus production segment by \$7.9 million.

Net sales of essential ingredients increased by \$18.4 million, or 67%, to \$46.0 million for the three months ended September 30, 2021 as compared to \$27.6 million for the same period in 2020. Our total volume of essential ingredients sold increased by 44,100 tons, or 24%, to 227,300 tons for the three months ended September 30, 2021 from 183,200 tons for the same period in 2020. At our average sales price per ton of \$202.45 for the three months ended September 30, 2021, we generated an additional \$8.9 million in net sales from the 44,100 additional tons of essential ingredients sold in the three months ended September 30, 2021 as compared to the same period in 2020. The increase of \$51.69, or 34%, in our average sales price per ton for the three months ended September 30, 2021 as compared to the same period in 2020 increased our net sales from our Peking Campus production segment by \$9.5 million.

Other Production Segment

Net sales of alcohol from our other production segment increased by \$13.4 million, or 114%, to \$25.2 million for the three months ended September 30, 2021 as compared to \$11.8 million for the same period in 2020. Our total volume of gallons sold increased by 1.8 million gallons, or 26%, to 8.8 million gallons for the three months ended September 30, 2021 as compared to 7.0 million gallons for the same period in 2020. At our other production segment's average sales price per gallon of \$2.86 for the three months ended September 30, 2021, we generated an additional \$5.1 million in net sales from our other production segment from the 1.8 million additional gallons of alcohol sold in the three months ended September 30, 2021 as compared to the same period in 2020. The increase of \$1.18, or 70%, in our other production segment's average sales price per gallon for the three months ended September 30, 2021 as compared to the same period in 2020 improved our net sales from our other production segment by \$8.3 million.

Net sales of essential ingredients increased by \$3.0 million, or 77%, to \$6.9 million for the three months ended September 30, 2021 as compared to \$3.9 million for the same period in 2020. Our total volume of essential ingredients sold increased by 6,000 tons, or 8%, to 78,300 tons for the three months ended September 30, 2021 from 72,300 tons for the same period in 2020. At our average sales price per ton of \$87.70 for the three months ended September 30, 2021, we generated an additional \$0.5 million in net sales from the 6,000 additional tons of essential ingredients sold in the three months ended September 30, 2021 as compared to the same period in 2020. The increase of \$33.97, or 63%, in our average sales price per ton for the three months ended September 30, 2021 as compared to the same period in 2020 increased our net sales from our other production segment by \$2.5 million.

Nine Months Ended September 30, 2021 and 2020

On a consolidated basis, our average sales price per gallon increased by 42% to \$2.27 for the nine months ended September 30, 2021 as compared to \$1.60 for the same period in 2020. The average CBOT fuel-grade ethanol price per gallon, increased by 73% to \$2.08 for the nine months ended September 30, 2021 as compared to \$1.20 for the same period in 2020.

Marketing Segment

Net sales of fuel-grade ethanol from our marketing segment reported gross, excluding intersegment sales, increased by \$43.1 million, or 20%, to \$255.7 million for the nine months ended September 30, 2021 as compared to \$212.6 million for the same period in 2020.

Our volume of third party fuel-grade ethanol gallons sold reported gross by our marketing segment declined by 35.7 million gallons, or 26%, to 103.2 million gallons for the nine months ended September 30, 2021 as compared to 138.9 million gallons for the same period in 2020. At our marketing segment's average sales price per gallon of \$2.48 for the nine months ended September 30, 2021, we generated \$88.5 million less in net sales from our marketing segment from the 35.7 million fewer gallons of third-party fuel-grade ethanol sold reported gross in the nine months ended September 30, 2021 as compared to the same period in 2020.

The \$0.95 per gallon, or 62%, increase in our marketing segment's average sales price per gallon for the nine months ended September 30, 2021 as compared to the same period in 2020 resulted in a \$131.6 million increase in our net sales from third-party fuel-grade ethanol sold reported gross by our marketing segment.

Our volume of third party fuel-grade ethanol gallons sold reported net by our marketing segment increased by 3.2 million gallons, or 4%, to 77.3 million gallons for the nine months ended September 30, 2021 as compared to 74.1 million gallons for the same period in 2020. The increase in third-party fuel-grade ethanol gallons sold reported net increased net sales by \$0.4 million.

Pekin Campus Production Segment

Net sales of alcohol from our Pekin Campus production segment increased by \$86.3 million, or 34%, to \$342.0 million for the nine months ended September 30, 2021 as compared to \$255.7 million for the same period in 2020. Our total volume of production gallons sold increased by 12.7 million gallons, or 9%, to 157.4 million gallons for the nine months ended September 30, 2021 as compared to 144.7 million gallons for the same period in 2020. At our Pekin Campus production segment's average sales price per gallon of \$2.17 for the nine months ended September 30, 2021, we generated \$27.6 million additional net sales from our Pekin Campus production segment from the 12.7 million additional gallons of alcohol sold in the nine months ended September 30, 2021 as compared to the same period in 2020. The increase of \$0.41, or 23%, in our Pekin Campus production segment's average sales price per gallon in the nine months ended September 30, 2021 as compared to the same period in 2020 improved our net sales from our Pekin Campus production segment by \$58.7 million.

Net sales of essential ingredients increased by \$39.6 million, or 39%, to \$140.7 million for the nine months ended September 30, 2021 as compared to \$101.1 million for the same period in 2020. Our total volume of essential ingredients sold increased by 22,100 tons, or 4%, to 660,900 tons for the nine months ended September 30, 2021 from 638,800 tons for the same period in 2020. At our average sales price per ton of \$212.85 for the nine months ended September 30, 2021, we generated \$4.7 million in additional net sales from the 22,100 additional tons of essential ingredients sold in the nine months ended September 30, 2021 as compared to the same period in 2020. The increase of \$54.54, or 35%, in our average sales price per ton for the nine months ended September 30, 2021 as compared to the same period in 2020 increased our net sales from our Pekin Campus production segment by \$34.9 million.

Other Production Segment

Net sales of alcohol from our other production segment declined by \$57.5 million, or 48%, to \$63.3 million for the nine months ended September 30, 2021 as compared to \$120.8 million for the same period in 2020. Our total volume of gallons sold declined by 53.9 million gallons, or 69%, to 24.3 million gallons for the nine months ended September 30, 2021 as compared to 78.2 million gallons for the same period in 2020. At our other production segment's average sales price per gallon of \$2.61 for the nine months ended September 30, 2021, we generated \$140.4 million less in net sales from the 53.9 million fewer gallons of alcohol sold in the nine months ended September 30, 2021 as compared to the same period in 2020. The increase of \$1.06, or 68%, in our other production segment's average sales price per gallon for the nine months ended September 30, 2021 as compared to the same period in 2020 improved our net sales from our other production segment by \$82.9 million.

Net sales of essential ingredients declined by \$17.5 million, or 48%, to \$19.3 million for the nine months ended September 30, 2021 as compared to \$36.8 million for the same period in 2020. Our total volume of essential ingredients sold declined by 313,100 tons, or 58%, to 225,600 tons for the nine months ended September 30, 2021 from 538,700 tons for the same period in 2020. At our average sales price per ton of \$85.38 for the nine months ended September 30, 2021, we generated \$26.7 million less in net sales from the 313,100 fewer tons of essential ingredients sold in the nine months ended September 30, 2021 as compared to the same period in 2020. The increase of \$17.05, or 25%, in our average sales price per ton for the nine months ended September 30, 2021 as compared to the same period in 2020 increased our net sales from our other production segment by \$9.2 million.

Cost of Goods Sold and Gross Profit (Loss)

Our consolidated gross profit (loss) declined to a loss of \$3.4 million, representing a negative gross margin of 1.1%, for the three months ended September 30, 2021 compared to gross profit of \$20.9 million, representing a gross profit margin of 10.2%, for the same period in 2020. Our consolidated gross profit declined to \$25.7 million, representing a gross profit margin of 3.1%, for the nine months ended September 30, 2021 compared to \$39.2 million, representing a gross profit margin of 5.4%, for the same period in 2020.

Our gross profit and gross profit margin declined for the three and nine months ended September 30, 2021 primarily due to an increase in corn and basis costs as well as costs associated with the shutdown of our Pekin wet mill for planned maintenance and upgrades as well as significantly higher margins during the three and nine months ended September 30, 2020 from spot sales of our specialty alcohol used in sanitizers and disinfectants which experienced unprecedented demand in 2020. In addition, while demand and prices for certain essential ingredients increased, industry-wide coproduct prices have, on average, lagged the rise in corn prices, resulting in declining coproduct returns for 2021 as compared to 2020.

Three Months Ended September 30, 2021 and 2020

Marketing Segment

Our marketing segment's gross profit increased by \$7.0 million to \$7.3 million for the three months ended September 30, 2021 as compared to \$0.3 million for the same period in 2020. Of this improvement, \$8.5 million is attributable to higher margins from sales of third-party fuel-grade ethanol partially offset by \$1.5 million attributable to lower marketing volumes of third-party fuel-grade ethanol for the three months ended September 30, 2021 as compared to the same period in 2020.

Pekin Campus Production Segment

Our Pekin Campus production segment's gross profit declined by \$32.9 million to a gross loss of \$7.2 million for the three months ended September 30, 2021 as compared to gross profit of \$25.7 million for the same period in 2020. Of this decline, \$31.0 million is attributable to higher costs and resulting lower margins and \$1.9 million is attributable to decreased sales volumes in the three months ended September 30, 2021 as compared to the same period in 2020. Costs were higher primarily due to the shutdown of our Pekin wet mill for maintenance and upgrades as well as higher corn costs.

Other Production Segment

Our other production segment's gross profit improved by \$1.5 million to a gross loss of \$3.5 million for the three months ended September 30, 2021 as compared to a gross loss of \$5.0 million for the same period in 2020. Of this improvement, \$2.2 million is attributable to higher margins for fuel-grade ethanol, partially offset by \$0.7 million attributable to decreased operating costs of plants idled and/or sold during the three months ended September 30, 2021 as compared to the same period in 2020.

Nine Months Ended September 30, 2021 and 2020

Marketing Segment

Our marketing segment's gross profit improved by \$8.4 million to \$12.4 million for the nine months ended September 30, 2021 as compared to \$4.0 million for the same period in 2020. Of this improvement, \$12.8 million is attributable to higher margins from sales of third-party fuel-grade ethanol, partially offset by \$4.4 million less in gross profit attributable to lower marketing volumes of third-party fuel-grade ethanol for the nine months ended September 30, 2021 as compared to the same period in 2020.

Pekin Campus Production Segment

Our Pekin Campus production segment's gross profit declined by \$41.0 million to a gross profit of \$17.5 million for the nine months ended September 30, 2021 as compared to \$58.5 million for the same period in 2020. Of this decline, \$42.6 million is attributable to lower margins resulting from higher production input costs, partially offset by \$1.6 million attributed to higher volumes sold in the nine months ended September 30, 2021 as compared to the same period in 2020. In addition, higher costs resulted from the shutdown of our Pekin wet mill for maintenance and upgrades.

Other Production Segment

Our other production segment's gross profit improved by \$19.0 million to a gross loss of \$4.2 million for the nine months ended September 30, 2021 as compared to a gross loss of \$23.2 million for the same period in 2020. Of this improvement, \$9.6 million is attributable to lower operating costs from idled and/or sold plants and \$9.4 million is attributable to lower sales volumes at negative margins for the nine months ended September 30, 2021 as compared to the same period in 2020.

Selling, General and Administrative Expenses

The following table presents our selling, general and administrative, or SG&A, expenses in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2021	2020	Dollars	Percent	2021	2020	Dollars	Percent
Selling, general and administrative expenses	\$ 5,533	\$ 6,404	\$ (871)	(13.6)%	\$ 19,777	\$ 25,245	\$ (5,468)	(21.7)%
<i>Percentage of net sales</i>	<i>1.8%</i>	<i>3.1%</i>			<i>2.4%</i>	<i>3.5%</i>		

Our SG&A expenses declined for the three and nine months ended September 30, 2021 as compared to the same periods in 2020. The period over period declines in SG&A expenses are primarily due to lower professional fees incurred in 2021, as compared to 2020 during which we were working extensively on our debt restructuring and asset sales efforts. We anticipate SG&A expenses of \$27.0 million to \$30.0 million for all of 2021.

Interest Expense, net

The following table presents our interest expense, net in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Interest Expense, net	\$ 429	\$ 4,199	\$ (3,770)	(89.8)%	\$ 3,359	\$ 14,153	\$ (10,794)	(76.3)%
Percentage of net sales	0.1%	2.1%			0.4%	1.9%		

Our interest expense declined for the three and nine months ended September 30, 2021 as compared to the same periods in 2020. The declines are primarily due to lower debt balances for 2021 as compared to 2020 as we paid down high interest rate debt in the second half of 2020 and continuing into 2021.

Net Income (loss) Available to Common Stockholders

The following table presents our net income (loss) available to common stockholders in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net income (loss) available to common stockholders	\$ (3,451)	\$ 14,896	\$ (18,347)	NM	\$ 8,990	\$ 4,130	\$ 4,860	117.7%
Percentage of net sales	(1.1)%	7.3%			1.1%	0.6%		

The decline in net income (loss) available to common stockholders for the three months ended September 30, 2021 as compared to the same period in 2020 is primarily due to the Pekin campus shut down costs for planned maintenance upgrades, and higher production input costs in 2021 as well as higher spot margins from sales of our specialty alcohols in the prior year period compared to predominately fixed-price sales in the current year period, partially offset by income from loan forgiveness, lower interest expense and the absence of any fair value adjustments. The increase in net income (loss) available to common stockholders for the nine months ended September 30, 2021 as compared to the same period in 2020 is primarily due to significantly higher margins from sales of our specialty alcohols in the first quarter of 2021 as compared to the same period in 2020 and income from loan forgiveness. The first quarter of 2020 also included substantial sales of low- or negative-margin fuel-grade ethanol.

Liquidity and Capital Resources

During the nine months ended September 30, 2021, we funded our operations primarily from proceeds from the sale of our Madera facility, proceeds from lines of credit and cash on hand. These funds were also used to make payments on our term debt and our other credit facilities and for capital expenditures. As of September 30, 2021, we had \$36.0 million in cash and cash equivalents and \$5.9 million available for borrowing under Kinergy's operating line of credit. We anticipate capital expenditures to range between \$7.0 million and \$10.0 million in the fourth quarter of 2021. We believe we have sufficient liquidity to meet our anticipated working capital, debt service and other liquidity needs for at least the next twelve months from the date of this report.

Quantitative Period-End Liquidity Status

We believe that the following amounts provide insight into our liquidity and capital resources. The following selected financial information should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included elsewhere in this report, and the other sections of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this report (dollars in thousands).

	September 30, 2021	December 31, 2020	Change
Cash and cash equivalents	\$ 36,029	\$ 47,667	(24.4)%
Current assets	\$ 226,598	\$ 214,046	5.9%
Property and equipment, net	\$ 224,319	\$ 229,486	(2.3)%
Current liabilities	\$ 84,448	\$ 86,927	(2.9)%
Long-term debt, noncurrent portion	\$ 70,621	\$ 71,807	(1.7)%
Working capital	\$ 142,150	\$ 127,119	11.8%
Working capital ratio	2.68	2.46	8.9%

Restricted Net Assets

At September 30, 2021, we had approximately \$250.3 million of net assets at our subsidiaries that were not available for transfer to Alto Ingredients, Inc. in the form of dividends, distributions, loans or advances due to restrictions contained in the credit facilities of the subsidiaries.

Changes in Working Capital and Cash Flows

Working capital improved to \$142.2 million at September 30, 2021 from \$127.1 million at December 31, 2020 as a result of an increase of \$12.6 million in current assets and a decrease of \$2.5 million in current liabilities.

Current assets increased primarily due to an increase in accounts receivable and higher inventory values due to increased commodity prices for both alcohol and corn from the prior period, partially offset by a reduction in assets held-for-sale as we completed the sale of our Madera facility.

Our current liabilities decreased primarily due to a reduction in liabilities held-for-sale as we completed the sale of our Madera facility and a reduction in the current portion of our long-term debt, partially offset by an increase in accounts payable and accrued liabilities due to the timing of payments and an increase in derivative instruments.

Our cash and cash equivalents declined by \$11.6 million due to \$19.7 million in cash used in our operating activities partially offset by \$0.9 million in cash provided by our financing activities and \$7.3 million in cash provided by our investing activities.

Cash used in Operating Activities

We used \$19.7 million in cash in our operating activities during the nine months ended September 30, 2021, as compared to \$75.7 million of cash provided by our operating activities for the same period in 2020. Specific factors that contributed to the change in cash from our operating activities include:

- a decrease of \$64.9 million related to higher accounts receivable balances primarily due to the timing of payments and higher commodity sales prices;
- a decrease of \$43.1 million related to higher inventories primarily due to increased commodity prices; and
- a net decrease of \$11.8 million of held-for-sale assets and liabilities as we completed the sale of our Madera facility.

These amounts were partially offset by:

- an increase of \$7.0 million in our consolidated net income primarily due to lower SG&A expenses, lower interest expense, and income from forgiveness of our CARES Act loans;
- an increase of \$33.6 million related to accounts payable due to the timing of payments; and
- an increase in other assets of \$12.6 million related to net changes in our derivative positions.

Cash provided by our Investing Activities

We generated \$7.3 million of cash from our investing activities for the nine months ended September 30, 2021, of which \$19.5 million in cash was generated from the sale of our Madera facility, partially offset by \$12.2 million for additions to property and equipment resulting from our capital expenditure projects.

Cash provided by our Financing Activities

Cash provided by our financing activities was \$0.9 million for the nine months ended September 30, 2021, which reflected proceeds of \$38.2 million from Kinergy's operating line of credit and \$0.5 million in stock option exercises, partially offset by net payments on term debt of \$37.8 million.

Kinergy's Operating Line of Credit

Kinergy maintains an operating line of credit for an aggregate amount of up to \$100.0 million. The credit facility matures on August 8, 2023. Interest accrues under the credit facility at a rate equal to (i) the daily Secured Overnight Financing Rate, plus (ii) a specified applicable margin ranging from 1.75% to 2.25%. The credit facility's monthly unused line fee is 0.25% to 0.375% of the amount by which the maximum credit under the facility exceeds the average daily principal balance during the immediately preceding month. Payments that may be made by Kinergy to Alto Ingredients, Inc. as reimbursement for management and other services provided by Alto Ingredients, Inc. to Kinergy are limited under the terms of the credit facility to \$1.5 million per fiscal quarter. The credit facility also includes the accounts receivable of our indirect wholly-owned subsidiary, Alto Nutrients, LLC, or Alto Nutrients, as additional collateral. Payments that may be made by Alto Nutrients to Alto Ingredients, Inc. as reimbursement for management and other services provided by Alto Ingredients, Inc. to Alto Nutrients are limited under the terms of the credit facility to \$0.5 million per fiscal quarter. Alto Nutrients, markets our essential ingredients and also provides raw material procurement services to our subsidiaries.

For all monthly periods in which excess borrowing availability falls below a specified level, Kinergy and Alto Nutrients must collectively maintain a fixed-charge coverage ratio (calculated as a twelve-month rolling earnings before interest, taxes, depreciation and amortization divided by the sum of interest expense, capital expenditures, principal payments of indebtedness, indebtedness from capital leases and taxes paid during such twelve-month rolling period) of at least 2.0 and are prohibited from incurring certain additional indebtedness (other than specific intercompany indebtedness). The obligations of Kinergy and Alto Nutrients under the credit facility are secured by a first-priority security interest in all of their respective assets in favor of the lender.

We believe Kinergy and Alto Nutrients are in compliance with the fixed-charge coverage ratio covenant as of the filing of this report. The following table sets forth the fixed-charge coverage ratio financial covenant and the actual results for the periods presented:

	Three Months Ended September 30,		Years Ended December 31,	
	2021	2020	2020	2019
Fixed-Charge Coverage Ratio Requirement	2.00	2.00	2.00	2.00
Actual	16.11	5.66	5.35	5.71
Excess	14.11	3.66	3.35	3.71

Alto Ingredients, Inc. has guaranteed all of Kinergy's obligations under the credit facility. As of September 30, 2021, Kinergy had an outstanding balance of \$70.7 million and \$5.9 million of unused borrowing availability under the credit facility.

Alto Pekin Credit Facilities

On December 15, 2016, Alto Pekin, LLC, or Alto Pekin, one of our indirect wholly-owned subsidiaries and the entity that holds two of our production facilities in Pekin, Illinois, entered into a Credit Agreement, or the Pekin Credit Agreement, with 1st Farm Credit Services, PCA and CoBank, ACB, or CoBank. Under the terms of the Pekin Credit Agreement, Alto Pekin borrowed from 1st Farm Credit Services \$64.0 million under a term loan facility that matured on August 20, 2021, or the Pekin Term Loan, and up to \$32.0 million under a revolving term loan facility that was to mature on February 1, 2022, or the Pekin Revolving Loan, and together with the Pekin Term Loan, the Pekin Credit Facility.

On November 5, 2021, we closed the sale of our Stockton, California facility and, using net proceeds from the sale, repaid the Pekin Credit Facility in full.

ICP Credit Facilities

On September 15, 2017, ICP, Compeer Financial, PCA, or Compeer, and CoBank as agent, entered into a Credit Agreement, or the ICP Credit Agreement. Under the terms of the ICP Credit Agreement, ICP borrowed from Compeer \$24.0 million under a term loan facility that matured on September 20, 2021, or the ICP Term Loan, and up to \$18.0 million under a revolving term loan facility that was to mature on September 1, 2022, or the ICP Revolving Loan, and together with the ICP Term Loan, the ICP Credit Facility.

On November 5, 2021, we closed the sale of our Stockton, California facility and, using net proceeds from the sale, repaid the ICP Credit Facility in full.

Senior Secured Notes

On December 12, 2016, we entered into a Note Purchase Agreement with five accredited investors and sold \$55.0 million in aggregate principal amount of senior secured notes to the investors in a private offering for aggregate gross proceeds of 97% of the principal amount of the notes sold. On June 26, 2017, we entered into a second Note Purchase Agreement with five accredited investors and sold an additional \$13.9 million in aggregate principal amount of senior secured notes to the investors in a private offering for aggregate gross proceeds of 97% of the principal amount of the notes sold, and collectively with the notes previously sold, the Notes.

On May 14, 2021, in connection with the sale of our Madera, California fuel-grade ethanol production facility, we repaid \$19.3 million in principal on these Notes.

On November 5, 2021, we closed the sale of our Stockton, California facility and, using net proceeds from the sale, repaid the Notes in full.

CARES Act Loans

On May 4, 2020, Alto Ingredients, Inc. and Alto Pekin, received loan proceeds from Bank of America, NA under the Coronavirus Aid, Relief, and Economic Security Act through the Paycheck Protection Program administered by the U.S. Small Business Administration, or SBA. Alto Ingredients, Inc. received \$6.0 million and Alto Pekin received \$3.9 million in loan proceeds. In June 2021, the SBA approved Alto Pekin's forgiveness application for the full amount of \$3.9 million, and accordingly, we recognized income from loan forgiveness for the three months ended June 30, 2021. In September 2021, the SBA approved Alto Ingredients, Inc.'s forgiveness application for the full amount of \$6.0 million, and accordingly, we recognized income from loan forgiveness for the three months ended September 30, 2021. The SBA may audit the loan forgiveness applications and further examine eligibility for forgiveness, including the facts and circumstances existing at the time the loans were made. We can provide no assurances that any loan forgiven will not require repayment following an audit by the SBA.

Effects of Inflation

The impact of inflation was not significant to our financial condition or results of operations for the three and nine months ended September 30, 2021 and 2020.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2021 that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are subject to legal proceedings, claims and litigation arising in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability cannot presently be determined because of considerable uncertainties that exist. Therefore, it is possible that the outcome of those legal proceedings, claims and litigation could adversely affect our quarterly or annual operating results or cash flows when resolved in a future period. However, based on facts currently available, management believes such matters will not adversely affect in any material respect our financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS.

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other information contained in this report and in our other filings with the Securities and Exchange Commission, including subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Alto Ingredients, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our common stock will likely decline, and you may lose all or part of your investment.

Risks Related to our Business

The effects of the coronavirus pandemic, or its abatement, may materially and adversely affect our business, results of operations and liquidity.

The coronavirus pandemic has resulted in businesses suspending or substantially curtailing operations and travel, quarantines, and an overall substantial slowdown of economic activity. Federal, state and foreign governments have implemented measures to contain the virus, including social distancing requirements, travel restrictions, border closures, limitations on public gatherings, work-from-home orders, and closure of non-essential businesses. Many of these measures remain or have been curtailed only partially. Transportation fuels in particular, including fuel-grade ethanol, experienced significant price declines and reduced demand. A further or extended ongoing downturn in global economic activity, or recessionary conditions in general, would likely lead to poor demand for, and negatively affect the prices of, fuel-grade ethanol, materially and adversely affecting our business, results of operations and liquidity.

Furthermore, to protect the health and well-being of our employees and customers, we have implemented work-from-home requirements, made substantial modifications to employee travel policies, and cancelled or shifted marketing and other corporate events to virtual-only formats for the foreseeable future. While we continue to monitor our circumstances and may adjust our current policies as more information and public health guidance become available, these precautionary measures could negatively affect our sales and marketing efforts, delay and lengthen our sales cycles, or create operational or other challenges, any of which could harm our business and results of operations.

In addition, if one or more of our employees or customers becomes ill from coronavirus and attributes their infection to us, including through exposure at one of our offices or production facilities, we could be subject to allegations of failure to adequately mitigate the risk of exposure. Such allegations could harm our reputation and expose us to the risks of litigation and liability.

Our specialty alcohols business has benefitted significantly from the coronavirus pandemic due to a substantial increase in demand for alcohol-based sanitizers and disinfectants. As the coronavirus pandemic abates, demand for alcohol-based sanitizers and disinfectants has declined, exerting downward pressure on prices for our specialty alcohols used in those products. In addition, higher industry production levels in response to the coronavirus pandemic and higher specialty alcohol supplies for sanitizers and disinfectants have exerted downward pressure on prices. Reduced demand and prices for our specialty alcohols used in sanitizers and disinfectants, or industry oversupply of those specialty alcohols, may materially and adversely affect our business, results of operations and liquidity.

Our results of operations and our ability to operate at a profit are largely dependent on our ability to manage the costs of corn, natural gas and other production inputs, with the prices of our alcohols and essential ingredients, all of which are subject to volatility and uncertainty.

Our results of operations are highly impacted by commodity prices, including the cost of corn, natural gas and other production inputs that we must purchase, and the prices of alcohols and essential ingredients that we sell. Prices and supplies are subject to and determined by market and other forces over which we have no control, such as weather, domestic and global demand, supply shortages, export prices and various governmental policies in the United States and throughout the world.

Price volatility of corn, natural gas and other production inputs, and alcohols and essential ingredients, may cause our results of operations to fluctuate substantially. We may fail to generate expected levels of net sales and profits even under fixed-price and other contracts for the sale of specialty alcohols used in consumer products. Our customers may not pay us timely or at all, even under longer-term, fixed-price contracts for our specialty alcohols, and may seek to renegotiate prices under those contracts during periods of falling prices or high price volatility.

Over the past several years, for example, the spread between corn and fuel-grade ethanol prices has fluctuated significantly. Fluctuations are likely to continue to occur. A sustained narrow spread, whether as a result of sustained high or increased corn prices or sustained low or decreased alcohol or essential ingredient prices, would adversely affect our results of operations and financial position. Revenues from sales of alcohols, particularly fuel-grade ethanol, and essential ingredients could decline below the marginal cost of production, which may force us to further suspend production, particularly fuel-grade ethanol production, at some or all of our facilities.

In addition, some of our fuel-grade ethanol marketing activities will likely be unprofitable in a market of generally declining prices due to the nature of our business. For example, to satisfy customer demands, we maintain certain quantities of fuel-grade ethanol inventory for subsequent resale. Moreover, we procure much of our fuel-grade ethanol inventory outside of third-party marketing arrangements and therefore must buy fuel-grade ethanol at a price established at the time of purchase and sell fuel-grade ethanol at an index price established later at the time of sale that is generally reflective of movements in the market price of fuel-grade ethanol. As a result, our margins for fuel-grade ethanol sold in these transactions generally decline and may turn negative as the market price of fuel-grade ethanol declines.

We can provide no assurance that corn, natural gas or other production inputs can be purchased at or near current or any particular prices, or that our alcohols or essential ingredients will sell at or near current or any particular prices. Consequently, our results of operations and financial position may be adversely affected by increases in the prices of corn, natural gas and other production inputs or decreases in the prices of our alcohols and essential ingredients.

Increased alcohol or essential ingredient production or higher inventory levels may cause a decline in prices for those products, and may have other negative effects, adversely impacting our results of operations, cash flows and financial condition.

The prices of our alcohols and essential ingredients are impacted by competing third-party supplies of those products. For example, we believe that the most significant factor influencing the price of fuel-grade ethanol has been the substantial increase in production. According to the Renewable Fuels Association, domestic fuel-grade ethanol production capacity increased from an annualized rate of 1.5 billion gallons per year in January 1999 to a record 16.1 billion gallons in 2018. In addition, if fuel-grade ethanol production margins improve, we anticipate that owners of production facilities operating at below capacity, or owners of idled production facilities, will increase production levels, thereby resulting in more abundant fuel-grade ethanol supplies and inventories. Increases in the supply of alcohols and essential ingredients may not be commensurate with increases in demand for alcohols and essential ingredients, thus leading to lower prices. Moreover, higher industry production levels in response to the coronavirus pandemic and any resulting oversupply of alcohols for sanitizers and disinfectants, and corresponding oversupply of essential ingredient co-products, may also exert downward pressure on prices. Any of these outcomes could have a material adverse effect on our results of operations, cash flows and financial condition.

The prices of our products are volatile and subject to large fluctuations, which may cause our results of operations to fluctuate significantly.

The prices of our products are volatile and subject to large fluctuations. For example, the market price of fuel-grade ethanol is dependent upon many factors, including the supply of ethanol and the price of gasoline, which is in turn dependent upon the price of petroleum which itself is highly volatile and difficult to forecast. Our fuel-grade ethanol sales are tied to prevailing spot market prices rather than long-term, fixed-price contracts. Fuel-grade ethanol prices, as reported by the CBOT, ranged from \$0.81 to \$1.62 per gallon in 2020 and from \$1.25 to \$1.70 per gallon in 2019. In addition, even under longer-term, fixed-price contracts for our specialty alcohols, our customers may seek to renegotiate prices under those contracts during periods of falling prices or high price volatility. Fluctuations in the prices of our products may cause our results of operations to fluctuate significantly.

Disruptions in our production or distribution may adversely affect our business, results of operations and financial condition.

Our business depends on the continuing availability of rail, road, port, storage and distribution infrastructure. In particular, due to limited storage capacity at our production facilities and other considerations related to production efficiencies, our facilities depend on just-in-time delivery of corn. The production of alcohols also requires a significant and uninterrupted supply of other raw materials and energy, primarily water, electricity and natural gas. Local water, electricity and gas utilities may fail to reliably supply the water, electricity and natural gas that our production facilities need or may fail to supply those resources on acceptable terms. In the past, poor weather has caused disruptions in rail transportation, which slowed the delivery of fuel-grade ethanol by rail, the principal manner by which fuel-grade ethanol from our facilities located in the Midwest is transported to market. In addition, in 2020, we experienced closure of the Illinois River for lock repairs which required greater use of less cost-effective modes of product transport such as via rail and truck, which resulted in higher costs and negatively affected our results of operations.

Disruptions in production or distribution, whether caused by labor difficulties, unscheduled downtimes and other operational hazards inherent in the alcohol production industry, including equipment failures, fires, explosions, abnormal pressures, blowouts, pipeline ruptures, transportation accidents and natural disasters such as earthquakes, floods and storms, or human error or malfeasance or other reasons, could prevent timely deliveries of corn or other raw materials and energy, and could delay transport of our products to market, and may require us to halt production at one or more production facilities, any of which could have a material adverse effect on our business, results of operations and financial condition.

Some of these operational hazards may also cause personal injury or loss of life, severe damage to or destruction of property and equipment or environmental damage, and may result in suspension of operations and the imposition of civil or criminal penalties. Our insurance may not fully cover the potential hazards described above or we may be unable to renew our insurance on commercially reasonable terms or at all.

We may engage in hedging transactions and other risk mitigation strategies that could harm our results of operations and financial condition.

In an attempt to partially offset the effects of volatility of our product prices, in particular fuel-grade ethanol, corn and natural gas costs, we may enter into contracts to fix the price of a portion of our production or purchase a portion of our corn or natural gas requirements on a forward basis. In addition, we may engage in other hedging transactions involving exchange-traded futures contracts for corn, natural gas and unleaded gasoline from time to time. The financial statement impact of these activities is dependent upon, among other things, the prices involved and our ability to sell sufficient products to use all of the corn and natural gas for which forward commitments have been made. Hedging arrangements also expose us to the risk of financial loss in situations where the other party to the hedging contract defaults on its contract or, in the case of exchange-traded contracts, where there is a change in the expected differential between the underlying price in the hedging agreement and the actual prices paid or received by us. In addition, our open contract positions may require cash deposits to cover margin calls, negatively impacting our liquidity. As a result, our hedging activities and fluctuations in the price of corn, natural gas, fuel-grade ethanol and unleaded gasoline may adversely affect our results of operations, financial condition and liquidity.

The industries in which we operate are extremely competitive. Many of our significant competitors have greater production and financial resources and could use their greater resources to gain market share at our expense.

The industries in which we operate are extremely competitive. Many of our significant competitors have substantially greater production and financial resources than we do. As a result, our competitors may be able to compete more aggressively and sustain that competition over a longer period of time. Successful competition will require a continued high level of investment in facility maintenance. We may fail to anticipate or respond adequately to new industry developments and other competitive pressures due to our limited resources relative to many significant competitors. This failure could reduce our competitiveness and cause a decline in market share, sales and profitability. Even if sufficient funds are available, we may not be able to make the modifications and improvements necessary to compete successfully.

We also face competition from international suppliers, particularly of fuel-grade ethanol, many of whom have cost structures substantially lower than ours. An increase in domestic or foreign competition could force us to reduce our prices and take other steps to compete effectively, which could adversely affect our business, financial condition and results of operations.

We incur significant expenses to maintain and upgrade our production facilities and operating equipment, and any interruption in our operations would harm our operating performance.

We regularly incur significant expenses to maintain and upgrade our production facilities and operating equipment. The machines and equipment we use to produce our alcohols and manufacture our essential ingredients are complex, have many parts, and some operate on a continuous basis. We must perform routine equipment maintenance and must periodically replace a variety of parts such as motors, pumps, pipes and electrical parts. In addition, our production facilities require periodic shutdowns to perform major maintenance and upgrades. These scheduled shutdowns result in lower sales and increased costs in the periods during which a shutdown occurs and could result in unexpected operational issues in future periods as a result of changes to equipment and operational and mechanical processes made during shutdown.

Risks Related to our Finances

We have incurred significant losses and negative operating cash flow in the past and we may incur losses and negative operating cash flow in the future, which may hamper our operations and impede us from expanding our business.

We have incurred significant losses and negative operating cash flow in the past. For the three months ended September 30, 2021, we incurred consolidated net losses of approximately \$3.1 million. For the years ended December 31, 2020 and 2019, we incurred consolidated net losses of approximately \$17.3 million and \$101.3 million, respectively. For the nine months ended September 30, 2021 and for the year ended December 31, 2019, we incurred negative operating cash flow of approximately \$19.7 million and \$23.4 million, respectively. We may incur losses and negative operating cash flow in the future. We expect to rely on cash on hand, cash, if any, generated from our operations, borrowing availability under our lines of credit and proceeds from our future financing activities, if any, to fund all of the cash requirements of our business. Additional losses and negative operating cash flow may hamper our operations and impede us from expanding our business.

Our ability to utilize net operating loss carryforwards and certain other tax attributes may be limited.

Federal and state income tax laws impose restrictions on our use of net operating loss, or NOL, and tax credit carryforwards in the event that an “ownership change” occurs for tax purposes, as defined by Section 382 of the Internal Revenue Code, or Code. In general, an ownership change occurs when stockholders owning 5% or more of a corporation entitled to use NOL or other loss carryforwards have increased their ownership by more than 50 percentage points during any three-year period. The annual base limitation under Section 382 of the Code is calculated by multiplying the corporation’s value at the time of the ownership change by the greater of the long-term tax-exempt rate determined by the Internal Revenue Service in the month of the ownership change or the two preceding months. Our ability to utilize our NOL and other loss carryforwards may be substantially limited. These limitations could result in increased future tax obligations, which could have a material adverse effect on our financial condition and results of operations.

Risks Related to Legal and Regulatory Matters

Future demand for fuel-grade ethanol is uncertain and may be affected by changes to federal mandates, public perception, consumer acceptance and overall consumer demand for transportation fuel, any of which could negatively affect demand for fuel-grade ethanol and our results of operations.

Although many trade groups, academics and governmental agencies have supported fuel-grade ethanol as a fuel additive that promotes a cleaner environment, others have criticized fuel-grade ethanol production as consuming considerably more energy and emitting more greenhouse gases than other biofuels and potentially depleting water resources. Some studies have suggested that corn-based ethanol is less efficient than ethanol produced from other feedstock and that it negatively impacts consumers by causing increased prices for dairy, meat and other food generated from livestock that consume corn. Additionally, critics of fuel-grade ethanol contend that corn supplies are redirected from international food markets to domestic fuel markets. If negative views of corn-based ethanol production gain acceptance, support for existing measures promoting use and domestic production of corn-based ethanol as a fuel additive could decline, leading to a reduction or repeal of federal ethanol usage mandates, which would materially and adversely affect the demand for fuel-grade ethanol. These views could also negatively impact public perception of the fuel-grade ethanol industry and acceptance of ethanol as an alternative fuel.

There are limited markets for fuel-grade ethanol beyond those established by federal mandates. Discretionary blending and E85 blending (i.e., gasoline blended with up to 85% fuel-grade ethanol by volume) are important secondary markets. Discretionary blending is often determined by the price of fuel-grade ethanol versus the price of gasoline. In periods when discretionary blending is financially unattractive, the demand for fuel-grade ethanol may decline. Also, the demand for fuel-grade ethanol is affected by the overall demand for transportation fuel. Demand for transportation fuel is affected by the number of miles traveled by consumers and vehicle fuel economy. Lower demand for fuel-grade ethanol and co-products would reduce the value of our ethanol and related products, erode our overall margins and diminish our ability to generate revenue or to operate profitably. In addition, we believe that consumer acceptance of E15 and E85 fuels is necessary before fuel-grade ethanol can achieve any significant growth in market share relative to other transportation fuels.

The United States fuel-grade ethanol industry is highly dependent upon various federal and state laws and any changes in those laws could have a material adverse effect on our results of operations, cash flows and financial condition.

The Environmental Protection Agency, or EPA, has implemented the Renewable Fuel Standard, or RFS, under the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007. The RFS program sets annual quotas for the quantity of renewable fuels (such as fuel-grade ethanol) that must be blended into motor fuels consumed in the United States. The domestic market for fuel-grade ethanol is significantly impacted by federal mandates under the RFS program for volumes of renewable fuels (such as ethanol) required to be blended with gasoline. Future demand for fuel-grade ethanol will largely depend on incentives to blend ethanol into motor fuels, including the price of ethanol relative to the price of gasoline, the relative octane value of ethanol, constraints in the ability of vehicles to use higher ethanol blends, the RFS, and other applicable environmental requirements.

Under the provisions of the Clean Air Act, as amended by the Energy Independence and Security Act of 2007, the EPA has limited authority to waive or reduce the mandated RFS requirements, which authority is subject to consultation with the Secretaries of Agriculture and Energy, and based on a determination that there is inadequate domestic renewable fuel supply or implementation of the applicable requirements would severely harm the economy or environment of a state, region or the United States in general. Our results of operations, cash flows and financial condition could be adversely impacted if the EPA reduces the RFS requirements from the statutory levels specified in the RFS.

Various bills in Congress introduced from time to time are also directed at altering existing renewable fuels energy legislation, but none has passed in recent years. Some legislative bills are directed at halting or reversing expansion of, or even eliminating, the renewable fuel program, while other bills are directed at bolstering the program or enacting further mandates or grants that would support the renewable fuels industry. Our results of operations, cash flows and financial condition could be adversely impacted if any legislation is enacted that reduces the RFS volume requirements.

We may be adversely affected by environmental, health and safety laws, regulations and liabilities.

We are subject to various federal, state and local environmental laws and regulations, including those relating to the discharge of materials into the air, water and ground, the generation, storage, handling, use, transportation and disposal of hazardous materials and wastes, and the health and safety of our employees. In addition, some of these laws and regulations require us to operate under permits that are subject to renewal or modification. These laws, regulations and permits often require expensive pollution control equipment or operational changes to limit actual or potential impacts to the environment. A violation of these laws and regulations or permit conditions can result in substantial fines, natural resource damages, criminal sanctions, permit revocations and/or production facility shutdowns. In addition, we have made, and expect to make, significant capital expenditures on an ongoing basis to comply with increasingly stringent environmental laws, regulations and permits.

We may be liable for the investigation and cleanup of environmental contamination at each of our production facilities and at off-site locations where we arrange for the disposal of hazardous substances or wastes. If these substances or wastes have been or are disposed of or released at sites that undergo investigation and/or remediation by regulatory agencies, we may be responsible under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or other environmental laws for all or part of the costs of investigation and/or remediation, and for damages to natural resources. We may also be subject to related claims by private parties alleging property damage and personal injury due to exposure to hazardous or other materials at or from those properties. Some of these matters may require us to expend significant amounts for investigation, cleanup or other costs.

In addition, new laws, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments could require us to make significant additional expenditures. Continued government and public emphasis on environmental issues will likely result in increased future investments for environmental controls at our production facilities. Present and future environmental laws and regulations, and interpretations of those laws and regulations, applicable to our operations, more vigorous enforcement policies and discovery of currently unknown conditions may require substantial expenditures that could have a material adverse effect on our results of operations and financial condition.

The hazards and risks associated with producing and transporting our products (including fires, natural disasters, explosions and abnormal pressures and blowouts) may also result in personal injury claims or damage to property and third parties. As protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses. However, we could sustain losses for uninsurable or uninsured risks, or in amounts in excess of existing insurance coverages. Events that result in significant personal injury or damage to our property or third parties or other losses that are not fully covered by insurance could have a material adverse effect on our results of operations and financial condition.

Risks Related to Ownership of our Common Stock

Future sales of substantial amounts of our common stock, or perceptions that those sales could occur, could adversely affect the market price of our common stock and our ability to raise capital.

Future sales of substantial amounts of our common stock into the public market, including up to 8.9 million shares of our common stock that may be issued upon the exercise of outstanding warrants, or perceptions that those sales could occur, could adversely affect the prevailing market price of our common stock and our ability to raise capital.

Our stock price is highly volatile, which could result in substantial losses for investors purchasing shares of our common stock and in litigation against us.

The market price of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. The market price of our common stock may continue to fluctuate in response to one or more of the following factors, many of which are beyond our control:

- fluctuations in the market prices of our products;
- fluctuations in the costs of key production input commodities such as corn and natural gas;
- the volume and timing of the receipt of orders for our products from major customers;
- the coronavirus pandemic, including governmental and public responses to the pandemic;
- competitive pricing pressures;
- anticipated trends in our financial condition and results of operations;

- changes in market valuations of companies similar to us;
- stock market price and volume fluctuations generally;
- regulatory developments or increased enforcement;
- fluctuations in our quarterly or annual operating results;
- additions or departures of key personnel;
- our ability to obtain any necessary financing;
- our financing activities and future sales of our common stock or other securities; and
- our ability to maintain contracts that are critical to our operations.

The price at which you purchase shares of our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your shares of common stock at or above your purchase price, which may result in substantial losses to you and which may include the complete loss of your investment. In the past, securities class action litigation has often been brought against a company following periods of high stock price volatility. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and our resources away from our business.

Any of the risks described above could have a material adverse effect on our results of operations, the price of our common stock, or both.

Because we do not intend to pay any cash dividends on our shares of common stock in the near future, our stockholders will not be able to receive a return on their shares unless and until they sell them.

We intend to retain a significant portion of any future earnings to finance the development, operation and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the near future. The declaration, payment, and amount of any future dividends will be made at the discretion of our board of directors, and will depend upon, among other things, our results of operations, cash flows, and financial condition, operating and capital requirements, and other factors as our board of directors considers relevant. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividend. Unless our board of directors determines to pay dividends, our stockholders will be required to look to appreciation of our common stock to realize a gain on their investment. There can be no assurance that this appreciation will occur.

Our bylaws contain an exclusive forum provision, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Delaware Court of Chancery shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of us, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of us to us or our stockholders, (c) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or (d) any action asserting a claim governed by the internal affairs doctrine.

For the avoidance of doubt, the exclusive forum provision described above does not apply to any claims arising under the Securities Act of 1933, as amended, or the Securities Act, or the Securities Exchange Act of 1934, as amended, or the Exchange Act. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

The choice of forum provision in our bylaws may limit our stockholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and our directors, officers, employees and agents even though an action, if successful, might benefit our stockholders. The applicable courts may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. With respect to the provision making the Delaware Court of Chancery the sole and exclusive forum for certain types of actions, stockholders who do bring a claim in the Delaware Court of Chancery could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near Delaware. Finally, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could have a material adverse effect on us.

General Risk Factors

Cyberattacks through security vulnerabilities could lead to disruption of business, reduced revenue, increased costs, liability claims, or harm to our reputation or competitive position.

Security vulnerabilities may arise from our hardware, software, employees, contractors or policies we have deployed, which may result in external parties gaining access to our networks, data centers, cloud data centers, corporate computers, manufacturing systems, and/or access to accounts we have at our suppliers, vendors, and customers. External parties may gain access to our data or our customers' data, or attack the networks causing denial of service or attempt to hold our data or systems in ransom. The vulnerability could be caused by inadequate account security practices such as failure to timely remove employee access when terminated. To mitigate these security issues, we have implemented measures throughout our organization, including firewalls, backups, encryption, employee information technology policies and user account policies. However, there can be no assurance these measures will be sufficient to avoid cyberattacks. If any of these types of security breaches were to occur and we were unable to protect sensitive data, our relationships with our business partners and customers could be materially damaged, our reputation could be materially harmed, and we could be exposed to a risk of litigation and possible significant liability.

Further, if we fail to adequately maintain our information technology infrastructure, we may have outages and data loss. Excessive outages may affect our ability to timely and efficiently deliver products to customers or develop new products. Such disruptions and data loss may adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales or lost customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

The State of California enacted the California Consumer Privacy Act of 2018, or CCPA, effective on January 1, 2020. Our and our business partners' or contractors' failure to fully comply with the CCPA and other laws could lead to significant fines and require onerous corrective action. In addition, data security breaches experienced by us or our business partners or contractors could result in the loss of trade secrets or other intellectual property, public disclosure of sensitive commercial data, and the exposure of personally identifiable information (including sensitive personal information) of our employees, customers, suppliers, contractors and others.

Unauthorized use or disclosure of, or access to, any personal information maintained by us or on our behalf, whether through breach of our systems, breach of the systems of our suppliers or vendors by an unauthorized party, or through employee or contractor error, theft or misuse, or otherwise, could harm our business. If any such unauthorized use or disclosure of, or access to, such personal information was to occur, our operations could be seriously disrupted, and we could be subject to demands, claims and litigation by private parties, and investigations, related actions, and penalties by regulatory authorities. In addition, we could incur significant costs in notifying affected persons and entities and otherwise complying with the multitude of foreign, federal, state and local laws and regulations relating to the unauthorized access to, or use or disclosure of, personal information. Finally, any perceived or actual unauthorized access to, or use or disclosure of, such information could harm our reputation, substantially impair our ability to attract and retain customers and have an adverse impact on our business, financial condition and results of operations.

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

Unregistered Sales of Equity Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Dividends

Our current and future debt financing arrangements may limit or prevent cash distributions from our subsidiaries to us, depending upon the achievement of specified financial and other operating conditions and our ability to properly service our debt, thereby limiting or preventing us from paying cash dividends.

For the three and nine months ended September 30, 2021 and 2020, we accrued an aggregate of \$0.3 million and \$0.9 million, respectively, in dividends on our Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock, but did not declare or pay cash dividends, as permitted under an agreement with the holders of our Series B Preferred Stock, in an effort to preserve liquidity.

We have never declared or paid cash dividends on our common stock and do not currently intend to pay cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain any earnings for use in the continued development of our business.

The holders of our outstanding Series B Preferred Stock are entitled to dividends of 7% per annum, payable quarterly. Accrued and unpaid dividends in respect of our Series B Preferred Stock must be paid prior to the payment of any dividends in respect of shares of our common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.

Exhibit Number	Description
31.1	<u>Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> (*)
31.2	<u>Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> (*)
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> (*)
101.INS	Inline XBRL Instance Document (*)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (*)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (*)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (*)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (*)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (*)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). (*)

(*) Filed herewith.

SIGNATURES

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

Dated: November 12, 2021

ALTO INGREDIENTS, INC.

By: /S/ BRYON T. MCGREGOR
Bryon T. McGregor
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael D. Kandris, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alto Ingredients, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2021

/s/ MICHAEL D. KANDRIS

Michael D. Kandris
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bryon T. McGregor, certify that:

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

Date: November 12, 2021

/s/ BRYON T. MCGREGOR

Bryon T. McGregor
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Alto Ingredients, Inc. (the "Company") for the period ended September 30, 2021 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2021

By: /S/ MICHAEL D. KANDRIS
Michael D. Kandris
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 12, 2021

By: /S/ BRYON T. MCGREGOR
Bryon T. McGregor
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.