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 **March 31, 2022**

☐ **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	**41-2170618**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1300 South Second Street, Pekin, Illinois	**61554**
(Address of principal executive offices)	(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 ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐	

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

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

As of May 6, 2022, there were 74,075,166 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. FINANCIAL STATEMENTS.

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

	March 31, 2022 (unaudited)	December 31, 2021 *
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 36,184	$ 50,612
Restricted cash	23,799	11,513
Accounts receivable (net of allowance for doubtful accounts of $409 and $378, respectively)	80,611	86,888
Inventories	58,491	54,373
Derivative instruments	19,498	15,839
Notes receivable, current	12,385	3,125
Other current assets	10,245	7,176
Total current assets	241,213	229,526
Property and equipment, net	220,996	222,550
Other Assets:		
Right of use operating lease assets, net	15,099	13,413
Notes receivable, noncurrent	—	11,641
Intangible assets, net	9,460	2,678
Goodwill	5,958	—
Other assets	5,142	5,145
Total other assets	35,659	32,877
Total Assets	$ 497,868	$ 484,953

* Amounts derived from the audited financial statements for the year ended December 31, 2021.

See accompanying notes to consolidated financial statements.

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

	March 31, 2022 (unaudited)	December 31, 2021 *
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable – trade	$ 21,750	$ 23,251

Accrued liabilities	19,479	21,307
Current portion – operating leases	4,297	3,909
Derivative instruments	27,487	13,582
Other current liabilities	7,168	7,553
Total current liabilities	80,181	69,602
Long-term debt	53,681	50,361
Operating leases, net of current portion	10,705	9,382
Other liabilities	10,336	10,394
Total Liabilities	154,903	139,739
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 March 31, 2022 and December 31, 2021; Series B: 1,581 shares authorized; 927 shares issued and outstanding as of March 31, 2022 and December 31, 2021; liquidation preference of $18,075 as of March 31, 2022	1	1
Common stock, $0.001 par value; 300,000 shares authorized; 74,411 and 72,778 shares issued and outstanding as of March 31, 2022 and December 31, 2021, respectively	74	73
Non-voting common stock, $0.001 par value; 3,553 shares authorized; 1 share issued and outstanding as of March 31, 2022 and December 31, 2021	—	—
Additional paid-in capital	1,037,869	1,037,205
Accumulated other comprehensive loss	(284)	(284)
Accumulated deficit	(694,695)	(691,781)
Total Stockholders' Equity	342,965	345,214
Total Liabilities and Stockholders' Equity	$ 497,868	$ 484,953

* Amounts derived from the audited financial statements for the year ended December 31, 2021.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
Net sales	$ 308,118	$ 218,734
Cost of goods sold	303,345	204,897
Gross profit	4,773	13,837
Selling, general and administrative expenses	7,629	7,014
Asset impairment	—	1,200
Income (loss) from operations	(2,856)	5,623
Interest expense, net	(200)	(1,885)
Other income, net	454	940
Income (loss) before provision for income taxes	(2,602)	4,678
Provision for income taxes	—	—
Net income (loss)	$ (2,602)	$ 4,678
Preferred stock dividends	$ (312)	$ (312)
Net income (loss) available to common stockholders	$ (2,914)	$ 4,366
Net income (loss) per share, basic and diluted	$ (0.04)	$ 0.06
Weighted-average shares outstanding, basic	71,390	70,351
Weighted-average shares outstanding, diluted	71,390	72,464

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
Operating Activities:		
Consolidated net income (loss)	$ (2,602)	$ 4,678

Adjustments to reconcile consolidated net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of intangibles	6,134	5,860
Asset impairment	—	1,200
Gains on derivative instruments	(5,316)	(10,543)
Non-cash compensation	673	804
Amortization of deferred financing fees	6	190
Bad debt expense	31	91
Changes in operating assets and liabilities, net of business acquisition:		
Accounts receivable	11,775	(13,057)
Inventories	(2,773)	(17,291)
Other assets	14,119	3,309
Operating leases	(1,257)	(1,037)
Assets held-for-sale	—	1,241
Liabilities held-for-sale	—	(312)
Accounts payable and accrued liabilities	(9,726)	20,391
Net cash provided by (used in) operating activities	11,064	(4,476)
Investing Activities:		
Additions to property and equipment	(2,334)	(4,411)
Purchase of Eagle Alcohol, net of cash acquired	(14,655)	—
Net cash used in investing activities	(16,989)	(4,411)
Financing Activities:		
Net proceeds from Kinergy's line of credit	3,314	13,042
Proceeds from principal payments on notes receivable	781	—
Proceeds from stock option exercises	—	462
Preferred stock dividends paid	(312)	—
Principal payments on borrowings	—	(8,532)
Net cash provided by financing activities	3,783	4,972
Net decrease in cash, cash equivalents and restricted cash	(2,142)	(3,915)
Cash, cash equivalents and restricted cash at beginning of period	62,125	48,187
Cash, cash equivalents and restricted cash at end of period	$ 59,983	$ 44,272
Reconciliation of total cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 36,184	$ 44,146
Restricted cash	23,799	126
Total cash, cash equivalents and restricted cash	$ 59,983	$ 44,272
Supplemental Information:		
Interest paid	$ 195	$ 1,825
Income tax refunds	$ 81	$ —
Accrued preferred stock dividends	$ —	$ 312

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accum. Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Deficit	Loss	Total
Balances, January 1, 2022	927	$ 1	72,778	$ 73	$ 1,037,205	$ (691,781)	$ (284)	$ 345,214
Stock-based compensation	—	—	—	—	673	—	—	673
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	684	—	(9)	—	—	(9)
Shares issued for Eagle Alcohol acquisition	—	—	949	1	—	—	—	1
Preferred stock dividends	—	—	—	—	—	(312)	—	(312)
Net loss	—	—	—	—	—	(2,602)	—	(2,602)
Balances, March 31, 2022	927	$ 1	74,411	$ 74	$ 1,037,869	$ (694,695)	$ (284)	$ 342,965
Balances, January 1, 2021	927	$ 1	72,487	$ 72	$ 1,036,638	$ (736,598)	$ (3,878)	$ 296,235
Stock-based compensation	—	—	—	—	804	—	—	804
Restricted stock issued to employees and directors, net of cancellations and tax	—	—	550	1	(186)	—	—	(185)
Stock option exercises	—	—	124	—	462	—	—	462
Preferred stock dividends	—	—	—	—	—	(312)	—	(312)
Net income	—	—	—	—	—	4,678	—	4,678
Balances, March 31, 2021	927	$ 1	73,161	$ 73	$ 1,037,718	$ (732,232)	$ (3,878)	$ 301,682

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 wholly-owned subsidiaries (collectively, the "Company"), including Kinergy Marketing LLC, an Oregon limited liability company ("Kinergy"), Alto Nutrients, LLC, a California limited liability company ("Alto Nutrients"), Alto Op Co., a Delaware corporation ("Alto Op Co."), Alto Pekin, LLC, a Delaware limited liability company ("Alto Pekin") and Alto ICP, LLC, a Delaware limited liability company ("ICP"), and the Company's production facilities in Oregon and Idaho.

On May 14, 2021 and November 4, 2021, the Company completed the sale of its production facilities located in Madera and Stockton, California, respectively. The results of these facilities are included in the Company's results reported for the three months ended March 31, 2021. As discussed in Note 2, on January 14, 2022, the Company acquired 100% ownership of Eagle Alcohol Company LLC, a Missouri limited liability company ("Eagle Alcohol"), which is now a wholly-owned subsidiary of Alto Ingredients, Inc. The results of Eagle Alcohol since the date of the acquisition are included in the Company's results reported for the three months ended March 31, 2022.

The Company is a leading producer and distributor of specialty alcohols and essential ingredients. The Company also produces, markets and distributes renewable fuel. 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 two production facilities in Oregon and Idaho are located in close proximity to both feed and renewable fuel ethanol customers and thus enjoy unique advantages in efficiency, logistics and product pricing.

The Company has a combined alcohol production capacity of350 million gallons per year and produces, on an annualized basis, nearly1.2 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 sells alcohols acquired from other producers, and markets and distributes fuel-grade ethanol produced by third parties.

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 March 31, 2022, all of the Company's production facilities were operating. 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, 2021. 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, 2021. 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 $52,008,000 and $63,929,000 at March 31, 2022 and December 31, 2021, respectively, were used as collateral under Kinergy's operating line of credit. The allowance for doubtful accounts was $409,000 and $378,000 as of March 31, 2022 and December 31, 2021, respectively. The Company recorded a bad debt expense of $31,000 and $91,000 for the three months ended March 31, 2022 and 2021, 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, restricted cash, accounts receivable, notes 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 long-term debt instruments are not considered materially different than fair value because the interest rates on these instruments are variable.

Business Combinations – Business acquisitions are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805 "Business Combinations". FASB ASC 805 requires the reporting entity to identify the acquirer, determine the acquisition date, recognize and measure the identifiable tangible and intangible assets acquired, the liabilities assumed and recognize and measure goodwill or a gain from the purchase. Assets acquired and liabilities assumed are recorded at their fair values and the excess of the purchase price over the amounts assigned is recorded as goodwill. Adjustments to fair value assessments are recorded to goodwill over the measurement period (not longer than twelve months).

Estimates and Assumptions – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States 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, 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. ACQUISITION OF EAGLE ALCOHOL.

On January 14, 2022, the Company purchased 100% of the membership interests of Eagle Alcohol. The purchase price was $14.0 million in cash plus an estimated net working capital adjustment of $1.3 million in cash. The selling members of Eagle Alcohol are eligible to receive up to an additional $14.0 million of contingent consideration, payable through a combination of $9.0 million in cash over the next three years and an aggregate of $5.0 million in the Company's common stock on the fourth and fifth year anniversaries of the closing date, subject to the satisfaction of certain conditions, including continued employment with the Company. With respect to these payments, the Company has recognized an estimated $0.9 million for the three months ended March 31, 2022, in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Eagle Alcohol specializes in break bulk distribution of specialty alcohols. Eagle Alcohol purchases bulk alcohol from suppliers. Eagle Alcohol then stores, denatures, packages, and resells alcohol products in smaller sizes, including tank trucks, totes, and drums, that garner a premium to bulk alcohols. Eagle Alcohol delivers products to customers in the beverage, food, pharma, and related-process industries via its own dedicated trucking fleet and common carrier. The acquisition will provide the Company further vertical integration and access to new markets in the specialty alcohol industry.

Eagle Alcohol's unaudited results for the three months ended March 31, 2022 and 2021 generated $3.8 million and $6.8 million in net sales and $0.2 million and $0.9 million in net income, respectively. The following table presents unaudited pro forma combined financial information assuming the acquisition occurred on January 1, 2021 (dollars in thousands except per share amounts):

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Revenues – pro forma	$ 308,645	$ 225,486
Net income (loss) available to common stockholders – pro forma	$ (2,981)	$ 4,508
Diluted net income (loss) per share – pro forma	$ (0.04)	$ 0.06
Diluted shares	72,339	73,413

The following preliminary allocation of the estimated purchase price assumes, with the exception of property and equipment and intangibles, carrying values approximate fair value. Estimates of uncollectible accounts receivable are not considered material due to the short-term nature and customer collection history. The preliminary estimate of working capital is under review by management and is subject to change. Based upon these assumptions, the preliminary purchase price allocation is as follows (in thousands):

Cash and equivalents	$ 705
Accounts receivables	5,529
Inventories	1,345
Total current assets	7,579
Property and equipment	1,066
Right of use assets	2,749
Total tangible assets	$ 11,394
Current liabilities	$ 6,219
Right of use liabiltiy	2,749
Total liabiltiies	$ 8,968
Net tangible assets acquired	$ 2,426
Customer relationships	6,556
Tradename	420
Goodwill	5,958
Total Purchase Price	$ 15,360

Goodwill represents the value of the downstream integration that the operations of Eagle Alcohol will add to the Company. The Company expects the amortization of goodwill to be deductible for tax purposes. For the identifiable intangible assets, the Company has estimated 12 years for useful lives for customer relationships and 10 years for tradename. For the three months ended March 31, 2022, the Company recorded amortization of these intangibles of $108,000 and $9,000, respectively. Any changes to the initial estimates of the fair value of the acquired assets and assumed liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill if net assets acquired are less than the purchase price. The Company did not incur any material acquisition costs.

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 sales (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 renewable fuel 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 March 31,			
		2022		2021
Net Sales				
Pekin Campus production, recorded as gross:				
Alcohol sales	$	116,050	$	95,083
Essential ingredient sales		55,280		45,077
Intersegment sales		256		1,473
Total Pekin Campus sales		171,586		141,633
Marketing and distribution:				
Alcohol sales, gross	$	53,926	$	57,010
Alcohol sales, net		351		452
Intersegment sales		2,996		2,244
Total marketing and distribution sales		57,273		59,706
Other production, recorded as gross:				
Alcohol sales	$	59,805	$	15,969
Essential ingredient sales		18,938		5,143
Intersegment sales		12		305
Total Other production sales		78,755		21,417
Corporate and other		3,768		—
Intersegment eliminations		(3,264)		(4,022)
Net sales as reported	$	308,118	$	218,734
Cost of goods sold:				
Pekin Campus	$	168,881	$	128,864
Marketing and distribution		54,716		53,958
Other production		78,244		24,117
Corporate and other		2,872		—
Intersegment eliminations		(1,368)		(2,042)
Cost of goods sold as reported	$	303,345	$	204,897

Gross profit (loss):				
Pekin Campus production	$	2,705	$	12,769
Marketing and distribution		2,557		5,748
Other production		511		(2,700)
Corporate and other		896		—
Intersegment eliminations		(1,896)		(1,980)
Gross profit (loss) as reported	$	4,773	$	13,837
Income (loss) before provision for income taxes:				
Pekin Campus production	$	85	$	10,012
Marketing and distribution		785		3,735
Other production		(1,209)		(5,945)
Corporate and other		(2,263)		(3,124)
	$	(2,602)	$	4,678
Depreciation and amortization:				
Pekin Campus production	$	4,538	$	4,345
Other production		1,456		1,498
Corporate and other		140		17
	$	6,134	$	5,860
Interest expense:				
Pekin Campus production	$	—	$	519
Marketing and distribution		200		202
Other production		—		136
Corporate and other		—		1,028
	$	200	$	1,885

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

		March 31, 2022		December 31, 2021
Total assets:				
Pekin Campus production	$	271,771	$	266,197
Marketing and distribution		127,499		130,302
Other production		62,168		57,046
Corporate and other		36,430		31,408
	$	497,868	$	484,953

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 a valuation adjustment of $249,000 and $0 as of March 31, 2022 and December 31, 2021, respectively. Inventory balances consisted of the following (in thousands):

	March 31, 2022	December 31, 2021
Finished goods	$ 38,418	$ 35,509
Work in progress	7,185	6,909
Raw materials	11,770	10,837
Other	1,118	1,118
Total	$ 58,491	$ 54,373

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 months ended March 31, 2022 and 2021, 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 ethanol 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 gains of $5,316,000 and $10,543,000 as the change in the fair value of these contracts for the three months ended March 31, 2022 and 2021, 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 March 31, 2022			
	Assets		Liabilities	
Type of Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash collateral balance	Restricted cash	$ 23,799		
Commodity contracts	Derivative assets	$ 19,498	Derivative liabilities	$ 27,487

	As of December 31, 2021			
	Assets		Liabilities	
Type of Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash collateral balance	Restricted cash	$ 11,513		
Commodity contracts	Derivative assets	$ 15,839	Derivative liabilities	$ 13,582

The above amounts represent the gross balances of the contracts; however, the Company does have a right of offset with each of its derivative brokers, but its intent is to close out positions individually, therefore, they are reported at gross.

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

		Realized Gains	
		For the three months Ended March 31,	
Type of Instrument	Statements of Operations Location	2022	2021
Commodity contracts	Cost of goods sold	$ 15,562	$ 6,185
		$ 15,562	$ 6,185

		Unrealized Gains (Losses)	
		For the three months Ended March 31,	
Type of Instrument	Statements of Operations Location	2022	2021
Commodity contracts	Cost of goods sold	$ (10,246)	$ 4,358
		$ (10,246)	$ 4,358

6. DEBT.

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

	March 31, 2022	December 31, 2021
Kinergy line of credit	$ 53,715	$ 50,401
Less unamortized debt financing costs	(34)	(40)
Less short-term portion	—	—
Long-term debt	$ 53,681	$ 50,361

Excess Availability – As of March 31, 2022, Kinergy had $15.2 million in unused borrowing availability under its line of credit.

7. COMMITMENTS AND CONTINGENCIES.

Sales Commitments – At March 31, 2022, 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 125,438,000 gallons as of March 31, 2022 and open fixed-price alcohol sales contracts totaling $124,713,000 as of March 31, 2022. The Company had open fixed-price sales contracts for essential ingredients totaling $23,023,000 and open indexed-price sales contracts of essential ingredients for 5,242,000 tons as of March 31, 2022. These sales contracts are scheduled to be completed throughout 2022.

Purchase Commitments – At March 31, 2022, the Company had indexed-price purchase contracts to purchase17,439,000 gallons of alcohol and fixed-price purchase contracts to purchase $81,601,000 of alcohol from its suppliers. The Company had fixed-price purchase contracts to purchase $67,584,000 of corn from its suppliers as of March 31, 2022. The Company had fixed-price purchase contracts for natural gas totaling $13,439,000 and indexed-price purchase contracts for natural gas totaling2,140,000 MMBTU. The Company also had future commitments for certain capital projects totaling $26,769,000. These purchase commitments are scheduled to be satisfied throughout 2022 and 2023.

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 PLANS.

The Company sponsors a defined benefit pension plan (the "Retirement Plan") and a healthcare and life insurance plan (the "Postretirement Plan").

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, 2021, the Retirement Plan's accumulated projected benefit obligation was $23.8 million, with a fair value of plan assets of $20.0 million. The underfunded amount of $3.8 million is recorded on the Company's consolidated balance sheet in other liabilities. For the three months ended March 31, 2022, the Retirement Plan's net periodic expense (income) was ($8,000), comprised of $164,000 in interest cost and $101,000 in service cost, more than offset by $273,000 of expected return on plan assets. For the three months ended March 31, 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.

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 reduces at age 65 from a defined benefit to a defined dollar cap based upon years of service. As of December 31, 2021, the Postretirement Plan's accumulated projected benefit obligation was $4.3 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 March 31, 2022, the Postretirement Plan's net periodic expense was $32,000, comprised of $26,000 of interest cost and $6,000 of service cost. For the three months ended March 31, 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.

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 March 31, 2022 and December 31, 2021 of $1,000,000. 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 March 31, 2022 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Derivative financial instruments	$ 19,498	$ 19,498	$ —	$ —
Long-lived assets held-for-sale	1,000	—	—	1,000
	$ 20,498	$ 19,498	$ —	$ 1,000
Liabilities:				
Derivative financial instruments	$ (27,487)	$ (27,487)	$ —	$ —

The following table summarizes recurring and nonrecurring fair value measurements by level at December 31, 2021 (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Benefit Plan Percentage Allocation
Assets:					
Derivative financial instruments	$ 15,839	$ 15,839	$ —	$ —	
Long-lived assets held-for-sale	1,000	—	—	1,000	
Defined benefit plan assets(1) (pooled separate accounts):					
Large U.S. Equity(2)	5,612	—	5,612	—	28%
Small/Mid U.S. Equity(3)	3,684	—	3,684	—	18%
International Equity(4)	2,909	—	2,909	—	15%
Fixed Income(5)	7,782	—	7,782	—	39%
	$ 36,826	$ 15,839	$ 19,987	$ 1,000	
Liabilities:					
Derivative financial instruments	$ (13,582)	$ (13,582)	$ —	$ —	

(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):

	Three Months Ended March 31, 2022		
	Loss Numerator	Shares Denominator	Per-Share Amount
Net loss	$ (2,602)		
Less: Preferred stock dividends	(312)		
Basic and diluted loss per share:			
Net loss available to common stockholders	$ (2,914)	71,390	$ (0.04)

	Three Months Ended March 31, 2021		
	Income Numerator	Shares Denominator	Per-Share Amount
Net income	$ 4,678		
Less: Preferred stock dividends	(312)		
Basic income per share:			
Income available to common stockholders	$ 4,366	70,351	$ 0.06
Add: Dilutive securities		2,113	
Diluted income per share:			
Income available to common stockholders	$ 4,366	72,464	$ 0.06

There were an additional aggregate potentially dilutive weighted-average shares of1,339,000 and 3,265,000 from convertible securities outstanding for the three months ended March 31, 2022 and 2021. These securities were not considered in calculating diluted net income (loss) per share for the three months ended March 31, 2022 and 2021, as their effect would have been anti-dilutive. At March 31, 2022, the Company had outstanding unexercised warrants to purchase 8.9 million shares of its common stock at an exercise price of $9.76 per share. These warrants expired unexercised on April 28, 2022.

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 distributor of specialty alcohols and essential ingredients, and the largest producer of specialty alcohols in the United States.

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 and distribute all of the alcohols produced at our facilities as well as fuel-grade ethanol produced by third parties. In 2021, we marketed and distributed approximately 480 million gallons combined of our own alcohols as well as fuel-grade ethanol produced by third parties, and over 1.2 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 sales, (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 renewable fuel and essential ingredients produced at all of our other production facilities on an aggregated 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 distributor 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.

On January 14, 2022, we acquired Eagle Alcohol Company LLC, or Eagle Alcohol, for $14.0 million in cash plus an estimated net working capital adjustment of $1.3 million in cash. The members of Eagle Alcohol are eligible to receive up to an additional $14.0 million of contingent consideration, payable through a combination of cash and our common stock over the next five years, subject to the satisfaction of certain conditions, including continued employment.

Eagle Alcohol specializes in break bulk distribution of specialty alcohols. Eagle Alcohol purchases bulk alcohol from suppliers. Eagle Alcohol then stores, denatures, packages, and resells alcohol products in smaller sizes, including tank trucks, totes, and drums, that garner a premium to bulk alcohols. Eagle Alcohol delivers products to customers in the beverage, food, pharma, and related-process industries via its own dedicated trucking fleet and common carrier. Eagle Alcohol generated over $35 million in revenues in 2021. Eagle Alcohol is now one of our wholly-owned subsidiaries, and its former president, Dan Croghan, who has many years of experience and expertise in the chemical and alcohol distribution industry, continues on as our employee.

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.

All of our production facilities are currently operating and have been operating through all of the first 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.

		Annual Production Capacity (estimated, in gallons)	
Production Facility	Location	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 and Distribution Segment

We market and distribute all of the alcohols and essential ingredients we produce at our facilities. We also market and distribute alcohol 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 renewable fuel 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 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

Our decision to diversify further into specialty alcohols and essential ingredients provided a buffer against macroeconomic challenges and weak renewable fuel crush margins in the first quarter of 2022. As a result, we generated positive gross margins and, despite generating a net loss of $2.6 million, we generated positive Adjusted EBITDA of $4.4 million for the quarter notwithstanding a challenging market environment. We define Adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted for asset impairments, loss on extinguishment of debt, acquisition-related expense and fair value adjustments. A table reconciling Adjusted EBITDA to unaudited net income or loss attributed to Alto Ingredients, Inc. is included below.

During the quarter, we remained focused on managing the areas of our business within our control by executing on our strategic goals, investing for future growth and further diversifying and high-grading our product offerings. As noted above, we acquired Eagle Alcohol, an established leader in premium alcohol distribution. The acquisition expands our product offerings and broadens our target markets, including by accelerating our ability to capture additional high-margin sales. We expect Eagle Alcohol to contribute $4.0 million in EBITDA for 2022 and $9.0 million in EBITDA annually starting in 2023, including synergies. We plan to invest $5.0 million in 2022 to further enhance our specialty alcohol quality and distribution before fourth quarter contract negotiations begin.

In February, we expanded our portfolio of certifications by qualifying for two additional internationally-recognized certifications at our Pekin Campus. We received a certification for active pharmaceutical ingredients and a second certification for the use of excipients. Together with the certifications we received in 2021, these new certifications create redundancy across our entire Pekin Campus. The certifications increase our appeal to customers who require a consistent, documented supply of high-grade alcohols for use in pharmaceutical, health, home and beauty, and distilled spirits products. As a result, we are expanding existing relationships and attracting new customers domestically and in growing international markets for these higher-margin specialty alcohols.

As previously reported, 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. In the first quarter, we made progress installing the system and expect to see initial benefits from the corn oil extraction part of the system in the second half of this year, generating $4.0 million of EBITDA on an annualized basis. We expect to complete the protein enhancement part of the system by early 2023, producing an additional $5.0 million of EBITDA annually based on current market prices.

We plan to roll out the CoPromax system at our three other dry mills following its successful installation at our Magic Valley facility with the goal of having them fully operational by 2025. The total investment for all four facilities is $70.0 million. Assuming similar economics across all four dry mills, we estimate that the systems will contribute $34.0 million in EBITDA annually based on current market values.

We have begun expanding corn storage at our Pekin Campus to increase our corn-buying flexibility and reduce our need to purchase product at premium prices when farmers and elevators have stopped shipping corn, including during holidays or unfavorable weather conditions. This capital improvement project represents an investment of approximately $6.0 million, which we expect will yield over $2.0 million in EBITDA annually with a payback in less than three years beginning in the first quarter of 2023.

We continue to reinvest in our facilities by upgrading equipment and operating systems to increase efficiency and plant reliability. For example, after only a nominal expense, we are now able to load corn oil into railcars across all our facilities, expanding our access to higher value corn oil markets. We are planning similar capital expenditure projects that are ongoing in nature. We will provide periodic updates on these projects as they develop throughout the year.

We are also evaluating an investment to bypass the local natural gas utility at our Pekin Campus, which we estimate would reduce natural gas prices by 11% based on 2021 values. This investment would also create an opportunity to sell renewable natural gas produced at our Pekin Campus directly into the pipeline. The investment would be approximately $9.0 million in 2023 and yield a return of approximately $5.0 million in EBITDA annually beginning in 2024.

In addition, we remain actively engaged with third parties to evaluate a carbon capture and sequestration program at our Pekin Campus. We will continue to pursue additional profitable opportunities with a focus on 2024 and beyond.

Earlier this year, we created an environmental, social and governance, or ESG, committee consisting of senior executives, subject matter experts and members of our board of directors. Our ESG committee completed an extensive review with a third party and refined our ESG strategy. As part of this process, we promoted Stacy Swanson, who led our rigorous certification efforts, to head our day-to-day ESG programs in the newly created position of Vice President of Quality and Sustainability. As a producer and distributor of high-quality, bio-based alcohols, we are committed to creating a greener environment. We have launched initiatives, set baselines and begun tracking resources to improve employee health and safety and further reduce environmental impacts. As illustrated by our quality certifications, we are committed to producing ingredients for our customers that embody the highest levels of integrity, purity and quality for products that touch multiple areas of people's lives. We look forward to providing periodic updates on our ESG strategy and greater transparency of our many accomplishments to date and of our activities moving forward.

Use of Non-GAAP Measures

Management believes that certain financial measures not in accordance with generally accepted accounting principles, or GAAP, are useful measures of operations. We define Adjusted EBITDA as unaudited net income (loss) attributed to Alto Ingredients, Inc. before interest expense, interest income, provision (benefit) for income taxes, asset impairments, loss on extinguishment of debt, acquisition-related expense, fair value adjustments, and depreciation and amortization expense. A table is provided below to reconcile Adjusted EBITDA to its most directly comparable GAAP measure, net income (loss) attributed to Alto Ingredients, Inc. 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 our performance on a period-over-period basis. Adjusted 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. Adjusted EBITDA has limitations as an analytical tool and you should not consider this measure in isolation or as a substitute for analysis of the company's 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 certain items required for reconciliation are uncertain, outside of our control and/or cannot be reasonably predicted, such as net sales, cost of goods sold, provision (benefit) for income taxes, asset impairments and fair value adjustments, which we view as the most material components of net income (loss) attributed to Alto Ingredients, Inc. that are not presently estimable.

Reconciliation of Adjusted EBITDA to Net Income (Loss)

	Three Months Ended March 31,	
(in thousands) (unaudited)	2022	2021
Net income (loss)	$ (2,602)	$ 4,678
Adjustments:		
Interest expense	200	1,885
Interest income	(158)	(184)
Acquisition-related expense	875	—
Asset impairments	—	1,200
Depreciation and amortization expense	6,134	5,860
Total adjustments	7,051	8,761
Adjusted EBITDA	$ 4,449	$ 13,439

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments 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 amount of net sales and expenses for each period. We believe that of our significant accounting policies, the following critical accounting policies and estimates are those policies that we believe are the most important to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain: revenue recognition; accounting for business combinations; impairment of long-lived assets and held-for-sale classification; valuation allowance for deferred taxes and derivative instruments. Except as noted below, these significant accounting principles are more fully described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2021.

Accounting for Business Combinations

Determining the fair value of assets acquired and liabilities assumed in a business combination is considered a critical accounting estimate because the allocation of the purchase price to assets acquired and liabilities assumed based upon fair values requires significant management judgment and the use of subjective measurements. Variability in industry conditions and changes in assumptions or subjective measurements used to allocate fair value are reasonably possible and may have a material impact on our financial position, liquidity or results of operations.

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 March 31, 2022	2021	Percentage Change
Renewable fuel production gallons sold (in millions)	49.2	39.0	26.2%
Specialty alcohol production gallons sold (in millions)	23.3	19.0	22.6%
Third party renewable fuel gallons sold (in millions)	30.7	54.0	(43.1)%
Total gallons sold (in millions)	103.2	112.0	(7.9)%
Total gallons produced (in millions)	74.3	58.0	28.1%
Production capacity utilization	86%	52%	65.4%
Average sales price per gallon	$ 2.46	$ 1.94	26.8%
Corn cost per bushel—CBOT equivalent	$ 6.22	$ 4.98	24.9%
Average basis[1]	0.64	0.29	120.7%
Delivered cost of corn	$ 6.86	$ 5.27	30.2%
Total essential ingredients tons sold (in thousands)	398.8	276.9	44.0%
Essential ingredients revenues as % of delivered cost of corn[2]	36.4%	40.0%	(9.0)%
Average CBOT ethanol price per gallon	$ 2.16	$ 1.60	35.0%
Average CBOT corn price per bushel	$ 6.73	$ 5.40	24.6%

(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

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

	Three Months Ended March 31, 2022	2021	Change in Dollars	Change in Percent
Net sales	$ 308,118	$ 218,734	$ 89,384	40.9%
Cost of goods sold	303,345	204,897	98,448	48.0%
Gross profit	$ 4,773	$ 13,837	$ (9,064)	(65.5)%
Percentage of net sales	*1.5%*	*6.3%*		

Net Sales

The increase in our consolidated net sales for the three months ended March 31, 2022 as compared to the same period in 2021 was primarily due to an increase in our average sales price per gallon sold and an increase in our production gallons sold, partially offset by a decrease in third-party gallons sold. We marketed fewer third-party gallons during the quarter as we ended our contractual relationship with one of the ethanol plants for which we previously sold its production.

On a consolidated basis, our average sales price per gallon increased 26.8% to $2.46 for the three months ended March 31, 2022 as compared to $1.94 for the same period in 2021. The increase in our average sales price per gallon primarily reflects supply constraints that translated into higher ethanol prices. The average Chicago Board of Trade, or CBOT, fuel-grade ethanol price per gallon, increased 35.0% to $2.16 for the three months ended March 31, 2022 as compared to $1.60 for the same period in 2021.

Pekin Campus Production Segment

Net sales of alcohol from our Pekin Campus production segment increased by $21.0 million, or 22%, to $116.1 million for the three months ended March 31, 2022 as compared to $95.1 million for the same period in 2021. Our total volume of production gallons sold declined by 1.3 million gallons, or 3%, to 49.3 million gallons for the three months ended March 31, 2022 as compared to 50.6 million gallons for the same period in 2021. At our Pekin Campus production segment's average sales price per gallon of $2.35 for the three months ended March 31, 2022, we generated $3.0 million less in net sales from our Pekin Campus production segment from the 1.3 million fewer gallons of alcohol sold in the three months ended March 31, 2022 as compared to the same period in 2021. The increase of $0.47, or 25%, in our Pekin Campus production segment's average sales price per gallon in the three months ended March 31, 2022 as compared to the same period in 2021 improved our net sales from our Pekin Campus production segment by $24.0 million.

Net sales of essential ingredients increased $10.2 million, or 23%, to $55.3 million for the three months ended March 31, 2022 as compared to $45.1 million for the same period in 2021. Our total volume of essential ingredients sold increased by 12,000 tons, or 5%, to 242,000 tons for the three months ended March 31, 2022 from 230,000 tons for the same period in 2021. At our average sales price per ton of $228.31 for the three months ended March 31, 2022, we generated $2.8 million more in net sales from the 12,000 additional tons of essential ingredients sold in the three months ended March 31, 2022 as compared to the same period in 2021. The increase of $32.36, or 17%, in our average sales price per ton for the three months ended March 31, 2022 as compared to the same period in 2021 increased our net sales from our Pekin Campus production segment by $7.4 million.

Marketing and Distribution Segment

Net sales of alcohol from our marketing and distribution segment, excluding intersegment sales, decreased by $3.2 million, or 6%, to $54.2 million for the three months ended March 31, 2022 as compared to $57.4 million for the same period in 2021.

Our volume of third party alcohol sold reported gross by our marketing and distribution segment decreased by 6.8 million gallons, or 25%, to 19.9 million gallons for the three months ended March 31, 2022 as compared to 26.7 million gallons for the same period in 2021. At our marketing and distribution segment's average sales price per gallon of $2.71 for the three months ended March 31, 2022, we generated $18.4 million less in net sales from our marketing and distribution segment from the 6.8 million fewer gallons of third-party alcohol sold gross in the three months ended March 31, 2022 as compared to the same period in 2021.

Our volume of alcohol sold reported net by our marketing and distribution segment decreased by 16.5 million gallons, or 60%, to 10.8 million gallons for the three months ended March 31, 2022 as compared to 27.3 million gallons for the same period in 2021. The decrease in third-party alcohol volume sold reported net reduced net sales by less than $0.1 million.

The $0.57 per gallon, or 27%, increase in our marketing and distribution segment's average sales price per gallon for the three months ended March 31, 2022 as compared to the same period in 2021 resulted in a $15.3 million increase in our net sales from third-party fuel-grade ethanol sold by our marketing and distribution segment.

Other Production Segment

Net sales of alcohol from our other production segment increased by $43.8 million, or 274%, to $59.8 million for the three months ended March 31, 2022 as compared to $16.0 million for the same period in 2021. Our total volume of alcohol sold increased by 15.8 million gallons, or 214%, to 23.2 million gallons for the three months ended March 31, 2022 as compared to 7.4 million gallons for the same period in 2021. At our other production segment's average sales price per gallon of $2.58 for the three months ended March 31, 2022, we generated $40.7 million of additional net sales from our other production segment from the 15.8 million additional gallons of alcohol sold in the three months ended March 31, 2022 as compared to the same period in 2021. The increase of $0.42, or 20%, in our other production segment's average sales price per gallon for the three months ended March 31, 2022 as compared to the same period in 2021 improved our net sales from our other production segment by $3.1 million.

Net sales of essential ingredients increased by $13.8 million, or 271%, to $18.9 million for the three months ended March 31, 2022 as compared to $5.1 million for the same period in 2021. Our total volume of essential ingredients sold increased by 110,000 tons, or 234%, to 157,000 tons for the three months ended March 31, 2022 from 47,000 tons for the same period in 2021. At our average sales price per ton of $120.87 for the three months ended March 31, 2022, we generated $13.2 million of additional net sales from our other production segment from the 110,000 additional tons of essential ingredients sold in the three months ended March 31, 2022 as compared to the same period in 2021. The increase of $11.12, or 10%, in our average sales price per ton for the three months ended March 31, 2022 as compared to the same period in 2021 increased our net sales of essential ingredients from our other production segment by $0.6 million.

Corporate and other

Net sales of alcohol from corporate and other represented $3.8 million associated with our sales from Eagle Alcohol.

Cost of Goods Sold and Gross Profit

Our consolidated gross profit declined to $4.8 million for the three months ended March 31, 2022 from $13.8 million for the same period in 2021, representing a gross profit margin of 1.5% for the three months ended March 31, 2022 compared to 6.3% for the same period in 2021. Our consolidated gross profit declined due to extreme commodity price volatility, drawn-out supply chains, rail and operational disruptions, rising transportation costs and weak renewable fuel crush margins. In addition, our cost of goods sold includes $7.0 million in non-cash mark-to-market inventory adjustments and unrealized losses recorded on our forward derivative positions.

Pekin Campus Production Segment

Our Pekin Campus production segment's gross profit declined by $9.9 million to $3.3 million for the three months ended March 31, 2022 as compared to $13.2 million for the same period in 2021. This decline in gross profit is largely attributable to lower margins from sales of essential ingredients. Our higher sales prices for essential ingredients did not outweigh higher corn prices. In addition, we had lower sales volumes from our Pekin Campus due to a lower capacity utilization rate for the three months ended March 31, 2022 as compared to the same period in 2021 due to plant maintenance and related shutdowns.

Marketing and Distribution Segment

Our marketing and distribution segment's gross profit (loss) declined by $4.0 million to a gross loss of $0.4 million for the three months ended March 31, 2022 as compared to $3.6 million for the same period in 2021. Of this decline, $3.9 million is attributable to lower margins from sales of third-party fuel-grade ethanol due to increased volatility in ethanol pricing and $0.1 million is attributable to lower sales volumes for the three months ended March 31, 2022 as compared to the same period in 2021 as we ended our contractual relationship with one of the third-party ethanol plants for which we previously sold its production.

Other Production Segment

Our other production segment's gross profit improved by $4.0 million to a gross profit of $1.0 million for the three months ended March 31, 2022 as compared to a gross loss of $3.0 million for the same period in 2021. Of this improvement, $3.3 million is attributable to improved margins on fuel-grade ethanol and $0.7 million is attributable to higher sales volumes as we restarted our Magic Valley facility in November 2021.

Corporate and other

Gross profit from corporate and other of $0.9 million was associated with our sales from Eagle Alcohol.

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 March 31,		Change in	
	2022	2021	Dollars	Percent
Selling, general and administrative expenses	$ 7,629	$ 7,014	$ 615	8.8%
Percentage of net sales	*2.5%*	*3.2%*		

Our SG&A expenses increased for the three months ended March 31, 2022 as compared to the same period in 2021. The $0.6 million period over period increase in SG&A expenses is primarily due to a $0.9 million acquisition-related accrual for future cash payments attributable to our acquisition of Eagle Alcohol, partially offset by lower professional fees.

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 March 31,		Change in	
	2022	2021	Dollars	Percent
Net income (loss) available to Common Stockholders	$ (2,914)	$ 4,366	$ (7,280)	*
Percentage of net sales	*(0.9)%*	*2.0%*		

* *Not meaningful*

The decrease in net income available to common stockholders is primarily due to our lower gross profit and higher SG&A expenses, partially offset by lower interest expense, for the three months ended March 31, 2022 as compared to the same period in 2021.

Liquidity and Capital Resources

During the three months ended March 31, 2022, we funded our operations primarily from cash generated by our operations, proceeds from lines of credit and cash on hand. These funds were also used to acquire Eagle Alcohol and for capital expenditures. As of March 31, 2022, we had $60.0 million in cash, cash equivalents and restricted cash and $15.2 million available for borrowing under Kinergy's operating line of credit. We believe we have sufficient liquidity to meet our anticipated working capital, debt service and other liquidity needs for the next twelve months from the date of this report. We may, however, in the future, seek and obtain additional capital in the form of secured debt to provide additional funds for accretive projects.

Quantitative Year-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).

	March 31, 2022	December 31, 2021	Change
Cash, cash equivalents and restricted cash	$ 59,983	$ 62,125	(3.4)%
Current assets	$ 241,213	$ 229,526	5.1%
Property and equipment, net	$ 220,996	$ 222,550	(0.7)%
Current liabilities	$ 80,181	$ 69,602	15.2%
Long-term debt	$ 53,681	$ 50,361	6.6%
Working capital	$ 161,032	$ 159,924	0.7%
Working capital ratio	3.01	3.30	(8.8)%

Changes in Working Capital and Cash Flows

Working capital improved to $161.0 million at March 31, 2022 from $159.9 million at December 31, 2021 as a result of an increase of $11.7 million in current assets, partially offset by an increase of $10.6 million in current liabilities.

Current assets increased primarily due to an increase in notes receivable as they became current due to their revised maturity date to June 30, 2022.

Our current liabilities increased primarily due to an increase in derivative instruments due to the end of period change in commodity prices for open contracts.

Our cash, cash equivalents and restricted cash declined by $2.1 million primarily due to $17.0 million used in our investing activities, partially offset by $11.1 million in cash provided by our operating activities and $3.8 million in cash provided by our financing activities.

Cash provided by our Operating Activities

We generated $11.1 million in cash from our operating activities during the three months ended March 31, 2022, as compared to $4.5 million in cash used in our operations for the same period in 2021. Specific factors that contributed to the change in cash from our operating activities include:

- an increase of $24.8 million related to higher accounts receivable balances due to the timing of payments
- an increase of $14.5 million related to higher inventories due to increased commodity prices;
- an increase of $10.8 million related to other assets primarily related to derivative activity; and
- an increase of $5.2 million from gains on derivative instruments due to the recent rise in corn prices.

These amounts were partially offset by:

- a decrease of $7.3 million in our consolidated net income due to lower margins from alcohol sales; and
- a decrease of $30.1 million related to accounts payable due to the timing of payments.

Cash used in our Investing Activities

We used $14.7 million of cash to acquire Eagle Alcohol, net of cash acquired, and $2.3 million of cash for additions to property and equipment in our investing activities for the three months ended March 31, 2022.

Cash provided by our Financing Activities

Cash provided by our financing activities was $3.8 million for the three months ended March 31, 2022, which reflects net proceeds of $3.3 million from Kinergy's operating line of credit and $0.8 million in principal payments received on our notes receivable, partially offset by $0.3 million paid in preferred dividends.

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 March 31,		Years Ended December 31,	
	2022	2021	2021	2020
Fixed-Charge Coverage Ratio Requirement	2.00	2.00	2.00	2.00
Actual	10.18	7.71	13.32	5.35
Excess	8.18	5.71	11.32	3.35

Alto Ingredients, Inc. has guaranteed all of Kinergy's obligations under the credit facility. As of March 31, 2022, Kinergy had an outstanding balance of $53.7 million and $15.2 million of unused borrowing availability under the credit facility.

Effects of Inflation

The impact of inflation was not significant to our financial condition or results of operations for the three months ended March 31, 2022 and 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to various market risks, including changes in commodity prices as discussed below. Market risk is the potential loss arising from adverse changes in market rates and prices. In the ordinary course of business, we may enter into various types of transactions involving financial instruments to manage and reduce the impact of changes in commodity prices. We do not have material exposure to interest rate risk. We do not expect to have any exposure to foreign currency risk as we conduct all of our transactions in U.S. dollars.

We produce alcohol and essential ingredients. Our business is sensitive, in particular, to changes in the prices of ethanol and corn. In the ordinary course of business, we may enter into various types of transactions involving financial instruments to manage and reduce the impact of changes in ethanol and corn prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

We are subject to market risk with respect to ethanol and corn pricing. Ethanol prices are sensitive to global and domestic ethanol supply; crude-oil supply and demand; crude-oil refining capacity; carbon intensity; government regulation, including governmental mandates for renewable fuel use; and consumer demand for alternative fuels. Our ethanol sales are priced using contracts that are either based on a fixed price or an indexed price tied to a specific market, such as the CBOT or the Oil Price Information Service. Under these fixed-priced arrangements, we are exposed to the risk of a decrease in the market price of ethanol between the time the price is fixed and the time the ethanol is sold.

We satisfy our physical corn needs, the principal raw material used to produce alcohol and essential ingredients, based on purchases from our corn vendors. Generally, we determine the purchase price of our corn at or near the time we begin to grind. Additionally, we also enter into volume contracts with our vendors to fix the purchase price. As such, we are also subject to market risk with respect to the price of corn. The price of corn is subject to wide fluctuations due to unpredictable factors such as weather conditions, farmer planting decisions, governmental policies with respect to agriculture and international trade, including trade and other sanctions that may be levied against grain producing countries, and global supply and demand. Under the fixed price arrangements, we assume the risk of a decrease in the market price of corn between the time the price is fixed and the time the corn is utilized.

Essential ingredients are sensitive to various demand factors such as numbers of livestock on feed, prices for feed alternatives, and supply factors, primarily the production of alcohol co-products by plants and other sources.

As noted above, we may attempt to reduce the market risk associated with fluctuations in the price of ethanol or corn by employing a variety of risk management and hedging strategies. Strategies include the use of derivative financial instruments such as futures and options executed on the CBOT and/or the New York Mercantile Exchange, as well as the daily management of physical corn supplies.

These derivatives are not designated for special hedge accounting treatment, and as such, the changes in the fair values of these contracts are recorded on the balance sheet and recognized immediately in cost of goods sold. We recognized net gains of $5.3 million and $10.5 million related to the changes in the fair values of these contracts for the three months ended March 31, 2022 and 2021, respectively.

At March 31, 2022, we prepared a sensitivity analysis to estimate our exposure to ethanol and corn. Market risk related to these factors was estimated as the potential change in pre-tax income resulting from a hypothetical 10% adverse change in the prices of our expected ethanol and corn volumes. The analysis uses average CBOT prices for the year and does not factor in future contracted volumes. The results of this analysis for the three months ended March 31, 2022, which may differ materially from actual results, are as follows (in millions):

Commodity	Volume	Unit of Measure	Approximate Adverse Change to Pre-Tax Income
Ethanol	103.2	Gallons	$ (15.7)
Corn	25.9	Bushels	$ (17.4)

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 March 31, 2022 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 condition, 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

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 condition. 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 suspend production, particularly fuel-grade ethanol production, at some or all of our facilities.

In addition, some of our fuel-grade ethanol marketing and distribution 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 and distribution 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 condition 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.

Inflation, including as a result of commodity price inflation or supply chain constraints due to the war in Ukraine, may adversely impact our results of operations.

We have experienced inflationary impacts on key production inputs, wages and other costs of labor, equipment, services, and other business expenses. Commodity prices in particular have risen significantly over the past year. Inflation and its negative impacts could escalate in future periods.

Ukraine is the third largest exporter of grain in the world. Russia is one of the largest producers of natural gas and oil and is the largest exporter of fertilizers. The commodity price impact of the war in Ukraine has been a sharp and sustained rise in grain and energy prices, including corn and natural gas, two of our primary production input commodities. In addition, the war in Ukraine has adversely affected and may continue to adversely affect global supply chains resulting in further commodity price inflation for our production inputs. Lower fertilizer supplies may also impact future growing seasons, further impacting grain supplies and prices. Also, given high global grain prices, U.S. farmers may prefer to lock in prices and export additional volumes, reducing domestic grain supplies and resulting in further inflationary pressures.

We may not be able to include these additional costs in the prices of the products we sell. As a result, inflation may have a material adverse effect on our results of operations and financial condition.

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. 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 $2.00 to $2.58 per gallon in the three months ended March 31, 2022, $1.48 to $3.75 per gallon in 2021, 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.

The effects of the coronavirus pandemic 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.

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.

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 example, for the three months ended March 31, 2022 and year ended December 31, 2020, we incurred consolidated net losses of approximately $2.6 million and $17.3 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.

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.

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

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.

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.

Risks Related to Ownership of our Common Stock

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 solely to appreciation in the value of our common stock to realize any gain on their investment. There can be no assurance that any such 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 our behalf, (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 our 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 or 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 that 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.

Our and our business partners' or contractors' failure to fully comply with applicable data privacy or similar 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 months ended March 31, 2022 and 2021, we accrued an aggregate of $0.3 million in dividends on our Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock. We have paid these dividends in cash and are current in our quarterly dividend obligations.

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	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 (*)
31.2	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 (*)
32.1	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 (*)
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 with applicable taxonomy extension information contained in Exhibits 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.

ALTO INGREDIENTS, INC.

Dated: May 9, 2022

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

EXHIBIT 31.1

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(s) 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: May 9, 2022

/s/ MICHAEL D. KANDRIS
Michael D. Kandris
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

**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(s) 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: May 9, 2022

/s/ BRYON T. MCGREGOR

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

EXHIBIT 32.1

**CERTIFICATIONS 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 three months ended March 31, 2022 (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: May 9, 2022

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

Dated: May 9, 2022

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.