

MGP INGREDIENTS INC
Form 10-K
March 12, 2013
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number 0-17196

MGP Ingredients, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Kansas 48-0531200
(State or Other Jurisdiction (I.R.S. Employer
of Incorporation or Organization) Identification No.)

100 Commercial Street, Box 130, Atchison, Kansas 66002
(Address of Principal Executive Offices) (Zip Code)

(913) 367-1480
Registrant's telephone number, including area code

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

Title of Each Class Name of Each Exchange on Which Registered
Common Stock, no par value NASDAQ Global Select Market

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

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

Edgar Filing: MGP INGREDIENTS INC - Form 10-K

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

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

The aggregate market value of common equity held by non-affiliates, computed by reference to the last sales price as reported by NASDAQ on June 29, 2012, was \$38,041,322.

The number of shares of the registrant's common stock outstanding as of March 1, 2013 was 17,934,233.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

- (1) Portions of the MGP Ingredients, Inc. Proxy Statement for the Annual Meeting of Stockholders to be held on May 23, 2013 are incorporated by reference into Part III of this report to the extent set forth herein.

CONTENTS PAGE

<u>Forward Looking Statements</u>	iii
<u>Method of Presentation</u>	iii
<u>Available Information</u>	iii
PART I	
<u>Item 1.</u>	<u>Business</u> 1
	<u>General Information</u> 2
	<u>2012 and Recent Developments</u> 2
	<u>Financial Information About Segments</u> 4
	<u>Business Strategy</u> 4
	<u>Product Sales</u> 5
	<u>Distillery Products Segment</u> 5
	<u>Ingredient Solutions Segment</u> 7
	<u>Other Segment</u> 10
	<u>Patents</u> 10
	<u>Research and Development</u> 11
	<u>Seasonality</u> 11
	<u>Transportation</u> 11
	<u>Raw Materials</u> 11
	<u>Energy</u> 12
	<u>Employees</u> 12
	<u>Regulation</u> 12
	<u>Investment in Equity Method Investments</u> 14
	<u>Officers of the Registrant</u> 16
<u>Item 1A.</u>	<u>Risk Factors</u> 18
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 26
<u>Item 2.</u>	<u>Properties</u> 27
<u>Item 3.</u>	<u>Legal Proceedings</u> 28
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 28
PART II	
<u>Item 5.</u>	<u>Market for Registrant’s Common Equity, Related Stockholders</u> 29
	<u>Matters and Issuer Purchases of Equity Securities</u>
	<u>Trading Market</u> 29
	<u>Historical Stock Prices and Dividends</u> 29
	<u>Record Holders</u> 30
	<u>Trading Volumes</u> 30
	<u>Purchases of Equity Securities by Issuer</u> 30
<u>Item 6.</u>	<u>Selected Financial Data</u> 30
<u>Item 7.</u>	<u>Management’s Discussion and Analysis of Financial Condition and</u> 30
	<u>Results of Operations</u>
	<u>General</u> 30
	<u>Critical Accounting Policies and Estimates</u> 32
	<u>2012 and Recent Initiatives</u> 35
	<u>Segment Results</u> 37
	<u>Year ended December 31, 2012 Compared to December 31, 2011</u> 38
	<u>Six Month Transition Period ended December 31, 2011 Compared to</u> 42
	<u>December 31, 2010</u>
	<u>Quarterly Financial Information</u> 45
	<u>Liquidity and Capital Resources</u> 46

	<u>Off Balance Sheet Obligations</u>	<u>52</u>
	<u>New Accounting Pronouncements</u>	<u>53</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	<u>54</u>

<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>54</u>
	<u>Management’s Report on Internal Control Over Financial Reporting</u>	<u>54</u>
	<u>Report of Independent Registered Public Accounting Firm</u>	<u>55</u>
	<u>Consolidated Statements of Operations – Year Ended December 31, 2012, Six month Transition Period ended December 31, 2011 and the Year Ended June 30, 2011</u>	<u>56</u>
	<u>Consolidated Statements of Comprehensive Income – Year Ended December 31, 2012, Six month Transition Period ended December 31, 2011 and the Year Ended June 30, 2011</u>	<u>57</u>
	<u>Consolidated Balance Sheets – December 31, 2012 and 2011</u>	<u>58</u>
	<u>Consolidated Statements of Cash Flows – Year Ended December 31, 2012, Six month Transition Period ended December 31, 2011 and the Year Ended June 30, 2011</u>	<u>59</u>
	<u>Consolidated Statements of Changes in Stockholders’ Equity – Year Ended December 31, 2012, Six month Transition Period ended December 31, 2011 and the Year Ended June 30, 2011</u>	<u>60</u>
	<u>Notes to Consolidated Financial Statements – Year Ended December 31, 2012, Six month Transition Period ended December 31, 2011 and the Year Ended June 30, 2011</u>	<u>61</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>104</u>
<u>Item 9A</u>	<u>Controls and Procedures</u>	<u>104</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>104</u>
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>105</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>105</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>105</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>106</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>106</u>
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>107</u>
<u>SIGNATURES</u>		<u>116</u>

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

PART I

ITEM 1. BUSINESS

Throughout this Report, when we refer to "the Company", "we", "us", "our" and words of similar import in reference to activities that occurred prior to the "Reorganization", as defined below, on January 3, 2012, we are referring to the combined business of MGPI Processing, Inc. (formerly MGP Ingredients, Inc.) and its consolidated subsidiaries, and when we refer to "the Company", "we", "us", "our" and words of similar import in reference to activities occurring after the Reorganization, we are referring to the combined business of MGP Ingredients, Inc. (formerly named MGPI Holdings, Inc.) and its consolidated subsidiaries, except to the extent that the context otherwise indicates.

MGP Ingredients, Inc. ("Registrant" or "Company") is a Kansas corporation headquartered in Atchison, Kansas. It was incorporated in 2011 and is a holding company with no operations of its own. Its principal directly-owned operating subsidiaries are MGPI Processing, Inc. ("Processing") and MGPI of Indiana, LLC ("MGPI-I"). Processing was incorporated in Kansas in 1957 and is the successor to a business founded in 1941 by Cloud L. Cray, Sr. Prior to the Reorganization (discussed below), Processing was named MGP Ingredients, Inc. MGPI-I (previously named Firebird Acquisitions, Inc.) acquired substantially all the beverage alcohol distillery assets of Lawrenceburg Distillers Indiana, LLC ("LDI") at its Lawrenceburg and Greendale, Indiana distillery ("Indiana Distillery") on December 27, 2011.

On January 3, 2012, MGP Ingredients, Inc. reorganized into a holding company structure (the "Reorganization") through a series of steps involving various legal entities as further described below. By engaging in the Reorganization, we sought to better isolate risks that might reside in one facility or operating unit from our other facilities or operating units. We also believe that a holding company structure will facilitate ramp-up of new businesses that might be developed, accommodate future growth through acquisitions and joint ventures, create tighter focus within operating units, and enhance commercial activities and financing possibilities.

The Reorganization was effected through a merger (the "Merger") of Processing with MGPI Merger Sub, Inc., which was an indirect wholly-owned subsidiary of Processing and a direct, wholly-owned subsidiary of MGPI Holdings, Inc. ("Holdings"). Holdings was formerly a direct, wholly-owned subsidiary of Processing. Each of Holdings and MGPI Merger Sub, Inc. were organized in connection with the Merger. Processing survived the Merger, and as a result, became a direct wholly-owned subsidiary of Holdings. Upon completion of the Reorganization, Holdings changed its name to MGP Ingredients, Inc., former holders of Processing's common stock owned the same number of shares and same ownership percentage of Holdings as they did of Processing immediately prior to the Reorganization, and Holdings replaced Processing as the public corporation. The consolidated assets and liabilities of Holdings and its subsidiaries immediately after the Reorganization were the same as the consolidated assets and liabilities of Processing and its subsidiaries immediately before the effective time of the Merger. Immediately following the Reorganization: Holdings' articles of incorporation and bylaws were the same in all material respects as those of Processing before the Merger, each director of Processing was a director of Holdings, and management of Holdings was the same (in all material respects) as the management of Processing prior to the Merger. Following the Reorganization, "Holdings" and "Company" refer to the same entity. To further the holding company structure, Processing distributed three of its formerly directly owned subsidiaries, MGPI-I, D.M. Ingredients, GmbH and Midwest Grain Pipeline, Inc., to Holdings. Processing's other subsidiary, Illinois Corn Processing, LLC ("ICP"), remained a directly owned subsidiary of Processing, now 30% owned.

Effective December 31, 2011, we changed our fiscal year end from June 30 to December 31. We believe that this change in fiscal year better aligns the reporting of our financial results with those of our joint venture partners and strengthens our ability to gauge growing and harvesting conditions for seasonal grain crops. This change also enables our strategic planning process to better synchronize with our key customers' product development initiatives. The consolidated financial statements presented herein include the results for the year ended December 31, 2012 (our first full fiscal year since the year end change), the six month transition period of July 1, 2011 to December 31, 2011, and

the fiscal year ended June 30, 2011. The unaudited comparative information for the year ended December 31, 2011 and the six months ended December 31, 2010 is included in Note 17. Transition Period Comparative Data.

GENERAL INFORMATION

We produce certain distillery and ingredient products which are derived from corn, rye and barley, and wheat flour, respectively, primarily to serve the packaged goods industry. As of December 31, 2012, we had three reportable segments: distillery products, ingredient solutions and other. Effective February 8, 2013, we sold substantially all assets included in our other segment as further described in Note 20. Subsequent Events. Our distillery products segment consists primarily of food grade alcohol, and to a much lesser extent, fuel grade alcohol and distillers feed, which are co-products of our distillery operations. The ingredient solutions segment products primarily consist of specialty starches, specialty proteins, commodity starches and commodity vital wheat gluten. Included in the other segment products were plant-based biopolymers and wood-based composite resins manufactured through the further processing of certain of our starches and proteins and wood particles.

We purchase corn, rye and barley, which we use in our distillery operations, primarily from or through grain elevators. Currently we purchase most of our corn requirements from a single supplier, Bunge. We purchase wheat flour, the principal raw material used in the manufacture of our protein and starch products at our Atchison facility, from ConAgra Mills. We process flour with water to extract vital wheat gluten, the basic protein component of flour, which we use primarily to process into specialty wheat proteins with increased protein levels and/or enhanced functional characteristics. Most wheat protein products are dried into powder and sold in packaged or bulk form. We further process the starch slurry resulting after the extraction of the protein component to extract premium wheat starch. A portion of wheat starch is processed into specialty starches, a portion is sold as commodity starch, and all of such is dried into powder and sold in packaged or bulk form. We mix the remaining starch slurry with corn and water and then cook, ferment and distill it into alcohol. We dry the residue of the distilling operations and sell it as a high protein additive for animal feed. At our Indiana Distillery, we produce customized and premium grade corn and rye whiskeys, bourbon, gin, grain neutral spirits and distillers feed.

The principal location at which we made our products as of December 31, 2012 was our plant located in Atchison, Kansas. We operate an Indiana Distillery, which we acquired on December 27, 2011, when we acquired substantially all the assets used by LDI in its beverage alcohol distillery business (“Distillery Business”). We also operated a facility in Onaga, Kansas for the production of plant-based biopolymers and wood composite resin until February 8, 2013, when we sold this facility. Our line of textured wheat proteins are currently produced through a toll manufacturing arrangement at a facility in the Netherlands. In November 2009, we entered into a joint venture with SEACOR Energy Inc.’s affiliate, Illinois Corn Processing Holdings LLC (“ICP Holdings”), to reactivate distillery operations at the facility in Pekin, Illinois. This facility is now owned and operated by a non-consolidated joint venture entity named ICP, which reactivated the plant in the quarter ended March 31, 2010. We own 30% of the equity interests of ICP. ICP produces food grade alcohol for beverage and industrial applications, which we purchase, and fuel grade alcohol, which SEACOR Energy Inc. purchases.

2012 AND RECENT DEVELOPMENTS

Acquisition of the Indiana Distillery

On December 27, 2011, we acquired substantially all the assets used by LDI in its beverage alcohol business, and we now produce premium bourbon, corn and rye whiskeys, gin, grain neutral spirits and distillers feed at our Indiana Distillery. The purchase price of the acquisition was equal to the current assets minus current liabilities as of December 27, 2011, which was estimated at closing to be \$11,041. During April 2012, management and the seller completed working capital true-ups. The result of the true-ups was not material to our financial position or operating results.

During the quarter ended March 31, 2012, MGPI-I and the union that covers certain employees at the Indiana Distillery ratified a new multi-year collective bargaining unit agreement, that terminates December 31, 2017.

In conjunction with the acquisition of the distillery operations of LDI, we acquired a grain elevator that was not expected to be used, which was reported as Assets held for sale at December 31, 2011. On March 21, 2012, we sold this facility and its related assets for \$2,252, resulting in a loss of \$48. Net proceeds received, after fees and prorated taxes, totaled \$2,232.

Since acquiring the distillery operations of LDI, we have taken several steps to improve its profitability. On July 1, 2012 we went live on SAP, an information technology system used for accounting, sales, supply chain and manufacturing at this facility.

Agreement to Develop New Technologies and Products

On January 5, 2012 we commenced a relationship with the Kansas Alliance for Biorefining and Bioenergy (“KABB”) and four Kansas universities to develop new technologies and products that use bio-based raw materials. The three-year research and development efforts will seek to find innovative ways to produce cost-competitive bio-based foams, plastics, fuels and other materials from distillers dried grains and solubles. In conjunction with the sale of our bioplastics manufacturing business on February 8, 2013, we entered into a service agreement with the purchaser that allows us to use the purchaser’s labor and equipment so that we may continue to fulfill the obligations under this contract.

Ownership change of ICP

On February 1, 2012, ICP Holdings, an affiliate of SEACOR Energy Inc., exercised its option to purchase from us an additional 20 percent of the membership interest in ICP. The proceeds for this sale approximated \$9,103. Following its exercise, ICP Holdings owns 70 percent of ICP, is entitled to name 4 of ICP’s 6 advisory board members, and generally has control of ICP’s day-to-day operations. We own 30 percent of ICP and are entitled to name 2 of ICP’s 6 advisory board members. The transaction resulted in a pre-tax gain of \$4,055 during the quarter ended March 31, 2012.

ICP’s revolving credit facility with an affiliate of SEACOR Energy Inc. has expired and has not been renewed.

Under the Marketing Agreement, ICP manufactured and supplied food grade and industrial-use alcohol products for us and we purchased, marketed and sold such products for a marketing fee. Effective January 1, 2013, the Marketing Agreement expired. We do not plan to source products from ICP after March 2013.

Grain Supply Agreements

During the quarter ended March 31, 2012, we entered a grain supply contract for the Indiana Distillery, and during the quarter ended June 30, 2012 we extended this agreement for use at our Atchison facility. The grain supply contracts permit us to purchase corn for delivery up to 12 months in the future, at negotiated prices. The pricing for these contracts is based on a formula using several factors. If we don’t purchase a minimum amount of grain, the supplier may terminate the contract. We have determined that the firm commitments to purchase corn under the terms of these new contracts meet the normal purchases and sales exception as defined under ASC 815, Derivatives and Hedging, and we have excluded the fair value of these commitments from recognition within our consolidated financial statements until the actual contracts are physically settled.

Supply for commodities has been tight during much of the year ended December 31, 2012 due, in part, to the drought in the Midwestern United States. Market prices for commodities, including corn, have been near historic highs in summer of 2012, reaching a high in August 2012. This impacts the pricing we pay under our grain supply agreements.

Sale of Other Segment

As discussed in Note 20. Subsequent Events, on February 8, 2013, we sold substantially all of the assets of our other segment or bioplastics manufacturing business, including all of our assets at our bioplastics manufacturing facility in Onaga, Kansas and certain assets of the Company's extruder bio-resin laboratory located in Atchison, Kansas. The sales price totaled \$2,800 and resulted in a pre-tax gain of approximately \$1,400 that will be recognized in the first quarter of 2013.

FINANCIAL INFORMATION ABOUT SEGMENTS

Note 12. Operating Segments of our Notes to Consolidated Financial Statements set forth in Item 8 of this report, which is incorporated herein by reference, includes information about sales, depreciation and amortization, income (loss) before income taxes for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and for the year ended June 30, 2011, by reportable segment. Information about sales to external customers and assets located in foreign countries is included. Information about identifiable assets is included as of December 31, 2012 and 2011.

BUSINESS STRATEGY

We seek to deliver strong profit margins and high returns on capital over time. To achieve our objectives, over the years we have restructured our business and modified our product portfolio to emphasize a greater mix of higher margin, value-added products, principally specialty food ingredients and high quality food grade alcohol. At the same time, we have taken measures to significantly reduce our production and marketing of lower and negative margin, commodity type products. Our strategy is focused on the development and marketing of wheat-based specialty protein and starch products and high quality food grade alcohol. We seek to add value to our customers' major branded packaged goods products by providing product solutions across a range of food and beverage applications, as well as certain non-food product applications, that can ultimately benefit the consumer.

As a component of our strategy, we have prioritized strengthening our overall operational capabilities and effectiveness through ongoing continuous improvement projects. Simultaneously, we are boosting our efforts to place greater focus on research, development and innovation initiatives, supply chain management, and customer service practices.

In the ingredients segment, we hope to benefit from the health and wellness lifestyle trends in the food area. We also continue to concentrate on specific, highly functional ingredient solutions for our customers. We are concentrating our production and marketing efforts on supplying a core base of loyal customers with an array of high quality, premium ingredients that address nutritional, functional, sensory and convenience issues and that can help build value while making more efficient use of our existing capacities.

In the distillery segment, we have positioned MGP to serve not only the major players in our industry, but also the growing base of independent craft distillers. Meanwhile, aged brown goods remain in short supply and we will continue to pursue opportunistic purchases to add to our aged barrel inventory.

We assess the competitive landscape to identify opportunities to bolster our customer and supplier relationships, while at the same time building scale to further improve our cost position. Our goal is to invest in growth opportunities that increase long-term shareholder value by advancing our strategic position and increasing our long-term cash flows.

We continue to be a leading company in the food grade alcohol industry and pursue efforts to maintain highly efficient alcohol production operations. We have been in the food grade alcohol business since the Company's founding in 1941. The majority of our Atchison distillery's capacity has been dedicated to the production of high quality, high purity food grade alcohol for beverage and industrial applications, and we provide our customers with what we believe is among the highest quality, high purity alcohol in the world. We produce only a minimal amount of fuel grade alcohol as a co-product of our food grade production activities. The Indiana Distillery's capacity is dedicated to the production of high quality, high purity food grade alcohol. The majority of our former Pekin plant's capacity for several years had been dedicated to the production of fuel grade alcohol. The Pekin plant is now owned and operated by a joint venture, ICP, which produces food grade alcohol, which we purchased, and fuel grade alcohol, which SEACOR Energy Inc. purchased as of December 31, 2012, as elsewhere described. We do not plan to source products from ICP after March 2013.

PRODUCT SALES

The following table shows our sales from continuing operations by each class of similar products during the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011, as well as such sales as a percent of total sales.

PRODUCT GROUP SALES

	Year Ended		Six Months Ended		Year Ended	
	December 31, 2012		December 31, 2011		June 30, 2011	
	Amount	%	Amount	%	Amount	%
Distillery Products:						
Food grade Alcohol	\$224,323	67.1 %	\$98,358	67.2 %	\$157,486	63.5 %
Distillers Grain and related Co-products	40,739	12.2 %	14,170	9.7 %	20,642	8.3 %
Fuel grade Alcohol	2,555	0.8 %	5,909	4.0 %	10,865	4.4 %
Warehouse revenue	9,073	2.7 %	-	-	-	-
Total Distillery Products	\$276,690	82.8 %	\$118,437	80.9 %	\$188,993	76.2 %
Ingredient Solutions:						
Specialty Starches	\$26,393	7.9 %	\$15,557	10.6 %	\$29,459	11.9 %
Specialty Proteins	19,947	6.0 %	9,853	6.7 %	20,918	8.4 %
Commodity Wheat Starch	9,027	2.7 %	2,065	1.4 %	7,228	2.9 %
Vital Wheat Gluten	1,121	0.3 %	121	0.1 %	160	0.1 %
Total Ingredients	\$56,488	16.9 %	\$27,596	18.8 %	\$57,765	23.3 %
Other Products:	\$1,157	0.3 %	\$444	0.3 %	\$1,157	0.5 %
Net Sales	\$334,335	100.0 %	\$146,477	100.0 %	\$247,915	100.0 %

Substantially all of our sales are made directly or through distributors to manufacturers and processors of finished packaged goods or bakeries. Sales to our customers purchasing food grade alcohol are made primarily on a spot, monthly, or quarterly basis with some annual contracts, depending on the customer's needs and market conditions. Customers who purchase unaged whiskey or bourbon may also enter into separate warehouse service agreements with us, allowing the product to age. As part of our acquisition of LDI's Distillery Business, we assumed certain multi-year contracts to supply distilled products and certain contracts to provide barreling and warehousing services, which typically are also multi-year contracts. Sales of fuel grade alcohol are made on the spot market. Contracts with distributors may be for multi-year terms with periodic review of pricing. Contracts with ingredients customers are generally price and term agreements which are fixed for three or six month periods, with very few agreements of twelve months duration or more. During the year ended December 31, 2012, our five largest distillery products customers combined accounted for 25.1% of our consolidated revenues, and our five largest ingredients solutions customers combined accounted for 11.1% of our consolidated revenues.

DISTILLERY PRODUCTS SEGMENT

Our Atchison plant processes corn, mixed with starch slurry from the wheat starch and protein processing operations, into food grade alcohol and distillery co-products such as fuel grade alcohol and distillers feed. Our Indiana Distillery processes corn, rye and barley into food grade alcohol, primarily beverage alcohol, and distillers feed.

Food grade alcohol consists of beverage alcohol and industrial food grade alcohol that are distilled to remove impurities. Fuel grade alcohol is grain alcohol that has been distilled to remove all water to yield 200 proof alcohols

suitable for blending with gasoline. We presently generate and sell only minimal amounts as a co-product of the food grade alcohol production process at our Atchison distillery in order to reduce our exposure to the fuel grade alcohol market.

Historically, the Pekin plant had been principally dedicated to the production of fuel grade alcohol. On November 20, 2009, we completed a series of transactions whereby we contributed our former Pekin plant to a newly-formed company, ICP, and then sold 50% of the membership interest in this company to ICP Holdings, an affiliate of SEACOR Energy Inc. ICP reactivated distillery operations at the Pekin facility during the quarter ended March 31, 2010. We purchase food grade alcohol products manufactured by ICP, and SEACOR Energy Inc. purchases fuel grade alcohol products manufactured by ICP. On February 1, 2012, ICP Holdings exercised an option to acquire an additional 20% interest in ICP from us for \$9,103.

In December 2011, we acquired substantially all the assets used by LDI in its beverage alcohol distillery business at the Indiana Distillery, where we now produce premium bourbon, corn and rye whiskeys, gin, grain neutral spirits and distillers feed. LDI owned an associated bottling business, which we did not purchase.

Both bourbon and whiskey are typically aged in wooden barrels from two to four years. As a part of our strategy, we produce certain volumes of bourbon and whiskey that are in addition to current customer demand. This product is barreled and included in our inventory. Our goal is to maintain inventory levels for whiskey and bourbon sufficient to satisfy anticipated future purchase orders in the wholesale market. Production schedules are adjusted from time to time to bring inventories into balance with estimated future demand.

Food Grade Alcohol. The majority of the Atchison distillery's and the Indiana Distillery's capacities are dedicated to the production of high quality, high purity food grade alcohol for beverage and industrial applications. New state-of-the-art equipment that was installed in 2004 has resulted in improved alcohol production efficiencies at the Atchison plant.

Food grade alcohol sold for beverage applications consists primarily of grain neutral spirits and gin, premium bourbon, and corn and rye whiskey. Grain neutral spirits are sold in bulk quantities at various proof concentrations to bottlers and rectifiers, which further process the alcohol for sale to consumers under numerous labels. Our gin is created by redistilling grain neutral spirits together with proprietary customer formulations of botanicals or botanical oils. Our bourbon is created by distilling primarily corn and may be blended with customer formulas. Our whiskey is made from fermented grain mash, including primarily corn and rye.

We believe that in terms of net sales, we are one of the four largest merchant market sellers of food grade alcohol in the United States. Our principal competitors in the beverage alcohol market are Grain Processing Corporation of Muscatine, Iowa, Archer-Daniels-Midland Company of Decatur, Illinois, and Beam, Inc. of Deerfield, Illinois.

Significant customer consolidation has occurred in the beverage alcohol industry at the customer level over the past two decades. As these consolidations have come about, we have maintained a strong and steady presence in the market due to longstanding relationships with customers and our reputation for producing very high quality, high purity alcohol products. We believe our presence in the market and strong reputation has improved with our acquisition of LDI's Distillery Business.

We sell food-grade industrial alcohol for use as an ingredient in foods (e.g., vinegar and food flavorings), personal care products (e.g., hair sprays and hand sanitizers), cleaning solutions, biocides, insecticides, fungicides, pharmaceuticals, and a variety of other products. Although grain alcohol is chemically the same as petroleum-based or synthetic alcohol, certain customers prefer a natural grain-based alcohol. We sell food-grade industrial alcohol in tank truck or rail car quantities direct to a number of industrial processors.

Historically, synthetic alcohol was a highly significant component of the food grade industrial alcohol market. In recent years, however, the use of grain-based alcohol has exceeded synthetic alcohol in this market. Our principal competitors in the grain-based food grade industrial alcohol market are Grain Processing Corporation of Muscatine, Iowa, and Archer-Daniels-Midland Company of Decatur, Illinois. Competition is based primarily upon price, service and quality factors.

Distillery Co-Products. The bulk of sales of alcohol co-products in the year ended December 31, 2012 consisted of distillers feed and fuel grade alcohol.

Distillers Feed. Distillers feed is principally derived from the residue of corn from alcohol processing operations. The residue is dried and sold primarily to processors of animal feeds as a high protein additive. We compete with other distillers of alcohol as well as a number of other producers of animal food additives in the sale of distillers

feed. During the year ended December 31, 2012 distillers feed prices were higher on average compared to the six month transition period ended December 31, 2011 due to increased prices for corn, the basic raw material from which distillers feed is derived.

Fuel Grade Alcohol. We produce fuel grade alcohol as a co-product of our food grade alcohol business at our distillery in Atchison. For the year ended December 31, 2012, fuel grade alcohol sales represented approximately 3.3 percent of total sales for the distillery products segment. Although we historically retained some additional exposure to the volatility of the fuel alcohol market through our investment in ICP in Pekin, Illinois, we had an opportunity to participate when the economics of that market were good, while limiting the exposure to bad markets had we operated the Pekin facility ourselves.

Fuel grade alcohol is sold primarily for blending with gasoline to increase the octane and oxygen levels of the gasoline. As an octane enhancer, fuel grade alcohol can serve as a substitute for lead and petroleum-based octane enhancers. As an oxygenate, fuel grade alcohol has been used in gasoline to meet certain environmental regulations and laws relating to air quality by reducing carbon monoxide, hydrocarbon particulates and other toxic emissions generated from the burning of gasoline (“toxics”). Because fuel grade alcohol is produced from grain, a renewable resource, it also provides a fuel alternative that tends to reduce domestic dependence on foreign oil.

To encourage the production of fuel grade alcohol for use in gasoline, the Federal government and various states have enacted tax and other incentives designed to make fuel grade alcohol competitive with gasoline and gasoline additives. Under the Internal Revenue Code, and until the end of the 2011 calendar year, gasoline that was blended with fuel grade alcohol provided sellers of the blend with certain credits or payments which amounted to \$0.45 per gallon for calendar year 2011. Although these benefits have not been directly available to us, they were intended to permit us to sell our fuel grade alcohol at prices which generally are competitive with less expensive additives and gasoline. The expiration of these credits, along with the \$0.54 per gallon of fuel alcohol import tariff which expired on December 31, 2011, caused margins during 2012 to dampen. Fuel grade alcohol sales volumes were supported by favorable gasoline blending economics in the U.S. However, excess industry production of fuel grade alcohol, together with reduced U.S. fuel grade alcohol demand, have negatively impacted ethanol margins. Similar to the rest of the industry, ICP margins have been negatively impacted. ICP has adjusted production rates to support the anticipated demand.

Major market participants in the fuel grade alcohol market include Poet Biorefining, Archer-Daniels-Midland Company and Valero Energy Corporation, which together account for approximately a third of the total production capacity. We and our joint venture, ICP, compete with other producers of fuel grade alcohol on the basis of price and delivery service.

INGREDIENT SOLUTIONS SEGMENT

Our ingredient solutions segment consists primarily of specialty wheat starches, specialty wheat proteins, commodity wheat starch and vital wheat gluten. We have substantially exited the commodity wheat gluten market and have curtailed the production of commodity wheat starches.

In recent years, our specialty wheat starches and proteins have accounted for a sizeable share of our total sales in this segment, which has been a component of our business strategy as we focus on higher margin products. The results were based, in part, on the following factors: partnerships with customers on product development, capacity to produce these products, and increased marketing efforts that have resulted in greater customer recognition. We use an on-line Customer Relationship Management (“CRM”) solution system to improve our ability to develop new sales of our product lines. Our commercialization functions are focused on increasing sales growth of our specialty products to the largest and most innovative producers of consumer packaged goods in the U.S. These factors will also be required for future growth of our higher margin products.

Specialty Wheat Starches. Wheat starch constitutes the carbohydrate-bearing portion of wheat flour. We produce a premium wheat starch powder by extracting the starch from the starch slurry, substantially free of all impurities and fibers, and then drying the starch by spray, flash or drum. Premium wheat starch differs from low grade or B wheat

starches, which are extracted along with impurities and fibers and are used primarily as a binding agent for industrial applications, such as the manufacture of charcoal briquettes. We do not sell low grade or B starches. Premium wheat starch differs from corn starch in its granular structure, color, granular size and name identification.

7

A substantial portion of our premium wheat starch is altered during processing to produce certain unique specialty wheat starches designed for special applications. Our strategy is to market our specialty wheat starches in special market niches where the unique characteristics of these starches are better suited to a customer's requirements for a specific use. We have developed a number of specialty wheat starches, and continue to explore the development of additional starch products with the view to increasing sales of value-added specialty starches. We produce our Fibersym® resistant starch, which has become one of our more popular specialty starches, using a patented technology referred to below under Patents. We sell our specialty starches on a nationwide basis, primarily to food processors and distributors.

Our specialty wheat starches are used primarily for food applications as an additive in a variety of food products to affect their nutritional profile, appearance, texture, tenderness, taste, palatability, cooking temperature, stability, viscosity, binding and freeze-thaw characteristics. Important physical properties contributed by wheat starch include whiteness, clean flavor, viscosity and texture. For example, our starches are used to improve the taste and texture of cream puffs, éclairs, puddings, pie fillings, breadings and batters; to improve the size, symmetry and taste of angel food cakes; to alter the viscosity of soups, sauces and gravies; to improve the freeze-thaw stability and shelf life of fruit pies and other frozen foods; to improve moisture retention in microwavable foods; and to add stability and to improve spreadability in frostings, mixes, glazes and sugar coatings. We also sell our specialty starches for a number of non-food applications, which include biopolymer products, and for use in the manufacturing of adhesives, paper coatings, carbonless paper, and wall board.

Our wheat starches as a whole generally compete primarily with corn starch, which dominates the United States starch market. However, the unique characteristics of our specialty wheat starches provide them with a number of advantages over corn and other starches for certain baking and other end uses. Our principal competitors in the starch market are Cargill Incorporated (primarily corn and tapioca starch), Ingredion Incorporated (corn starch), Manildra Milling Corporation (wheat starch), Penford Corporation (potato starch), Archer-Daniels-Midland Company (wheat and other grain starches) and various European companies. Competition is based upon price, name, color and differing granular characteristics which affect the food product in which the starch is used. Specialty wheat starches usually enjoy a price premium over corn starches and low grade wheat starches. Commodity wheat starch price fluctuations generally track the fluctuations in the corn starch market. The specialty wheat starch market usually permits pricing consistent with costs which affect the industry in general, including increased grain costs. However, this is not always the case; during the six month transition period ended December 31, 2011 and the year ending June 30, 2011, for example, increases in grain prices outpaced market price increases in the specialty wheat starch market.

Specialty Wheat Starches

- **Fibersym® Resistant Starch series.** These starches serve as a convenient and rich source of dietary fiber. Unlike traditional fiber sources like bran, our resistant starches possess a clean, white color and neutral flavor that allow food formulators to create a wide range of both traditional and non-traditional fiber enhanced products that are savory in both appearance and taste. Applications include pan breads, pizza crust, flour tortillas, cookies, muffins, pastries and cakes.
- **FiberRite® RW Resistant Starch.** FiberRite® RW is a product that boosts dietary fiber levels while also reducing fat and caloric content in such foods as breads, sweet goods, ice cream, yogurt, salad dressings, sandwich spreads and emulsified meats.
- **Pregel™ Instant Starch series.** Our Pregel™ starches perform as an instant thickener in bakery mixes, allowing fruit, nuts and other particles such as chocolate pieces to be uniformly suspended in the finished product. In coating systems, batter pick-up can be controlled for improved yield and consistent product appearance. Additionally, shelf-life can be enhanced due to improved moisture retention, allowing products to remain tender and soft over an extended storage period.

- Midsol™ Cook-up Starch series. As a whole, these starches deliver increased thickening, clarity, adhesion and tolerance to high shear, temperature and acidity during food processing. Certain varieties in this line of starches can also be used to reduce sodium content in some food formulations. Such properties are important in products such as soups, sauces, gravies, salad dressings, fillings and batter systems. Processing benefits of these starches also include the ability to control expansion in extruded breakfast cereals. In addition, they provide textural enhancement and moisture management in processed foods, especially during storage under frozen and refrigerated conditions.

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

Specialty Wheat Proteins. We have developed a number of specialty wheat proteins for food and non-food applications. Specialty wheat proteins are derived from vital wheat gluten through a variety of proprietary processes which change its molecular structure. Wheat proteins for food applications include products in the Arise®, Wheatex®, HWG 2009™ and FP™ series. Our specialty wheat proteins generally compete with other ingredients and modified proteins having similar characteristics, primarily soy proteins and other wheat proteins, with competition being based on factors such as functionality, price and, in the case of food applications, flavor. Our principal competitors in the specialty proteins market are Archer-Daniels-Midland Company (wheat and other grain proteins), The Solae Company (soy), Manildra Milling (gluten and wheat proteins), and various European companies. Although we are producing a number of our specialty wheat proteins on a commercial basis, some products are in the test marketing or development stage.

Specialty Wheat Proteins

- Arise® series. Our Arise® series of products consists of specialty wheat proteins that increase the freshness and shelf life of frozen, refrigerated and fresh dough products after they are baked. Certain ingredients in this series are also sold for use in the manufacturing of high protein, lower net carbohydrate products.
 - Wheatex® series. This series consists of texturized wheat proteins made from vital wheat gluten by changing it into a pliable substance through special processing. The resulting solid food product can be further enhanced with flavoring and coloring and reconstituted with water. Texturized wheat proteins are used for meat, poultry and fish product enhancements and/or substitutes. Wheatex® mimics the textural characteristics and appearance of meat, fish and poultry products. It is available in a variety of sizes and colors and can be easily formed into patties, links or virtually any other shape the customer requires.
- FP™ series. The FP™ series of products consists of specialty wheat proteins, each tailored for use in a variety of food applications. These include proteins that can be used to form barriers to fat and moisture penetration to enhance the crispness and improve batter adhesion in fried products, effectively bond other ingredients in vegetarian patties and extended meat products, increase the softness and pliability of flour tortillas, and fortify nutritional drinks.
- HWG 2009™. This is a lightly hydrolyzed wheat protein that is rich in peptide-bonded glutamine, an amino acid that counters muscle fatigue brought on by exercise and other physical activities. Applications include nutritional beverages and snack products.

Vital Wheat Gluten. Vital wheat gluten is a free-flowing light tan powder which contains approximately 75 to 80 percent protein. When we process flour to derive starch, we also derive vital wheat gluten. Vital wheat gluten is added by bakeries and food processors to baked goods, such as breads, and to pet foods, cereals, processed meats, fish

and poultry to improve the nutritional content, texture, strength, shape and volume of the product. The neutral flavor and color of wheat gluten also enhances, but does not change, the flavor and color of food. The cohesiveness and elasticity of the gluten enables the dough in wheat and other high protein breads to rise and to support added ingredients, such as whole cracked grains, raisins and fibers. This allows the baker to make an array of different breads by varying the gluten content of the dough. Vital wheat gluten is also added to white breads, hot dog buns and hamburger buns to improve the strength and cohesiveness of the product.

Vital wheat gluten in recent years has been considered a commodity, and therefore, competition primarily has been based upon price.

In prior years, vital wheat gluten has sometimes been a principal ingredients product. However, we generally have been unable to compete with subsidized imports and now use it as a base for further processing into our specialty wheat proteins.

OTHER SEGMENT

As discussed in Note 20. Subsequent Events, on February 8, 2013, we sold substantially all of the assets included in our other segment.

Our plant-based biopolymers and composite resins, which were produced from the further processing of certain of our wheat proteins and wheat starches (and other plant sources), can be used to produce a variety of eco-friendly products. We formerly manufactured plant-based resins for use primarily in pet treat applications. Our principal products in our other segment consisted of our MGPI Terratek® biopolymers and composite resins. The MGPI Terratek® SC starch-based biopolymers were our environmentally-friendly biopolymers that can be molded to produce a variety of formed objects. Applications include disposable eating utensils, golf tees, food and feed containers and similar type vessels, as well as non-degradable hard plastic-like products. We also produced MGPI Terratek® WC wood-based composite resins, which can be used in the manufacture of eco-friendly decking materials, furniture parts, toys and a number of other wood-like products.

PATENTS

We are involved in a number of patent-related activities. We have filed patent applications to protect a range of inventions made in our expanding research and development efforts, including inventions relating to applications for our products. Our most significant patents or patent licenses are described below.

In 2003, we licensed, on an exclusive basis, certain patented technology from The Kansas State University Research Foundation relating to U. S. Patent No. 5,855,946, which describes and claims processes for making food-grade starches resistant to alpha-amylase digestion, as well as products and uses for the resistant starches. The license relates to products derived from plant-based starches and is a royalty-bearing, worldwide license whose term, subject to termination for material, uncured breaches or bankruptcy, extends until the patent rights expire in 2017. Royalties generally are based on net sales. The patent rights relate to the referenced U.S. patent and any corresponding foreign patent application, which has been filed in Australia. Under the license, we can make, have made, use, import, offer for sale, and sell licensed products within the scope of a claim of the patent rights or which are sold for a use within the scope of the patent rights and may, with approval of the licensor, grant similar rights to sublicensees. We produce and sell our resistant wheat starch under this patent. We have granted sublicenses from time to time under this patent. Under one such arrangement, we granted Cargill Incorporated a royalty bearing sublicense to use the patented process in the production of tapioca-based starches for use in food products. We also have agreements with Cargill Incorporated that would apply if we determined to use the patented process to make starches derived from other plant sources (other than wheat or potato).

We hold U.S. Patent No. 5,610,277 expiring in 2015 relating to the alcohol-free wet extraction of gluten dough into gliadin and glutenin.

RESEARCH AND DEVELOPMENT

During the year ended December 31, 2012 we spent \$2,344, and during the six month transition period ended December 31, 2011, and the year ended June 30, 2011, we spent \$954 and \$1,431, respectively, on research and development activities, principally in the ingredient solutions and other segments.

SEASONALITY

Our sales are not seasonal. Production of our barreled products is seasonal during the spring and the fall. There is a degree of seasonality with respect to our natural gas as further described under "Energy."

TRANSPORTATION

Historically, our output has been transported to customers by truck and rail transportation equipment, most of which is provided by common carriers.

We currently lease 304 rail cars, which may be dispatched on short notice. ICP, our joint venture operation in Pekin, Illinois, also has the ability to transport by barge from its site, with barge loading facilities on the Illinois River.

We use third party transportation companies to help us manage truck and rail carriers who deliver inbound materials to us and our products to our North American customers.

RAW MATERIALS

Our principal raw materials are wheat flour, which is processed into our starches and proteins, and corn, which are processed into food grade alcohol and distillery co-products consisting of fuel grade alcohol and animal feed. We purchase corn throughout the year primarily from or through grain elevators. Currently we purchase most of our corn requirements from a single supplier, Bunge. Our historical practice has been to order corn for a month at a time. During the quarter ended March 31, 2012, we entered into a grain supply contract for our Indiana Distillery that permits us to purchase corn for delivery up to 12 months in the future, at negotiated prices. During the quarter ended June 30, 2012, we extended this grain supply agreement used for its Indiana Distillery to its Atchison facility. The pricing is based on a formula using several factors. We now expect to order corn anywhere from a month to 12 months in the future. We provide for our flour requirements through a supply contract with ConAgra Mills whose initial term, as amended, expires in October 2015. The supply contract is automatically renewable for an additional term of 5 years unless either party gives at least 180 days written notice of termination. Pricing is based on a formula that contains several factors.

Other less significant raw materials include rye and barley used in the production of bourbons and whiskeys, and oak barrels, which are required for bourbon and whiskey aging. We purchase rye and barley throughout the year, each from a single supplier.

The cost of grain has historically been subject to substantial fluctuations, depending upon factors such as crop conditions, weather, disease, plantings, government programs and policies, competition for acquisition of inputs such as agricultural commodities, purchases by foreign governments and changes in demand resulting from population growth and customer preference. Variations in grain prices have had from time to time significant adverse effects on the results of our operations in cases where we cannot recoup the cost increase in our selling prices. Fuel grade alcohol prices, which historically have tracked the cost of gasoline, do not usually adjust to rising grain costs. It generally has been difficult for us to compensate for increases in grain costs through adjustments in prices charged for our vital wheat gluten due to subsidized European Union wheat gluten, whose traditionally lower prices are not affected by such costs. We have taken steps to reduce the impact of cost fluctuations on our business, primarily by

ceasing and/or significantly reducing our production and marketing of lower and negative margin commodity type products such as gluten and fuel grade alcohol, but we will continue to be affected by cost fluctuations to some degree, particularly when they are volatile.

Historically, we have engaged in the forward purchase of grain and in the purchase of commodity futures and options to hedge economic risks associated with fluctuating grain and grain products prices. Prior to entering into our new grain supply agreements, our hedging program generally consisted of purchasing commodity futures and options and contract for the future delivery of grain only to protect margins on contracted, and a portion of spot market, alcohol sales. However, during the six month transition period ended December 31, 2011, we began to buy and sell derivative instruments to manage market risk associated with alcohol purchases, including ethanol futures and options contracts, in order to mitigate risks associated with our investment in ICP. As we are now able to purchase corn for delivery up to 12 months in the future under new grain supply agreements, we have reduced the volume of our corn futures and options contracts. We intend to contract for the future delivery of flour only to protect margins on expected ingredients sales. See Item 1A – Risk Factors and Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Derivative and Hedging Activities. Also see Item 7A - Quantitative and Qualitative Disclosures about Market Risk.

ENERGY

Because energy comprises a major cost of operations, we seek to assure the availability of fuels at competitive prices.

We use natural gas to operate boilers that we use to make steam heat. We procure natural gas for the Atchison plant and the Indiana Distillery in the open market from various suppliers. We can purchase contracts for the delivery of natural gas in the future or can purchase future contracts on the exchange. Depending on existing market conditions, at Atchison we have the ability to transport the gas through a gas pipeline owned by a wholly-owned subsidiary. Historically, prices of natural gas have been higher in the late fall and winter months than during other periods.

We have a risk management program whereby, at pre-determined prices, we may purchase a portion of our natural gas requirements for future delivery. However, we intend to enter contracts for future delivery only to protect margins on contracted alcohol sales and expected ingredients sales.

EMPLOYEES

As of December 31, 2012, we had a total of 267 employees. A collective bargaining agreement covering 98 employees at the Atchison plant expires on August 31, 2014. Another collective bargaining agreement covering 44 employees at the Indiana Distillery expires on December 31, 2017. As of December 31, 2011 we had 256 employees. We consider our relations with our personnel generally to be good.

REGULATION

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

Our alcohol business is subject to regulation by the Alcohol and Tobacco Tax and Trade Bureau (“TTB”) and the alcoholic beverage agencies in the States of Kansas, Illinois and Indiana. Food products are also subject to regulation by the Food and Drug Administration. TTB regulation includes periodic TTB audits of all production reports, shipping documents, and licenses to assure that proper records are maintained. We are also required to file and maintain monthly reports with the TTB of alcohol inventories and shipments. Under federal regulations, bourbons

and whiskeys must be aged for at least two years in charred oak barrels.

We are subject to extensive environmental regulations at the federal, state and local levels. All of our principal plants are regulated at the federal level by the USEPA. The USEPA has adopted regulations requiring the owners of certain facilities to measure and report their greenhouse gas emissions, and has also begun a process to regulate these emissions under the Clean Air Act. At the state level, we are regulated in Kansas by the Division of Environment of the Kansas Department of Health and Environment (the "KDHE") and in Indiana by the Indiana Department of Environmental Management. In Illinois, our joint venture entity, ICP, is regulated by the Illinois Environmental Protection Agency. We are required to obtain operating permits and to submit periodic reports to regulating agencies.

Our current National Pollutant Discharge Elimination System (“NPDES”) permit is valid through September 30, 2015. The KDHE required us to install a distillery water cooling system at the Atchison plant referred to below at a cost of approximately \$10,000, which was completed in 2011. The new system is designed to meet KDHE Volatile Organic Compounds (“VOC”) emission standards, while also enhancing alcohol production efficiencies. We are required to submit a draft study to the KDHE by August 1, 2014 regarding the improvements needed to reduce phosphorus concentrations in the wastewater discharges at the Atchison plant. Within 180 days after KDHE comments on the draft study, we are required to submit a final study.

In January 2006, we entered a consent agreement with the KDHE resolving past allegations relating to permits, emissions levels and compliance with pollution regulations. During the second half of fiscal 2010, due to increased production activity, we anticipated that we would exceed the emissions cap imposed by the KDHE in the 2006 consent agreement and began negotiating an amendment to the consent agreement with the KDHE. This amendment, which was approved by the KDHE in May 2010, required us to complete the closed-loop, process water cooling system project described above, resulting in significant VOC reduction, in accordance with a scheduled timeline extending over an approximate seventeen month period ending on September 30, 2011. The process water cooling system was completed during July of 2011 as described elsewhere. We agreed to pay a \$5 per month penalty for any month that we might exceed the rolling 12-month emissions cap imposed in the consent agreement, as well as a \$1 per day penalty for each day we might fail to file monthly progress reports or exceed established completion dates for various stages of the project. During the year ended December 31, 2012, we did not exceed the emissions cap and therefore we were not subject to related penalties.

INVESTMENT IN EQUITY METHOD INVESTMENTS

Illinois Corn Processing, LLC. On November 20, 2009, through our subsidiary MGPI Processing, Inc., we completed a series of related transactions pursuant to which we contributed our Pekin plant and certain maintenance and repair materials to a newly-formed company, Illinois Corn Processing, LLC (“ICP”), and then sold 50% of the membership interest in ICP to Illinois Corn Processing Holdings LLC (“ICP Holdings”), an affiliate of SEACOR Energy Inc. ICP reactivated distillery operations at the Pekin facility during the quarter ended March 31, 2010. At of December 31, 2012, we purchased food grade alcohol products manufactured by ICP, and SEACOR Energy Inc. purchased fuel grade alcohol products manufactured by ICP.

On February 1, 2012, ICP Holdings exercised its option and purchased an additional 20 percent from us for \$9,103, reducing our ownership from 50% to 30%.

In connection with these transactions, we entered into various agreements with ICP and ICP Holdings, including a Contribution Agreement, an LLC Interest Purchase Agreement, a Limited Liability Company Agreement and a Marketing Agreement.

- Under the LLC Interest Purchase Agreement, we sold ICP Holdings 50% of the membership interest in ICP. This agreement gave ICP Holdings the option to purchase up to an additional 20% of the membership interest in ICP at any time between the second and fifth anniversary based on an agreed to criteria. As described above, this option was exercised on February 1, 2012.
- Pursuant to the Limited Liability Company Agreement, control of day to day operations generally is retained by the members, acting by a majority in interest. Following ICP Holdings' exercise of its option referred to above, ICP Holdings owns 70% of ICP and generally is entitled to control its day to day operations. However, if SEACOR Energy Inc. were to default under its marketing agreement, referred to below, we could assume sole control of ICP's daily operations until the default is cured.

The Limited Liability Company Agreement also provides for the creation of an advisory board. As a result of ICP Holdings' option exercise on February 1, 2012, this board consists of two advisors appointed by us and four advisors appointed by ICP Holdings. All actions of the advisory board require majority approval of the entire board, except that any transaction between ICP and ICP Holdings or its affiliates must be approved by the advisors appointed by us.

The Limited Liability Company Agreement gives either member certain rights to shut down the plant if it operates at a loss. Such rights are conditional in certain instances but absolute if EBITDA losses aggregate \$1,500 over any three consecutive quarters or if ICP's net working capital is less than \$2,500. ICP Holdings also has the right to shut down the plant if ICP is in default under its loan agreement for failure to pay principal or interest for two months.

The Limited Liability Company Agreement contains various buy/sell provisions and restrictions on transfer of membership interests. These include buy/sell provisions relating to a member's entire interest that may be exercised by any member at any time.

- Under the Marketing Agreement, ICP manufactured and supplied food grade and industrial-use alcohol products for us and we purchased, marketed and sold such products for a marketing fee. The Marketing Agreement provided that we would share margin realized from the sale of the products under the agreement with ICP.

The Marketing Agreement had an initial term of one year but automatically renewed for one year terms thereafter, subject to specified exceptions, including the following: (i) there was an uncured breach by one of the parties, (ii) we gave timely notice of termination, (iii) we (or our affiliates) cease to be a member of the joint venture, or (iv) the

parties were unable to mutually agree to modifications to the Marketing Agreement that are proposed in good faith by one of the parties as necessary or desirable to further the purposes of the parties' respective expectations of economic benefits to be derived under the Marketing Agreement and their interests in ICP. Effective January 1, 2013, the Marketing Agreement expired. For six months following expiration or termination of the Marketing Agreement, ICP will provide us with reasonable assistance to transition production of the products it makes for us to another producer that we designate. SEACOR Energy Inc. has entered into a similar agreement with ICP with respect to the marketing of fuel grade alcohol.

An affiliate of SEACOR Energy Inc. has provided funding to ICP through two loans secured by all of the assets of ICP, including the Pekin Plant. The revolving credit facility expired at December 31, 2012 and was not renewed.

D.M. Ingredients GmbH. In 2007 we acquired a 50% interest in D.M. Ingredients, GmbH, a German joint venture company which produces certain of our specialty ingredients products through a toller for distribution in the European Union ("E.U.") and elsewhere. As of December 31, 2012 our total capital commitment to the joint venture was \$750, of which we had contributed \$571.

OFFICERS OF THE REGISTRANT

The Company's officers are listed below.

Name	Age	Position
Timothy W. Newkirk	44	President and Chief Executive Officer
Donald P. Tracy	55	Vice President, Finance and Chief Financial Officer
Donald G. Coffey, Ph.D.	58	Executive Vice President, Research, Development and Innovation
David E. Dykstra	49	Vice President, Alcohol Sales and Marketing
Michael J. Lasater	44	National Director of Sales
Scott B. Phillips	47	Vice President, Supply Chain Operations
David E. Rindom	57	Vice President, Human Resources
Ody Maningat, Ph.D.	58	Vice President, Applications Technology and Technical Services
Randy M. Schrick	62	Vice President, Engineering
Lori D. Norlen	51	Corporate Secretary

Mr. Newkirk has served as President and Chief Executive Officer since March, 2008. He previously had been President and Chief Operating Officer since October, 2006 and Vice President of Operations and Chief Operating Officer since April, 2006. He first joined the Company in 1991, serving initially as a distillery shift manager and later as a process engineer, project engineer and quality control manager at the Atchison, Kansas plant. He became manager of the Company's Pekin, Illinois plant in 1997. From 2000 to 2002, he was Vice President of Operations for the former High Plains Corporation, a fuel grade alcohol production company located in Wichita, Kansas. He became Vice President of Global Operations for Abengoa Bioenergy S.L. following that company's acquisition of High Plains in January, 2002. He then served as Chief Operating Officer of Abengoa Bioenergy Corporation from August, 2003 until his return to the Company as Director of Operations in 2005.

Mr. Tracy has served as Vice President of Finance and Chief Financial Officer of MGP Ingredients, Inc. since November 2009. From 2007 until joining the Company, he served as Chief Financial Officer at Emery Oleochemicals, a global chemical manufacturer, and was based in Cincinnati. Prior to his position at Emery Oleochemicals, Mr. Tracy served as Chief Financial Officer at Briggs Industries, a worldwide manufacturer and distributor of kitchen and bath fixtures, at the company's U.S. headquarters in Charleston, South Carolina, from 2005 to 2007. Before that, he spent four years with the Tenaris Corp., a global producer of steel tubes, where he began as Director of Financial Projects and subsequently was promoted to Chief Financial Officer of Tenaris, North America. His previous experience included 10 years with the Procter & Gamble Company.

Dr. Coffey has served as Executive Vice President of Research, Development and Innovation since August 2010. Prior to that, he had jointly served as Executive Vice President of Research, Development and Innovation and of Sales and Marketing since June 2009. Prior to that, he had been Executive Vice President of the Company's Ingredient Solutions segment since November 2008. He joined the Company as Vice President of Innovation in July 2007. He previously spent 22 years in commercialization and research positions with the Dow Chemical Co. For 12 years beginning in 1985, he worked in the commercial and research operations of the METHOCEL business, a global business unit within Dow's Special Chemical Group that manufactures cellulose derivatives for a variety of food and non-food applications. He was later promoted to General Manager of Dow Food Stabilizers with responsibilities for global sales, marketing and research.

Mr. Dykstra has served as Vice President of Alcohol Sales and Marketing since 2009. He previously has been industrial alcohol sales manager since 2006. He first joined the Company in 1988 eventually serving as director of sales for both beverage and fuel grade alcohol. In 1999, he left the company to assume the role of vice president of sales and marketing for Abengoa Bio Energy, Wichita, Kansas. He remained in that position until 2003, when he joined United Bio Energy Fuels, L.L.C., in Wichita as vice president of that company's alcohol marketing division. He returned to the Company in 2006.

Mr. Lasater re-joined the Company in 2010 and serves as our National Sales Director. He has nearly 20 years of experience in food ingredient sales, including eight years with the Company, where he began his career as a territorial sales manager in the Company's former wheat starch business unit in 1992. Following his initial years of employment with the Company, Mr. Lasater joined National Starch and Chemical Co. as corporate accounts manager in 2000 and was responsible for select customer accounts located mainly in major Midwestern metropolitan areas. In 2005, he left National, now a part of Corn Products International, to become a partner and sales associate with Gregg and Associates, a food ingredients brokerage business based in Excelsior, Minnesota. He remained there until his return to the Company in 2010.

Mr. Phillips has served as Vice President of Supply Chain Operations since June 2009. For a year prior to that, he served as Corporate Director of Manufacturing for the Company's Ingredient Solutions segment. He joined the Company as General Manager of Extrusion Technology in July 2007. He previously spent 17 years in plant supervisory and management positions with General Mills, Inc., including four years as plant manager of that company's operations in Kansas City, Missouri, and a year as Plant Manager of the General Mills facility in Methuen, Massachusetts. From 1988 to 1990, he was employed as a production supervisor for the Quaker Oats Company.

Mr. Rindom joined the Company in 1980. He has served as Vice President, Human Resources since June 2000. He was Corporate Director of Human Relations from 1992 to June 2000, Personnel Director from 1988 to 1992, and Assistant Personnel Director from 1984 to 1988.

Dr. Maningat joined the Company in 1986 as R&D Chemist. He has served as Vice President of Application Technology and Technical Services since June 2002. Previously, he was Corporate Director of Research and Development and Technical Marketing from 1997 to 2002. He served as Corporate Director of Research and Development and Quality Control for the Company from 1993 to 1997.

Mr. Schrick served as President of Illinois Corn Processing, LLC, from November 2009 to December 2011. He also has been Vice President of Engineering for the Company since June 2009. He previously had served as Corporate Director of Distillery Products Manufacturing from June 2008 to June 2009 and as Vice President, Manufacturing and Engineering from July 2002 to June 2008. He served as Vice President - Operations from 1992 until July 2002. From 1984 to 1992, he served as Vice President and General Manager of the Pekin plant. From 1982 to 1984, he was the Plant Manager of the Pekin plant subsequent to joining the Company in 1973. Prior to 1982, he was Production Manager at the Atchison plant. He was a Director of the Company from 1987 to 2008.

Ms. Norlen joined the Company in October 2010 as Assistant Controller and was named Corporate Secretary in late 2012. She previously spent 5 years in consulting and management accounting positions at Hostess Brands in Kansas City, Missouri. From 1982 to 2005, Ms. Norlen was employed by Kansas City area companies in the insurance, insurance premium finance and animal health industries, including officer and management-level responsibilities beginning in 1986.

ITEM 1A. RISK FACTORS

Our business is subject to certain risks and uncertainties. The following identifies those which we consider to be most important:

RISKS THAT AFFECT OUR BUSINESS AS A WHOLE

An interruption of operations at either our Atchison facility or our Indiana Distillery, a disruption in supply of oak barrels, or a disruption of transportation services, could negatively affect our business.

The bulk of our ingredient solutions business takes place at our facility in Atchison, while food grade alcohol is produced both at our Atchison plant and our Indiana Distillery. An interruption in or loss of operations at either of our facilities could reduce or postpone production of our products, which could have a material adverse effect on our business, results of operations and/or financial condition. To the extent that our value-added products rely on unique or proprietary processes or techniques, replacing lost production by purchasing from outside suppliers becomes more difficult.

We hold a substantial amount of inventory of aged products of whiskeys and bourbons at our Indiana Distillery. If there were a catastrophic event at our Indiana Distillery, our business could be adversely affected. The loss of a significant amount of aged inventory – through fire, natural disaster, or otherwise - could result in a significant reduction in supply of the affected product or products and could result in customer claims against us. A disruption in transportation services could result in difficulties supplying materials to our facilities and impact our ability to deliver products to our customers in a timely manner. Similarly, if we experienced a disruption in the supply of new oak barrels in which to age our whiskeys, our business could suffer.

Our profitability is affected by the energy costs, ethanol and grain and flour that we use in our business, the availability and cost of which are subject to weather and other factors beyond our control. Our hedging strategy may not protect us completely from changes in prices of commodities and natural gas or may not translate to a competitive advantage in the marketplace. We may not be able to recoup cost increases in our selling prices due to the competitive environment.

Grain and flour costs are a significant portion of our costs of goods sold. Historically, the cost of such raw materials has been subject to substantial fluctuations, depending upon a number of factors which affect commodity prices in general and over which we have no control. These include crop conditions, weather, disease, plantings, government programs and policies, competition for acquisition of inputs such as agricultural commodities, purchases by foreign governments, and changes in demand resulting from population growth and customer preferences. The price of natural gas, also fluctuates, based on anticipated changes in supply and demand, weather and the prices of alternative fuels. Fluctuations in the price of commodities and natural gas can be sudden and volatile at times and have had, from time to time, significant adverse effects on the results of our operations. Higher energy costs could result in higher transportation costs and other operating costs.

Historically, we have engaged in the forward purchase of grain and in the purchase of commodity futures and options to hedge economic risks associated with fluctuating grain and grain products prices. Prior to entering into our new grain supply agreements, our hedging program generally consisted of purchasing commodity futures and options and contract for the future delivery of grain only to protect margins on contracted, and a portion of spot market, alcohol sales. During the six month transition period ended December 31, 2011, we began to buy and sell derivative instruments to manage market risk associated with ethanol purchases, including ethanol futures and options contracts, in order to mitigate risks associated with our investment in ICP. With our new grain supply agreements, we may purchase corn for delivery up to 12 months in the future, and because of this we have reduced the volume of futures and options contracts. We intend to contract for the future delivery of flour only to protect margins on expected ingredients sales. On the portion of volume not hedged, management will attempt to recover higher commodity costs through higher sales prices, but market considerations may not always permit this. Even where prices can be adjusted, there would likely be a lag between when we experience higher commodity or natural gas costs and when we might be able to increase prices. To the extent we do not enter such derivative contracts or engage in forward purchases and are also unable to timely pass increases in the cost of raw materials to our customers under sales contracts, we may be adversely impacted by market fluctuations in the cost of grain, natural gas and ethanol. Further, our hedging strategy may not be effective in mitigating our exposure to commodity price fluctuations and can result in losses, some of which may be material.

We have moved to single-source supplies for our wheat flour and corn.

We have signed long-term supply agreements with ConAgra and Bunge for our wheat flour and corn supply, respectively. If either of these companies encounters an operational or financial issue, it could lead to an interruption in supply to us and/or higher prices than those we have negotiated or than are available in the market at the time.

We may not succeed in our strategies for acquisitions and dispositions.

From time to time, we may acquire additional assets or businesses. Our goal is to invest in growth opportunities that increase long-term shareholder value by advancing our strategic position and increase our long-term cash flows; however, we cannot assure that we will be able to find and purchase assets or businesses at acceptable prices and terms.

There is no assurance that we will be able to generate sufficient cash flow from acquisitions to service the debt that we may incur to finance such acquisitions and subsequent capital expenditures. Acquisitions may involve operating risks such as:

- the difficulty of assimilating and integrating the acquired operations into our current business;
- the difficulty of incorporating the acquired employees into our corporate culture and the possible loss of key employees;
- the diversion or dilution of management resources or focus;
- the possibility that effective internal controls are not established and maintained at the acquired company;
- the risks of entering new product markets with which we have limited experience;
- the possibility that the debt and liabilities that we incurred and assumed will prove to be more burdensome than we anticipated; and
- the possibility that the acquired operations do not perform as expected or do not increase our profits.

We also evaluate from time-to-time the potential disposition of assets or businesses that may no longer meet our growth, return and/or strategic objectives. In selling assets or businesses, we may not get a price or terms as favorable as we anticipated. We could also encounter difficulty in finding buyers on acceptable terms in a timely manner, which could delay our accomplishment of strategic objectives. Expected cost savings from reduced overhead related to the sold assets may not materialize, and the overhead reductions could temporarily disrupt our other business.

operations. Any of these outcomes could hurt our performance.

If ICP incurs losses, it could result in closure of its Pekin plant. ICP's access to capital may be reduced. This could result in reduced sales and impairment losses in the future for us.

ICP's Limited Liability Company Agreement gives us and our joint venture partner, ICP Holdings, a subsidiary of SEACOR Energy Inc., certain rights to shut down the Pekin plant if ICP operates at an EBITDA loss of \$500 in any quarter. Such rights are conditional in certain instances but are absolute if losses aggregate \$1,500 over any three consecutive quarters or if ICP's net working capital is less than \$2,500. For the three consecutive quarters ending both September 30, 2011 and June 30, 2011, ICP experienced an EBITDA loss in excess of the \$1,500 aggregate loss threshold amount permitted over any three consecutive quarters; however, both partners have agreed to waive rights related to EBITDA losses through September 30, 2011. Losses of such nature are also events of default under ICP's term loan and revolving credit agreements with its lender, an affiliate of SEACOR Energy Inc., which, upon any requisite notice and/or lapse of time, would entitle the lender to impose a default rate of interest, foreclose on ICP's assets and, in the case of the working capital deficiency or successive losses, enforce the closure provisions referred to above. During fiscal 2011 and the six month transition period ended December 31, 2011, ICP experienced EBITDA losses in the quarters ending December 31, 2010, June 30, 2011 and September 30, 2011. A lender affiliated with SEACOR Energy Inc. has permanently waived rights related to these EBITDA losses through September 30, 2011. However, if future losses of the requisite magnitudes occur in any quarter or over three consecutive quarters, we, ICP Holdings or ICP's lender may elect to exercise its rights under the applicable agreement.

Based on the facts and circumstances that existed at December 31, 2012, including recurring losses experienced, forecasted losses expected for 2013, the expiration of ICP's revolving credit facility resulting in no assured liquidity source and the Company's plan to substantially reduce the sourcing of product from ICP, we decided to assess our investment in ICP for impairment. If new funding is secured, but carries more onerous terms and conditions than the previous agreement, then operating flexibility or profitability may be negatively affected.

The Company now has a minority ownership position in ICP, and that could reduce our ability to influence its operations and profitability.

Since February 1, 2012 when ICP Holdings increased its ownership through the exercise of an option to purchase from us an additional 20% ownership interest, we have a minority ownership interest of 30%, and have only two representatives on the Advisory Board of ICP. The reduced ownership and advisory role mean that our ability to influence operating decisions and affect profitability of the joint venture is more limited. As a consequence, we are more dependent on the management of ICP and the other members of the Advisory Board to operate the joint venture profitably and take our interests into account.

Our high quality marketing agreement with ICP has expired.

Under the Marketing Agreement, ICP manufactured and supplied high quality products for us and we purchased, marketed and sold such products for a marketing fee. Effective January 1, 2013, the Marketing Agreement expired. We do not plan to source products from ICP after March 2013. Our sales in 2013 could be reduced from previous levels, and the value of our investment in ICP could be impaired.

We have incurred impairment and restructuring losses in the past and may suffer such losses in the future.

We review long-lived assets for impairment at year end or if events or circumstances indicate that usage may be limited and carrying values may not be recoverable. Should events indicate the assets cannot be used as planned, the realization from alternative uses or disposal is compared to their carrying value. If an impairment loss is measured, this estimate is recognized. Considerable judgment is used in these measurements, and a change in the assumptions could result in a different determination of impairment loss and/or the amount of any impairment. See Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies

– Impairment of Long-Lived Assets.

20

The markets for our products are very competitive, and our results could be adversely affected if we do not compete effectively.

The markets for products in which we participate are very competitive. Our principal competitors in these markets have substantial financial, marketing, and other resources, and several are much larger enterprises than us.

We are dependent on being able to generate net sales and other operating income in excess of cost of products sold in order to obtain margins, profits, and cash flows to meet or exceed its targeted financial performance measures. Competition is based on such factors as product innovation, product characteristics, product quality, pricing, color and name. Pricing of our products is partly dependent upon industry processing capacity, which is impacted by competitor actions to bring on-line idled capacity or to build new production capacity. If market conditions make our specialty ingredients too expensive for use in consumer goods, our revenues could be affected. If our large competitors were to decrease their pricing, we could choose to do the same, which could adversely affect our margins and profitability. If we did not do the same, our revenues could be adversely affected due to the potential loss of sales or market share. Our revenue growth could also be adversely impacted if we are not successful in developing new ingredients products for our customers or through new product introductions by our competitors. In addition, more stringent new customer demands may require us to make internal investments to achieve or sustain competitive advantage and meet customer expectations.

Our unionized workforce could cause interruptions in the Company's provision of services.

As of December 31, 2012, approximately 142 of our 267 employees were members of a union. Although our relations with our two relevant unions are stable and our labor contracts do not expire until August 2014 and December 2017, there is no assurance that we will not experience work disruptions or stoppages in the future, which could have a material adverse effect on our business and results of operations and adversely affect our relationships with our customers.

If we lose certain key personnel, we may not be successful.

We rely on the continued services of key personnel involved in management, finance, product development, sales, manufacturing and distribution, and, in particular, upon the efforts and abilities of our executive management team. The loss of service of any of the members of our executive management team could have a material adverse effect on our business, financial condition and results of operations. We do have key personnel life insurance covering two key executives, but this may not ensure complete avoidance of loss in that circumstance.

Covenants and other provisions in our credit facility could hinder our ability to operate. Our failure to comply with covenants in our credit facility could result in the acceleration of the debt extended under such facility, limit our liquidity and trigger other rights.

Our credit agreement with Wells Fargo Bank, National Association contains a number of financial and other covenants, including provisions that require us in certain circumstances to meet certain financial tests. These covenants may limit or restrict our ability to:

- incur additional indebtedness;
- pay cash dividends or make distributions;
 - dispose of assets;
 - create liens on our assets;
- pledge the fixed and real property assets of LDI's Distillery Business; or
 - merge or consolidate.

These covenants could hinder our ability to operate and could reduce our profitability. Other covenants require excess availability of at least \$4,000 at all times prior to the later of (a) November 2, 2013 and (b) the last day of the first twelve month period for which Borrowers have maintained a Fixed Charge Coverage Ratio of at least 1.10:1.00. For all periods in which the excess availability is less than \$9,625, we are required to have a Fixed Charge Coverage Ratio, measured on a month end trailing basis, of at least 1.10:1.00 (a) for each month-end until October 31, 2013, the trailing months from November 1, 2012 through such date, and (b) as of each month-end commencing November 30, 2013 using a trailing twelve-month measure. A breach of any of these covenants or requirements could result in a default under our credit agreement. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financial Covenants.

In addition, our credit agreement permits the lender to modify borrowing base and advance rates, the effect of which may limit the amount of loans that we may have outstanding at any given time. The lender may also terminate or accelerate our obligations under the credit agreement upon the occurrence of various events in addition to payment defaults and other breaches, including such matters as a change of control of the Company, defaults under other material contracts with third parties, and ERISA violations. Any modification to reduce our borrowing base or termination of our credit agreement would negatively impact our overall liquidity and may require us to take other actions to preserve any remaining liquidity. Although we anticipate that we will be able to meet the covenants in our credit agreement, there can be no assurance that we will do so, as there are a number of external factors that affect our operations, such as commodity prices, over which we have little or no control. If we default on any of our covenants, and if such default is not cured or waived, Wells Fargo could, among other remedies, terminate its commitment to lend and/or accelerate any outstanding debt and declare that such debt is immediately due and payable. If Wells Fargo were to terminate our credit, or materially change our borrowing base, we may not have sufficient funds available for us to operate. If it were to accelerate our debt, we might be unable to repay such debt immediately and might not be able to borrow sufficient funds to refinance. Even if new financing were available, it may not be on terms that are acceptable to us. Acceleration could result in foreclosure on assets that we have pledged to Wells Fargo. Further, certain of our other secured debt instruments contain cross default provisions, such that an event of default under our credit agreement with Wells Fargo may result in an event of default under these other debt instruments. If our lenders were to terminate our credit or accelerate our debt, or if Wells Fargo were to materially change our borrowing base, we might not have sufficient funds to operate.

As a result of the acquisition of LDI's Distillery Business, and significant capital expenditures, our debt has increased substantially.

Since June 30, 2010, our borrowings under our credit facility increased substantially from \$0 to \$25,893 at December 31, 2012, primarily due to our acquisition of the LDI Distillery Business, higher costs of inventory (including aging bourbon and whiskey stock) and capital expenditures. Our debt service requirements are greater than in recent history and the amount of debt we have incurred may have important consequences, including the following:

- We would have to use a greater portion of our cash flows from operations to pay principal and interest on our debt, which will reduce the funds that would otherwise be available to us for our operations, capital expenditures, future business opportunities and dividends; and
 - We would be adversely affected by any increases in prevailing interest rates.

We may require significant cash flow to make needed capital expenditures, and our ability to make such expenditures could be limited.

Over the course of the next few years we may need to make substantial capital expenditures. See – Item 1. Business - Regulation and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Cash Flow Information – Investing Cash Flows. For example, we expect to make significant capital expenditures related to our recent acquisition of the Indiana Distillery. While our credit facility does not limit the amount of our capital expenditures, we are still limited by the size of the line and must continue to meet our other covenants. We may require additional long-term financing to meet certain of our capital expenditure requirements, but have not determined the amount, type or source of such financing. Our credit facility restricts new debt from other lenders and requires the consent of our lender, Wells Fargo Bank, to incur many kinds of new debt. We cannot provide assurances that we will be able to obtain such consent or arrange such financing on favorable terms, if at all.

We are subject to extensive regulation and taxation, and compliance with existing or future laws and regulations, including those relating to greenhouse gases and climate change, may require us to incur substantial expenditures or require us to make product recalls.

We are subject to a broad range of federal, state, local and foreign laws and regulations relating to protect public health and the environment. Our operations are also subject to regulation by various federal agencies, including TTB, the Occupational Safety and Health Administration, the Food and Drug Administration, and the USEPA, and by various state and local authorities. Such regulations cover virtually every aspect of our operations, including production facilities, marketing, pricing, labeling, packaging, advertising, water usage, waste water discharge, disposal of hazardous wastes and emissions and other matters. Violations of any of these laws and regulations may result in administrative, civil or criminal penalties being levied against us, revocation or modification of permits, performance of environmental investigatory or remedial activities, voluntary or involuntary product recalls, or a cease and desist order against operations that are not in compliance. These laws and regulations may change in the future and we may incur material costs in our efforts to comply with current or future laws and regulations or to effect any product recalls. These matters may have a material adverse effect on our business. See Item 1. Business – Regulation, where we discuss certain environmental proceedings in which governmental agencies sought fines from us and required significant capital expenditures.

Our Atchison facility and our joint venture's facility currently produce fuel grade alcohol as a by-product and emit carbon dioxide into the atmosphere as a by-product of the fermentation process. In 2007, the U.S. Supreme Court classified carbon dioxide as an air pollutant under the Clean Air Act in a case seeking to require the USEPA to regulate carbon dioxide in vehicle emissions. On February 3, 2010, the USEPA released its final regulations on the Renewable Fuel Standard program (RFS2). We believe these final regulations grandfather both facilities at their current operating capacity for fuel grade alcohol, but plant expansion would need to meet a 20% threshold reduction in greenhouse gas emissions from a 2005 baseline measurement to produce fuel grade alcohol eligible for the RFS2 mandate. Additionally, legislation is pending in Congress on a comprehensive carbon dioxide regulatory scheme, such as a carbon tax or cap-and-trade system. We may be required to install carbon dioxide mitigation equipment or take other steps unknown to us at this time in order to comply with other future laws or regulations. Compliance with future laws or regulations relating to emission of carbon dioxide could be costly and may require additional capital, which may not be available, preventing us and our joint venture from operating our plants as originally designed, which may have a material adverse impact on our respective operations, cash flows and financial position.

Also, the distribution of beverage alcohol products is subject to extensive taxation in the United States and internationally (and, in the United States, at both at the federal and state government levels), and beverage alcohol products themselves are the subject of national import and excise duties in most countries around the world. This taxation has a minor effect on us; however, it has larger effects on our beverage alcohol customers, and accordingly,

an increase in taxation or in import or excise duties could significantly harm our sales revenues and margins, both through the reduction of overall consumption and by encouraging consumers to switch to lower-taxed categories of beverage alcohol.

We face risk related to changes in the global economic environment.

Our business may be impacted by the weak U.S. and global economic conditions, which are increasingly volatile. General business and economic conditions that could affect us include short-term and long-term interest rates, unemployment, inflation, fluctuations in debt markets and the strength of the U.S. economy and the local economies in which we operate. While currently these conditions have not impaired our ability to access credit markets and finance our operations and acquisitions, there can be no assurance that there will not be a further deterioration in the financial markets.

There could be a number of other effects from these economic developments on our business, including reduced consumer demand for products; insolvency of our customers, resulting in increased provisions for credit losses; decreased customer demand, including order delays or cancellations and counterparty failures negatively impacting our operations.

A failure of our information systems could impact our ability to operate.

Although the Company has an offsite back-up system and disaster recovery plans, any failure of our information systems could adversely impact the Company's ability to operate. Routine maintenance or development of new information systems may result in systems failures, which may adversely affect business operations. Information systems could be penetrated by outside parties to extract information, corrupt information or disrupt business processes. This can lead to outside parties having access to privileged data or strategic information of the Company, its employees or customers. Any breach of our data security systems or failure of our information systems may have a material adverse impact on our business operations and financial results.

Unsuccessful research and product launches could affect our profitability.

Research activities and products launch activities are inherently uncertain. The failure to launch a new product successfully can give rise to inventory write-offs and other costs and can affect consumer perception of an existing brand. Any significant changes in consumer preferences and failure to anticipate and react to such changes could result in reduced demand for our products. Unsuccessful research and product launches could affect our profitability.

RISKS SPECIFIC TO OUR DISTILLERY PRODUCTS SEGMENT

Volatile grain prices affect our profitability.

A portion of our operating income is dependent on the spreads between alcohol and corn prices. We intend to protect the margins on our alcohol contracts, but may not always be able to do so. If we are not successful in protecting our margins through hedging activities, volatility in corn prices could affect our profitability. These fluctuating prices create challenges since our customers are interested in stable prices for the distillery products they purchase from us.

The relationship between the price we pay for corn and the sales prices of our distillery co-products can fluctuate significantly and affect our results of operations.

Dried grain, or distillers feed, and fuel grade alcohol are the principal co-products of our alcohol production process and can contribute in varying degrees to the profitability of our distillery products segment. We sell fuel grade alcohol, the prices for which typically, but not always, have tracked price fluctuations in gasoline prices. Distillers feed is sold for prices which historically have tracked the price of corn. In regard to distillers feed, we believe that, in part, this resulted from decreased demand in the E.U. due to the E.U.'s non-approval of several varieties of genetically modified corn commonly grown in the U.S. Further, certain of our co-products compete with similar products made from other plant feedstocks whose cost may not have risen in unison with corn prices. As a result, the profitability of

these products to us could be affected.

A forecasting error in determining quantity of maturing stock could affect our profitability.

There is an inherent risk of a forecasting error in determining the quantity of maturing stock to lay down in a given year for future consumption. This could lead to an inability to supply future demand or lead to a future surplus of inventory and consequent write down in value of maturing stocks. As a result, profitability of the distillery products segment can be affected.

Water scarcity or poor quality could negatively impact our production costs and capacity.

Water is the main ingredient in substantially all of our distillery products. It is also a limited resource, facing unprecedented challenges from climate change, increasing pollution, and poor management. As demand for water continues, becomes more scarce and the quality of available water deteriorates, we may be affected by increasing production costs or capacity constraints, which could adversely affect our results of operations and profitability.

Although we have reduced our production and sales of fuel grade alcohol and have entered into ethanol derivative contracts to mitigate market risk, we continue to have some exposure to fuel grade alcohol market price fluctuations.

Because of the continued erosion of the fuel alcohol markets, in the fiscal year 2009 we determined to substantially reduce our production of fuel alcohol and temporarily ceased production at our former Pekin facility. Subsequently, after exploring our strategic options with respect to this facility, we contributed the facility to ICP and sold a 50 percent interest in ICP to ICP Holdings. On February 1, 2012, ICP Holdings exercised its option to purchase an additional 20 percent of ICP, reducing our share of future ICP earnings to 30 percent. We purchase food grade alcohol products from ICP and market and sell such products, and SEACOR Energy Inc. has a similar arrangement with respect to the fuel grade alcohol produced by ICP. Although we have reduced our exposure to the volatility of the fuel grade alcohol business through this arrangement, because we share in the profits and losses of ICP and continue to produce some fuel alcohol as a by-product at our Atchison plant, we retain some exposure to such volatility.

We are subject to litigation directed at the beverage alcohol industry and other litigation.

Companies in the beverage alcohol industry are, from time to time, exposed to class action or other litigation relating to alcohol advertising, product liability, alcohol abuse problems or health consequences from the misuse of alcohol. Such litigation may result in damages, penalties or fines as well as reputational damage, which could adversely affect us.

Adverse public opinion about alcohol could reduce demand for our products.

In recent years, there has been increased social and political attention directed at the beverage alcohol industry. The recent attention has focused largely on public health concerns related to alcohol abuse, including drunk driving, underage drinking, and the negative health impacts of the abuse and misuse of beverage alcohol.

Anti-alcohol groups have, in the past, advocated successfully for more stringent labeling requirements, higher taxes and other regulations designed to discourage alcohol consumption. More restrictive regulations, negative publicity regarding alcohol consumption and/or changes in consumer perceptions of the relative healthfulness or safety of beverage alcohol could decrease sales and consumption of alcohol and thus the demand for our products. This could, in turn, significantly decrease both our revenues and our revenue growth, causing a decline in our results of operations.

RISKS SPECIFIC TO OUR INGREDIENT SOLUTIONS SEGMENT

Our focus on higher margin specialty ingredients may make us more reliant on fewer, more profitable customer relationships.

Our business strategy for our ingredient solutions segment includes focusing our efforts on the sale of specialty proteins and starches to targeted domestic consumer packaged goods customers. Our major focus is directed at food ingredients, which are primarily used in foods that are developed to address consumers' desire for healthier and more convenient products; these consist of dietary fiber, wheat protein isolates and concentrates, and textured wheat proteins. The bulk of our applications technology and research and development efforts are dedicated to providing customers with specialty ingredient solutions that deliver nutritional benefits, as well as desired functional and sensory qualities to their products. Our business could be adversely affected if our customers were to determine to reduce their new product development ("NPD") activities or cease using our unique dietary fibers, starches and proteins in their NPD efforts. In addition, our sales growth opportunities could be at risk in these areas if consumers abandon or significantly limit their interest in healthier foods, limit their interest in convenience foods, and/or adopt a widespread aversion to foods containing wheat gluten.

OTHER RISKS

Common stockholders have limited rights under our Articles of Incorporation.

Under our Articles of Incorporation, holders of our Preferred Stock are entitled to elect five of our nine directors and only holders of our Preferred Stock are entitled to vote with respect to a merger, dissolution, lease, exchange or sale of substantially all of the Company's assets, or on an amendment to the Articles of Incorporation, unless such action would increase or decrease the authorized shares or par value of the Common or Preferred Stock, or change the powers, preferences or special rights of the Common or Preferred Stock so as to affect the holders of Common Stock adversely. Generally, the Common Stock and Preferred Stock vote as separate classes on all other matters requiring stockholder approval. A majority of the outstanding shares of our Preferred Stock is held by the MGP Ingredients Voting Trust, whose trustees are Karen Seaberg, Richard B. Cray and Laidacker M. Seaberg.

The trading volume in our common stock fluctuates, and depending on market conditions, the sale of a substantial number of shares in the public market could depress the price of our stock and make it difficult for stockholders to sell their shares.

Our common stock is listed on the NASDAQ Stock Market. Our public float at December 31, 2012 (including non-vested restricted stock awards held by non-affiliates) was approximately 11,850,879 shares, as approximately 6,083,354 shares are held by affiliates. Over the year ended December 31, 2012, our daily trading volume as reported to us by NASDAQ has fluctuated from 788 to 718,072 shares (excluding block trades). When trading volumes are relatively light, significant price changes can occur even when a relatively small number of shares are being traded and an investor's ability to quickly sell quantities of stock may be affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own or lease the following principal plants, warehouses and office facilities:

Location	Purpose	Owned or Leased	Plant Area (in sq. ft.)	Tract Area (in acres)
Atchison, Kansas	Grain processing, distillery, warehousing, and research and quality control laboratories (Distillery Products and Ingredient Solutions)	Owned	494,640	26
	Principal executive office building			