MGP INGREDIENTS INC
Form 10-K
September 11, 2009
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UNITED STATES
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)

x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended June 30, 2009
	OR
o	**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 of Incorporation or Organization)	(I.R.S. Employer Identification No.)
100 Commercial Street, Box 130, Atchison, Kansas (Address of Principal Executive Offices)	**66002** (Zip Code)

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
NONE	

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**

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

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

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

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 o No o

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. x

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 o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

The aggregate market value of common equity held by non-affiliates, computed by reference to the last sales price as reported by NASDAQ on December 31, 2008, was $7,166,898

The number of shares of the registrant s common stock outstanding as of August 31, 2009 was 16,598,585

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 October 22, 2009 are incorporated by reference into Part III of this report to the extent set forth herein.

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The calculation of the aggregate market value of the Common Stock held by non-affiliates is based on the assumption that non-affiliates do not include directors or 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.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements as well as historical information. All statements, other than statements of historical facts, included in this Annual Report on Form 10-K regarding the prospects of our industry and our prospects, plans, financial position and business strategy may constitute forward-looking statements. In addition, forward-looking statements are usually identified by or are associated with such words as intend, plan , believe, estimate, expect, anticipate, hopeful, should, may, will , could and or the negatives of t variations of them or similar terminology. They reflect management s current beliefs and estimates of future economic circumstances, industry conditions, Company performance and financial results and are not guarantees of future performance. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others: (i) our ability to manage our cash flows, (ii) our ability to find a strategic alternative for our Pekin facility on a timely basis, (iii) the ability to maintain compliance with all applicable loan agreement covenants, (iv) the availability and cost of grain and fluctuations in energy costs, (v) an increase in interest rates, (v) disruptions in operations at our Atchison facility, (vii) competitive environment and related market conditions, (viii) our ability to realize operating efficiencies, (ix) the effectiveness of our hedging programs, (x) and actions of governments. For further information on these and other risks and uncertainties that may affect our business, see Item 1A - *Risk Factors*

AVAILABLE INFORMATION

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

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PART I

Throughout this document, Dollars are presented in thousands unless otherwise noted.

ITEM 1. BUSINESS

As used herein, unless the context otherwise requires, the terms Company , we , us , our and words of similar import refers to the combined business of MGP Ingredients, Inc. and its consolidated subsidiaries.

GENERAL INFORMATION

MGP Ingredients, Inc. is a Kansas corporation headquartered in Atchison, Kansas. It was incorporated in 1957 and is the successor to a business founded in 1941 by Cloud L. Cray, Sr.

The Company is a fully integrated producer of certain ingredients and distillery products which are derived from wheat flour and corn, respectively, and which are principally produced to serve the packaged goods industry. The Company has three reportable segments: ingredient solutions, distillery products and other. Our ingredient solutions segment products primarily consist of specialty starches, specialty proteins, commodity starches and commodity vital wheat gluten. Mill by-products, consisting primarily of mill feeds or midds, have also been included in this segment but have been discontinued with the shutdown of our wheat flour milling operations at the Atchison, Kansas plant in the second quarter of fiscal 2009. The distillery products segment consists of food grade alcohol, along with a minimal amount of fuel grade alcohol, commonly known as ethanol, and distillers feed, which are co-products of our distillery operations. Our other segment products are comprised of resins and plant-based polymers and composites manufactured through the further processing of certain of our proteins and starches and wood.

We purchase corn obtained from or through grain elevators. We purchase wheat flour, the principal raw material used in the manufacture of our protein and starch products, 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 that possess 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 which results after the extraction of the protein component to extract premium wheat starch, a portion of which we sell as commodity starch and a portion of which we further process into specialty starches, and all of which we dry into powder and sell 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. The principal location at which we make our products as of June 30 2009 is our plant located in Atchison, Kansas. We also operate a facility in Onaga, Kansas for the production of plant-based biopolymers and wood composites, and have a facility at Pekin, Illinois which we temporarily closed beginning in the third quarter of fiscal 2009. We continue to evaluate options for the future of the Pekin facility, where in the past we had produced fuel grade alcohol and food grade alcohol, as well as protein and starch ingredients, principally commodity wheat gluten and commodity wheat starch. Additionally, our line of textured wheat proteins are produced through a toll manufacturing arrangement at a facility in Kansas City, Kansas, which we had previously owned and which we sold to Sergeant s Pet Care Products, Inc. (Sergeant s) on August 21, 2009.

FISCAL 2009 DEVELOPMENTS

In fiscal 2009 we took major steps to focus our activities on the production of value-added ingredient solutions, consisting of specialty, value-added wheat proteins and wheat starches, and high quality beverage and food grade industrial alcohol. In this regard, we have taken steps to substantially exit commodity vital wheat gluten areas of our business and have curtailed the production of fuel grade alcohol and commodity wheat starch. As the result of these measures, our workforce was reduced by approximately 55% between the beginning and end of fiscal 2009 through a combination of temporary and permanent lay-offs and early retirements involving both non-union and union personnel, and we incurred $10,282 in non-cash impairment charges, $3,288 in severance and early retirement costs and $5,241 in lease termination and other restructuring costs during the fiscal year ended June 30, 2009. See Note 9 of our Notes to Consolidated Financial Statements. Although we currently maintain three

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separate facilities, we are concentrating our efforts on optimizing our capabilities for the development, production and commercialization of value-added products, including food grade alcohol, at our Atchison, Kansas location, where we have the technologies and expertise in place to continue building our value-added business. We agreed with our previous revolving credit lenders that we would either sell our Pekin plant or secure new financing from another lender. We secured new financing with Wells Fargo Bank, National Association on July 21, 2009, but we are continuing to explore strategic alternatives for our Pekin, plant, which we have temporarily shut down. Additionally, we have exited the pet products business with the sale on August 21, 2009 of our Kansas City facility to Sergeant s. The sale included all equipment used for the production and packaging of pet-related products, principally consisting of extruded plant-based resins and finished pet treats. However, we maintain ownership of equipment at this facility that is used for the production of our textured wheat proteins. This equipment is located in a separate section of the facility that we have leased for a period of three years and will be operated by a subsidiary of Sergeants under a toll manufacturing arrangement.

Recent strategic decisions we have made in connection with our transformation process include the following:

- In October 2008 we shut down our Atchison wheat flour mill and began purchasing high quality flour for use as the principal raw material in our protein and starch production processes. This decision was based on our view that we could no longer produce flour for our own use at costs that were competitive with those of third party producers. As a result of this decision, we will no longer sell mill feeds as a by-product of our now discontinued wheat flour milling operations.

- In November 2008 we discontinued producing protein and starch at our Pekin facility and consolidated production of value-added protein and starch products at our Atchison facility. These actions were driven by our planned reduction in the manufacturing and sales of commodity vital wheat gluten and significantly curtailed emphasis on the production and commercialization of commodity wheat starch. Underutilized ingredient solutions segment facilities at both our Pekin and Atchison locations combined with continuing losses in our commodity ingredients areas factored heavily into this decision. By closing protein and starch production at Pekin, based on a comparison of our fourth quarter fiscal results to fiscal 2008, we estimate that we have reduced the volume of our ingredient solutions business, in terms of sales, by approximately 44% on an annualized basis, Substantially all the decrease in fiscal 2009 relates to our lower margin commodity protein products.

- In February 2009, we temporarily discontinued distillery operations at our Pekin facility. We now only produce minimal quantities of fuel grade alcohol as a co-product of our food grade alcohol production at our Atchison facility. As a result, our production of distillers feed, a principal co-product of our alcohol production process, has declined. Our decision to temporarily close our Pekin plant resulted from consideration of the following factors: market economics for fuel grade alcohol continued to erode in fiscal 2009, and selling prices were at or below production costs; incremental ethanol production decisions were made difficult by continued volatility in corn and ethanol prices; and, with current ethanol industry capacity in excess of federal mandates, it has not seemed likely that there will be a return to equilibrium in the ethanol markets in the short-term. We do not expect the shutdown of Pekin distillery operations to affect our food grade alcohol customers as we are continuing to optimize food grade alcohol production capabilities at Atchison.

- At the end of the fiscal year ended June 30, 2008, management evaluated strategic alternatives with respect to the mixed use facility in Kansas City, Kansas and committed to a plan to sell the assets at this facility. During the quarter ended December 31, 2008, management, after evaluating new strategic alternatives with respect to our Kansas City Kansas facility, concluded that certain assets related to the production of our Wheatex® line of proteins would be retained. As stated above, we have since sold this facility, along with our pet products business, to Sergeant s, but continue to have our textured wheat proteins manufactured there through a toll manufacturing agreement with a Sergeant s subsidiary.

- In the third quarter, we ceased production of our personal care products.

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FINANCIAL INFORMATION ABOUT SEGMENTS

Note 13 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, income before income taxes and identifiable assets for the last three fiscal years by reportable segment. Information about sales to external customers and assets located in foreign countries is included.

BUSINESS STRATEGY

Our strategy is to focus on the development and marketing of wheat-based specialty protein and starch products and high quality food grade alcohol, as well as our plant-based biopolymer and resin products, for use in unique market niches. As such, we seek to add value to our customers major branded packaged goods products by providing product solutions across a range of food, beverage and non-food product applications .

Market trends that we hope to benefit from include health and wellness lifestyle trends in the food area, and growing demand for natural versus synthetic products. Increased interest in bio-economy initiatives also may create opportunities for us, particularly in regard to our partially and totally degradable biopolymers.

We have existing manufacturing capacity to grow our ingredients business if the market for this business improves further. We seek to develop a more profitable product mix of higher valued specialty wheat proteins and wheat starches, which is especially critical during times when we face increased wheat costs, such as we encountered during fiscal 2009, fiscal 2008 and, to a lesser degree, in 2007. We continue to concentrate on growing specific high end, highly functional ingredient solutions for our customers. We have taken steps to restructure this area of our business to more appropriately align with current production and sales requirements. These steps have included concentrating our production and marketing efforts on supplying our core base of loyal customers with a more select array of high quality, premium ingredients that address nutritional, sensory and convenience issues and that can help build value while making more efficient use of our existing capacities. We continue to step up our product innovation and commercialization efforts and have revamped the responsibilities of our technical applications scientists, who now perform a significantly more integral role as solutions providers to our customers.

We continue to maintain a solid presence in the food grade alcohol industry and pursue efforts to maintain highly efficient alcohol production operations. Since early 2004, 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. Until our decision to temporarily discontinue distillery operations at our Pekin, Illinois facility in fiscal 2009, the majority of that distillery s capacity for several years had been dedicated to the production of fuel grade alcohol. Our fuel grade alcohol business represented approximately 17.2% of our total revenues in fiscal 2009, whereas it represented approximately 33.7% of our total revenues in the preceding fiscal year, We expect this percentage to continue to decrease, as we determined to reduce our focus on the production of fuel grade alcohol and presently only produce the minimum amount (estimated at 2 million gallons annually) of fuel grade alcohol that is produced as a co-product of our food grade alcohol production at our Atchison distillery. It is possible that we may have more involvement in the fuel grade alcohol market in the future, but we are unable to determine whether that will occur at this time. We are presently exploring our strategic alternatives for our Pekin facility, which include reopening it on a joint venture basis to produce fuel and food grade alcohol, reopening on our own or on a joint venture basis to produce food grade alcohol, selling it or continuing to hold it. We do not intend to pursue alternatives that significantly expose us to the risks of the fuel alcohol market.

We continued to experience generally favorable conditions in the food grade alcohol market in fiscal 2009, providing our customers with what we believe is among the highest quality, high purity alcohol in the world. We have been in the food grade alcohol business since the Company s founding in 1941 and intend to maintain a solid presence in the food grade area.

As stated previously, biopolymers represent an emerging and developing part of our business. Currently, we have two commercial products in the market. The first product is a bio-based resin in which a large percentage of petroleum-based plastic could be replaced with materials made from renewable sources, specifically wheat starch. These biopolymers, which serve as bio-based alternatives to traditional plastics, may be utilized in a wide range of

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products, such as disposable cutlery, cosmetic cases and CD cases. The second product is a wood-based resin, which compounds wood and biopolymer. This product is used in the manufacture of deck boarding and other wood applications in which long-term durability is required. These products are sold directly to producers of finished products. We are also in the process of developing and commercializing a fully bio-based, fully compostable resin.

PRODUCT SALES

The following table shows our sales from continuing operations by each class of similar products during the past three fiscal years ended June 30, 2009, June 30, 2008 and July 1, 2007, as well as such sales as a percent of total sales.

PRODUCT GROUP SALES
Fiscal Year Ended,
(thousands of dollars)

	June 30, 2009		June 30, 2008		July 1, 2007	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Ingredient Solutions:						
Specialty Proteins	**$ 22,313**	**8.1%**	$ 23,204	5.9%	$ 19,197	5.2%
Specialty Starches	**38,458**	**13.9%**	36,065	9.2%	28,256	7.7%
Vital Wheat Gluten	**13,684**	**5.0%**	31,399	8.0%	13,646	3.7%
Commodity Wheat Starch	**4,617**	**1.7%**	3,737	1.0%	4,052	1.1%
Mill By-Products	**1,061**	**0.4%**	6,589	1.7%	2,640	0.7%
Total Ingredients	**$ 80,133**	**29.0%**	$ 100,994	25.8%	$ 67,791	18.4%
Distillery Products:						
Food-grade Alcohol	**$ 115,589**	**41.9%**	$ 113,428	28.9%	$ 98,409	26.7%
Fuel-grade Alcohol	**47,361**	**17.2%**	132,978	33.7%	164,163	44.7%
Distillers Grain and other Co-products	**27,912**	**10.1%**	39,332	10.0%	31,821	8.6%
Total Distillery Products	**$ 190,862**	**69.2%**	$ 285,738	72.6%	$ 294,393	80.0%
Other Products:	**$ 4,981**	**1.8%**	$ 6,161	1.6%	$ 5,810	1.6%
Net Sales	**$ 275,976**	**100.0%**	$ 392,893	100.0%	$ 367,994	100.0%

Substantially all of our sales are made directly or through distributors to manufacturers and processors of finished goods. 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. Sales of fuel grade ethanol 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 quarterly or six month periods, with very few agreements of twelve months duration or more. During fiscal 2009, our five largest distillery products customers accounted for 26.2 % of our consolidated revenues. One of these customers, Marathon Petroleum, a fuel ethanol customer, individually accounted for approximately 10% of our consolidated revenues for fiscal 2009. Our five largest ingredients products customers combined accounted for 13.7% of our consolidated revenues.

INGREDIENT SOLUTIONS SEGMENT

Our ingredient solutions segment consists primarily of specialty wheat starches, specialty wheat proteins, commodity wheat starch and vital wheat gluten. Through the second quarter of fiscal 2009, mill feeds, the principal by-product of the flour milling process, was also included in this segment. With the discontinuation of our wheat milling operations, we have ceased the production and sales of mill feeds. As noted above, 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. This primarily has been due to the following factors: product mix optimization, product innovation through increased research and development, partnering with customers on product development,

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increased capacity to produce these products and increased marketing efforts that have resulted in greater customer recognition.

Specialty Wheat Starches. Wheat starch constitutes the carbohydrate-bearing portion of wheat flour. We produce a pure white premium wheat starch powder by extracting the starch from the starch slurry, substantially free of all impurities and fibers, and then by spray, flash or drum drying the starch. 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 produce low grade or B starches because our integrated processing facilities are able to process the slurry remaining after the extraction of premium wheat starch into alcohol and animal feed. Premium wheat starch differs from corn starch in its granular structure, color, granular size and name identification.

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 different 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. In addition, we sell specialty starches for non-food applications in pet treat applications and in the manufacture of biopolymer products.

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 mouth feel 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 pet and biopolymer products, and for use in the manufacture of adhesives, paper coatings, carbonless paper, and wall board.

Our wheat starches compete primarily with corn starch, which dominates the United States starch market. However, the unique characteristics of wheat starch provide it 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), National Starch and Chemical Corporation (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. As we experienced in fiscal 2009, 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 fiscal 2006 and fiscal 2003, increases in grain and fuel 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.

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- ***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.*** These starches deliver increased thickening, clarity, adhesion and tolerance to high shear, temperature and acidity during food processing. 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 the molecular structure of vital wheat gluten. Wheat proteins for food applications include gliadin, glutenin, and 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), US Energy (gluten) 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 manufacture 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 substitutes, extenders and binders. 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. Because of its neutral taste, Wheatex® will not alter flavors that are added to the product. It also has excellent water-binding capacities for the retention of natural meat juices. Wheatex® is presently being sold for applications in vegetarian and extended meat products.

- ***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,

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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 percent 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.

Gliadin and glutenin are the two principal components that make up vital wheat gluten. Our patented process enables the separation of glutenin and gliadin for a variety of end uses without the use of alcohol, which has been the traditional method of separating the two. Glutenin, a large molecule responsible for the elastic character of vital wheat gluten, increases the strength of bread dough, improves the freeze-thaw characteristics of frozen dough and may be used as a functional protein source in beef jerky-type products, as well as in meat extension. Gliadin, the smaller of the two molecules, is soluble in water and other liquids, including alcohol, and is responsible for the viscous properties of wheat gluten. Those characteristics make it ideal to improve the texture of noodles and pastas. 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 try to limit our production to quantities needed for further processing of our specialty wheat proteins.

Mill By-Products. Until October 2008, we operated a flour mill at the Atchison plant. The mill s output of flour was used internally to satisfy a majority of the raw material needed for the production of our starch, protein and vital wheat gluten. In addition to flour, the wheat milling process generated mill feeds or midds, which were then sold to processors of animal feeds as a feed additive. As noted above, we closed the flour mill in October 2008 and no longer produce mill feeds.

DISTILLERY PRODUCTS SEGMENT

Our Atchison plant processes corn, mixed with the starch slurry from starch and protein processing operations, into food grade alcohol and distillery co-products consisting of fuel grade 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, or ethanol, is grain alcohol that has been distilled to remove all water to yield 200 proof alcohol suitable for blending with gasoline. We have determined to reduce our exposure to the fuel ethanol market, and with the temporary shutdown of our Pekin facility presently only generate minimal amounts as a co-product of the food grade alcohol production process.

Since the reconstruction in 2004 of our Atchison distillery following an explosion that occurred approximately two years earlier, the majority of the distillery s capacity has been dedicated to the production of high quality, high purity food grade alcohol for beverage and industrial applications. The new state-of-the-art equipment that was installed during the reconstruction has resulted in improved alcohol production efficiencies at the Atchison plant. Conversely, the majority of our capacity at our Pekin, Illinois distillery had historically been dedicated to the production of fuel grade alcohol, although shortly before the shut-down of that plant we had reduced fuel grade production and were making increased quantities of food grade alcohol at the plant. Additional

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efforts to further improve distillery production efficiencies, particularly relating to energy usage, have been initiated through recent capital projects. During fiscal 2009, we generally operated at full production capacity for our food grade alcohol at the Atchison plant, but experienced underutilization of our fuel grade alcohol capacity at our Pekin plant, which in the third quarter we ultimately determined to close on a temporary basis.

Food Grade Alcohol. Food grade alcohol sold for beverage applications consists primarily of grain neutral spirits and gin. 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.

We believe that in terms of fiscal 2009 net sales, we are one of the three largest bulk sellers of food grade alcohol in the United States. Our principal competitors in the beverage alcohol market are Grain Processing Corporation of Muscatine, Iowa and Archer-Daniels-Midland Company of Decatur, Illinois.

Much consolidation in the beverage alcohol industry has occurred 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 market food-grade alcohol which is not sold as beverage alcohol as food-grade industrial alcohol. 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 deodorants), 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 dominated 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.

Fuel Grade Alcohol. The bulk of fiscal 2009 sales of alcohol co-products consisted of fuel grade alcohol and distillers feed. Fuel grade alcohol, which is commonly referred to as ethanol, is sold primarily for blending with gasoline to increase the octane and oxygen levels of the gasoline. As an octane enhancer, ethanol can serve as a substitute for lead and petroleum-based octane enhancers. As an oxygenate, ethanol 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 ethanol is produced from grain, a renewable resource, it also provides a fuel alternative that tends to reduce the country s dependence on foreign oil.

To encourage the production of ethanol for use in gasoline, the Federal government and various states have enacted tax and other incentives designed to make ethanol competitive with gasoline and gasoline additives. Under the internal revenue code, and until the end of 2010, gasoline that has been blended with ethanol provides sellers of the blend with certain credits or payments. Until the end of 2008, these amounted to $0.51 per gallon of ethanol with a proof of 190 or greater that is mixed with the gasoline; during 2009 and 2010, they amount to $0.45 per gallon. Although these benefits are not directly available to us, they were intended to permit us to sell our ethanol at prices which generally are competitive with less expensive additives and gasoline.

On August 8, 2005, President Bush signed the Energy Policy Act of 2005 (Energy Act), a comprehensive energy bill that includes a provision for establishing a renewable fuels standard. The Energy Act amended the Clean Air Act to provide for the adoption of regulations whose purpose, subject to other provisions of the Energy Act, was to ensure that gasoline sold or introduced into commerce in the continental United States contained on an annual

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average basis 4.0 billion gallons of renewable fuel commencing in 2006 and increasing incrementally to 7.5 billion gallons in 2012. These standards were amended by the Energy Independence and Security Act of 2007. As amended, the Clean Air Act provides for regulations whose purpose is to ensure that transportation fuel sold or introduced into commerce in the continental United States contains on an annual average basis 9.0 billion gallons of renewable fuel commencing in 2008 and increasing incrementally to 36 billion gallons in 2022. Of these amounts, the maximum applicable average volume of conventional ethanol ranges from 10.5 billion gallons in 2009 to 15 billion gallons in 2015 and continuing thereafter to 2022.

State and federal policies promoting cleaner air and state and federal production incentives and tax programs have caused the ethanol industry to grow substantially in recent years. According to information published by the Renewable Fuels Association, as of June 30, 2009, there were approximately 196 ethanol production facilities in the United States with the combined total production capacity of 12.6 billion gallons. Of that amount, all but approximately 1.8 billion gallons of available capacity was being utilized as of June 30, 2009. An additional 1.9 billion gallons of capacity has been under construction. The majority of fuel ethanol production facilities are located in the Midwestern corn producing states. The fuel-grade alcohol market is dominated by Poet Biorefining, Archer-Daniels-Midland Company and Valero Energy Corporation, which together account for approximately 26% of the total production capacity. We compete with other producers of fuel-grade alcohol on the basis of price and delivery service.

Over the past 24 months, there has been significant volatility in corn and ethanol markets, making incremental ethanol production decisions difficult. Market economics for fuel ethanol continued to erode in fiscal 2009, and we were experiencing prices below our production costs. With industry capacity in excess of federal mandates, it did not seem likely that equilibrium would return to the ethanol markets in the short term. For these reasons, as noted above, we determined to substantially reduce our production of this product and now only produce fuel ethanol as a co-product of our food grade alcohol business.

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 fiscal 2009 and 2008, prices for distillers feed were depressed relative to corn prices as a result of increased fuel alcohol capacity combined with decreased demand in the European Union due to the E.U. s non-approval of several varieties of genetically modified corn commonly grown in the U.S.

OTHER SEGMENT

Produced from the further processing of certain of our wheat proteins and wheat starches (and other plant sources), our plant-based biopolymers and composites can be used to produce a variety of eco-friendly products, while our plant-based resins have been manufactured for use primarily in pet treat applications. Our production of the pet-related products were discontinued with the sale of our pet products business and Kansas City facility in August 2009. However, such sales occurred through fiscal 2009 and, therefore, are included in year-end sales and pre-tax profit/(loss) results in our other segment. After giving affect to the sale, our principal products in our Other segment consist of our MGPI Terratek® protein and starch resins. these are 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 hold a license under U.S. Patent No. 5,321,064 expiring in 2011 that relates to these products.

As previously reported, at the completion of the third quarter of fiscal 2008, we undertook a review of our long-lived assets in our other segment and concluded that an impairment charge on these assets was appropriate. Our pet business had suffered since we lost a major customer in late 2006. Subsequent increases in wheat prices, changing consumer preferences and failure to obtain previously anticipated new business led to this

decision. Our pet business assets were located at a joint use facility, and in the course of our review we also concluded to write-down all the assets at that facility, including those associated with certain of our Wheatex® textured wheat proteins. In fiscal 2008, we recorded an $8,100 impairment charge related to these combined assets, of which $4,700 related to assets allocated to our other segment. For the quarter ended December 31, 2008, we performed another test for impairment of these assets as a result of an appraisal resulting in a further charge of $811. After considering various

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alternatives, we ultimately took the strategic step to exit the pet products business with the sale of our Kansas City facility and related equipment in August 2009.

PATENTS

We are involved in a number of patent-related activities. For at least eight years, we have regularly been filing 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 have granted National Starch and Chemical Investment Holding Corporation and certain of its affiliates a royalty bearing sublicense under the patent and related technology to make high amylose maize starch and to sell it anywhere except in the United States. We have 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 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.

We are exclusively licensed by the University of Minnesota under U. S. Patent No. 5,321,064, which relates to biodegradable interpolymer compositions made from biodegradable natural and synthetic polymers. The license expires on June 14, 2011, as does the licensed patent.

RESEARCH AND DEVELOPMENT

During the last three fiscal years, we have spent an aggregate of $7,400 on research and development activities, all in the ingredient solutions and other segments, as follows: 2009-$1,400; 2008-$3,200; and 2007- $2,800.

SEASONALITY

Our sales subsequent to 2002 have not been seasonal.

TRANSPORTATION

Our output is transported to customers by truck and rail transportation equipment, most of which is provided by common carriers. We currently lease 436 rail cars, which may be dispatched on short notice. When our Pekin plant is in operation, we also have the ability to transport by barge from this site, with barge loading facilities on the Illinois River.

RAW MATERIALS

Our principal raw material is wheat flour, which is processed into our starches and proteins, and corn, which is processed into food grade alcohol, and distillery co-products consisting of fuel grade alcohol, and animal feed. We purchase corn throughout the year from or through grain elevators. We provide for our flour requirements through a supply contract with ConAgra Mills. The agreement became effective in October 2008 and has a term of five years. It 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 which varies depending on changes in several factors, including wheat futures prices, mill feed prices and freight costs. Currently we purchase our corn requirements from a single elevator company. Our practice is to only order corn for a month at a time.

Historically, the cost of grain has been subject to substantial fluctuations depending upon a number of factors which affect commodity prices in general, including crop conditions, weather, government programs and purchases by foreign governments. Such variations in grain prices have had from time to time significant adverse effects on the results of our operations. This is primarily due to a variety of factors. 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 artificially low prices are not affected by such 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. During fiscal 2009, we hedged approximately 60.2% of corn processed, compared to approximately 75% in 2008. Of the wheat that we processed in fiscal 2009, 61.4% was hedged compared to 8.7% in fiscal 2008. In October 2008, we ceased processing wheat and started purchasing flour from ConAgra. As a result, we only processed wheat for one quarter in fiscal 2009. Going forward, we intend to purchase commodity futures and options and to contract for the future delivery of grain only to protect margins on contracted alcohol sales. We intend to contract for the future delivery of flour only to protect margins on expected sales of ingredients products. See Item 1A *Risk Factors* and Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Practices 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 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. In Pekin, we have either procured natural gas through Central Illinois Light Company (aka AmerenCILCO) or through other suppliers. We had a multi-year agreement with AmerenCILCO under which the utility transported natural gas to our Pekin plant on the utility s pipeline. This agreement expired by its terms in August 2009. We have not sought renewal to date due to the temporary shutdown of the Pekin facility.

In order to control energy costs, we have a risk management program whereby, at pre-determined prices, we may purchase a portion of our natural gas requirements for future delivery.

In 1995, we entered into an arrangement with AmerenCILCO and one of its subsidiaries (collectively CILCO) with respect to our Pekin, Illinois plant. Under the arrangement, we have leased a portion of our plant facility to CILCO for a term which, as extended, ends in February 2029. CILCO constructed a gas fired electric and steam generating facility on ground leased from us and agreed to provide steam heat to the Pekin plant under a related steam heat service agreement pursuant to which we agreed to purchase any requirements for steam heat from CILCO until

February 2011. During fiscal 2009 and prior years, we were required to make adjustable minimum monthly payments over the term of the service agreement, approximately $141, with declining fixed charges for purchases in excess of minimum usage, and were responsible for fuel costs and certain other expenses. During fiscal 2009, we defaulted on our payment obligations under this agreement, and on July 21, 2009 we entered a restructuring agreement with CILCO whereby we acknowledged combined obligations of $11,614 to CILCO under the steam agreement, a gas agreement and a delivery service agreement with it. CILCO agreed to accept payment in accordance with a payment schedule reflected in a note we delivered which provides for the payment in full over a 20 month period. In addition, CILCO agreed to terminate the steam agreement relating to Pekin facility effective June 30, 2009. As a result, we will have no future charges under the steam agreement. We agreed with CILCO that should we reopen our facility in Pekin, we would negotiate a new agreement under which we would be responsible

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for start up costs of the boiler plant that generated the steam supplied under the steam agreement and ongoing staffing requirements and a new schedule of charges reflective of increased costs of operating and maintaining the boiler plant. However, neither party will be liable to the other for failure to execute a new agreement, and a failure to do so will not affect our obligations under the note and related agreements we have entered with CILCO.

Our electricity agreement at Pekin is scheduled to expire in September 2009. Historically, we have negotiated a fixed price agreement with AmerenCILCO as the electricity provider. Illinois is a deregulated market, which provides us with alternative sources to supply our electrical needs. We purchase our electrical energy in Atchison from the local utility.

We are currently exploring alternative sources of energy for our Pekin, Illinois plant in the form of a coal-fired steam generation facility. We have applied for approvals for the construction of a 330,000 pound per hour high pressure solid fuel boiler cogeneration facility at the plant. The proposed facility will utilize coal as the primary fuel. The cost of the project is estimated at $90,000 to $100,000. We are seeking a third party energy provider to fund, own and operate the facility, and would expect to enter a multi-year energy supply agreement with the energy provider.

The Illinois Environmental Protection Agency (IEPA) held a public hearing regarding the fuel boiler cogeneration facility on July 14, 2008. This hearing represented one step toward receiving a permit for the facility. The hearing was followed by a written public comment period, which ended on August 13, 2008. If the IEPA determines to issue a construction permit, it will be effective 35 days after the date of issue to allow for an appeal period for interested parties. Barring an appeal, we would expect to receive a construction permit at the end of the 35-day waiting period. After a construction permit is granted and a third party energy provider is identified to build the facility, we anticipate that it would take approximately two years to construct and put the facility into operation.

The facility is proposed to be located on a site that we would lease to the provider which is located on the plant s 49-acre site. It would be utilized primarily to produce steam to power the plant s distillery operations. In addition, a portion of the generated steam would be used to supply the plant s electrical needs. Excess energy would be available for sale by the provider to others.

If we determine to retain the Pekin facility and do not pursue a new coal fired boiler, we will need to pursue the acquisition of the existing steam facility from CILCO or provide an alternate steam production source.

EMPLOYEES

As of June 30, 2009, we had a total of 322 employees, of which 219 were active employees and 103 were temporarily laid-off employees. Of that combined total, 180 (119 active and 61 temporarily laid off) were represented by employees covered by collective bargaining agreements with one labor union. One agreement, which expires on August 31, 2014, covers 100 active employees at the Atchison Plant. Another agreement, which expires on October 31, 2011, covers 61 temporarily laid-off employees at the Pekin plant. A collective bargaining agreement with employees at our Kansas City facility covered 19 active employees and was scheduled to expire on September 25, 2009 prior to our sale of that facility in August 2009. As of July 1, 2008, we had 482 employees.

Although we experienced a brief work stoppage at the Atchison plant from September 27 through October 10 in 2008, we consider our relations with our personnel to generally be good. Previously, we had not experienced a work stoppage since 1978.

REGULATION

Our beverage and industrial 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 and Illinois. Such regulation covers virtually every aspect of our alcohol operations, including production facilities, marketing, pricing, labeling, packaging, and advertising. 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

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that proper records are maintained. We are also required to file and maintain monthly reports with the TTB of alcohol inventories and shipments.

We are subject to extensive environmental regulations at the federal, state and local levels. The regulations include the regulation of water usage, waste water discharge, disposal of hazardous wastes and emissions of volatile organic compounds, nitrogen oxides, sulfur dioxides, particulates and other substances into the air. Under these regulations, we are required to obtain operating permits and to submit periodic reports to regulating agencies. For the Atchison, Kansas plant, the air quality is regulated by both the U.S. Environmental Protection Agency (USEPA) and the Division of Environment of the Kansas Department of Health and Environment (the KDHE). The KDHE regulates all air emissions. We also were required to obtain a Class I air operating permit from the KDHE and must obtain KDHE approval to make plant alterations that could modify the emission levels. The KDHE also regulates the discharge water quality at the Atchison plant. This includes process water, non-contact water and storm water. We monitor process water and non-contact water discharge on a daily basis and submit monthly reports to the KDHE documenting the test results from these water discharges. The USEPA and KDHE also monitor hazardous waste disposal for the Atchison plant. We also are required to submit annual reports pursuant to the Kansas and Federal Emergency Planning Community Right-to-Know Acts. Local officials, such as the local emergency planning committee in the Atchison community, also receive copies of these annual reports. Presently we are working with the KDHE to renew our National Pollutant Discharge Elimination System (NPDES) permit. We anticipate that our renewal permit will require us over the next four years to bring our water discharge into compliance with additional temperature, color and toxicity standards.

Similar environmental regulations apply to the Pekin, Illinois facility. Air quality at the Pekin plant is regulated by both the USEPA and the Illinois Environmental Protection Agency (the IEPA). The IEPA regulates all air emissions. We have permits to make certain emissions, and the IEPA has the right to do on-site testing to verify that emissions comply with these permits. Also, the IEPA regulates waste water, cooling water and storm water discharge at the Pekin plant. We test wastewater effluent quality twice each week and file monthly reports with the IEPA. We also file an Annual Emissions Report and a Toxic Release Inventory annually with the IEPA. The Pekin facility is also required to submit periodic reports pursuant to the Illinois and Federal Emergency Planning Community Right-to-Know Acts.

During 1997, the IEPA commenced an action against our Illinois subsidiary with respect to alleged noncompliance of the Pekin Plant with certain air quality regulations. In 2002, the USEPA began an enforcement initiative relating to air emissions standards, focusing on all ethanol producers in its Midwestern region. In connection with the USEPA enforcement initiative relating to our Pekin facility, we entered a consent decree and paid a federal penalty of $172. In connection with the IEPA proceedings, we entered a Stipulation and Proposal for Settlement pursuant to which we made a total payment of $500, including a contribution to a state special project fund. Both the consent decree and the Stipulation required us to undertake specified compliance activities. As a result of these proceedings and a desire to make our operations more efficient, we made capital expenditures of $11,100 at the Pekin facility.

In January 2006 we entered a consent agreement with the KDHE resolving past allegations relating to permits, emissions levels and compliance with pollution regulations. We agreed to pay a civil penalty and to undertake certain modifications to our Atchison facility over two and one-half years, including replacing a dryer, replacing or modifying our boilers and modifying certain emission controls. We had previously installed the emission-controlled dryer in Atchison that we will use to process distillers feed at an estimated cost of $12,000. During fiscal 2008 we made additional capital expenditures of $1,823 for new boiler burners and emission controls and made an additional $415 in expenditures during fiscal 2009 for such measures. From September 16, 2008 until February 11, 2009, tests on our feed drying unit indicated that it was not in compliance with the volatile organic compound emission limit established in the consent agreement entered in 2006. Official compliance testing in February 2009 demonstrated the unit to be in compliance. The KDHE has discretion under its penalty policy to pursue an enforcement action against the Company for failing to comply with the emission limit. KDHE has advised management that a penalty is likely for this violation. Although no amount has been proposed, representatives of the KDHE indicated that the penalty would be reasonable .

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STRATEGIC RELATIONSHIPS

On July 2, 2007 we acquired a 50% interest in a German joint venture company which will produce and distribute our Wheatex® products in the EU and elsewhere. If the venture succeeds, the new company may build its own plant in the EU. We have leased an extruder to the new company for future use and licensed the new company to practice our Wheatex® technology and sell the product in the EU and certain countries that are proximate to the EU. Production began in the fourth quarter of fiscal 2009. As of June 30, 2009 our total capital commitment to the joint venture is $750, of which we had contributed $375.

On July 12, 2004, we entered into a business alliance with Cargill, Incorporated for the production and marketing of a new resistant starch called Fibersym® HA that is derived from high amylose corn. Under this arrangement, Cargill agreed to manufacture Fibersym® HA under U.S. patent No. 5,855,946, which has been licensed exclusively to us. The new starch is to be marketed by both companies under the Fibersym® brand name. We and Cargill are to share profits from sales of the new product. In connection with the arrangement for the new corn product, we also granted Cargill a royalty bearing sublicense to use the patented process for the life of the patent in the production of tapioca-based starches for use in food products. We also agreed that if we determined to use the patented process to produce starches derived from other types of corn or to have a third party make product under the patent from other plant sources (other than wheat or potato), we would offer Cargill an opportunity to participate with us. Cargill has started to market its tapioca-based starch product under the sublicense from us but we have only received nominal royalties to date. As part of the transactions mentioned above, we licensed Cargill to use the technology disclosed and claimed in certain patent applications relating to uses for the patented resistant starch.

Although we originally hoped to introduce Fibersym®HA starch into the market at the end of 2004, due to litigation brought by National Starch and Chemical Investment Holding Corporation, Penford Australia, Ltd. and Penford Holdings Pty. in November 2004, we put the sale and additional production of the product on hold. The litigation was resolved in September 2006. We have engaged in discussions with Cargill about modifying our arrangements with them.

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

Our reduced liquidity could affect our operations.

Due to limitations on amounts available under our former credit agreement, our liquidity during much of fiscal 2009 was not optimal for our needs and we extended certain vendors past normal credit terms. Although our liquidity has improved and we have reduced our past due trade payables, we will continue to need to take particular care in managing our cash flows and may be unable to take advantage of certain business opportunities that would otherwise be available to us. For example, our cash flow limitations may restrict our ability to engage in hedging activities. This could result in higher future expenses if raw material and natural gas prices change adversely. As a result, our profitability and

ability to meet certain financial covenants in our credit facility could be affected.

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

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 the carrying value. If an impairment loss exists, 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. *Managements Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates.*

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We recognized a non-cash impairment loss of $8,100 at the end of the third quarter of fiscal 2008, of which $4,700 related to the pet treat resin component of our other segment and $3,400 related to ingredient solutions equipment at our related Kansas City, Kansas production facility. In response to losses incurred during fiscal 2009, we took actions in an effort to return to profitability. These actions include significant changes to operations at our Atchison and Pekin facilities. As a result of these actions, we incurred severance and early retirement costs of $3,288, other restructuring costs aggregating $5,241 and impairment charges of $8,931 in the second quarter of fiscal 2009. We recognized an additional $1,351 in impairment charges in the fourth quarter. resulting from the sale of our Kansas City, Kansas facility. We have not recognized any impairment or restructuring charge as a result of the temporary shut down of our Pekin, Illinois plant and associated lay-off of employees based on our assumption that we expect to implement a strategic option with respect to this facility within the next year and on our estimates of its fair value. Management s estimations are based primarily on third party appraisals and other market information which exceed the $29,000 carrying value of the facility. Such appraisals and other information are based on a number of estimates, which may change. Also, the price realized in an actual transaction may prove to be less than an appraised value. If we close the facility permanently and are unable to sell it, we expect to have significant impairment charges. If we sell the facility, we likely will have additional restructuring losses related to our workforce and may have impairment charges depending on the value we derive from the sale. We also may have further impairment and restructuring losses related to that facility if we elect to reopen it, and such losses may be more likely if we are unable to reopen or implement some other strategic option with respect to this facility on a timely basis. Such charges could affect our ability to comply with certain financial covenants in our credit facility.

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 to meet certain financial tests and that limit or restrict our ability to:

- incur additional indebtedness;
- pay dividends to stockholders or purchase stock;
- make investments;
- dispose of assets;
- make capital expenditures;
- create liens on our assets; or

- merge or consolidate.

These covenants may hinder our ability to operate and reduce our profitability, and a breach of any of these covenants or requirements could result in a default under our credit agreement. Specific covenants require us to meet specified monthly, cumulative net income requirements (aggregating $3.5 million for fiscal year 2010 and $1 million for the first quarter of fiscal 2011), and require us to meet, as of fiscal year end, a minimum debt service coverage ratio ((a) the sum of (i) funds from operations (net income plus depreciation and amortization, plus or minus increases or decreases in deferred income taxes and LIFO reserves, plus other non-cash items) plus (ii) interest expense minus (iii) unfinanced capital expenditures minus (iv) dividends and distributions paid during the period, divided by (b) the sum of (i) current maturities of long term debt plus (ii) interest expense) of not less than 1.15 to 1.0. As of June 30, 2009 our debt coverage ratio as calculated under this formula was (8.0) to 1. In addition, our credit agreement permits the lender to modify or reduce the borrowing base. Any modification to reduce our borrowing base 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 new credit

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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 our 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 to us to operate. If it were to accelerate our debt, we would be unable to repay such debt immediately and might not be able to borrow sufficient funds to refinance. Even if new financing is 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 recent operating losses we have incurred significant debt.

During fiscal 2008 and 2009 we incurred significant operating losses, as a result of which we had to borrow significant amounts under our credit facilities in order to have sufficient cash to operate. Accordingly, our debt service requirements are significant and the amount of debt we have incurred may have important consequences, including the following:

- We will have to use a substantial 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 will be adversely affected by increases in prevailing interest rates.

Our profitability is affected by the cost of grain and flour that we use in our business, and the availability and cost of such agricultural products are subject to weather and other factors beyond our control.

Grain and flour costs are a significant portion of our costs of goods sold, and historically the cost of such raw materials is subject to substantial fluctuations depending upon a number of factors which affect commodity prices in general and over which we have no control, including crop conditions, weather, government programs and purchases by foreign governments. These fluctuations can be sudden and volatile at times. As an example, in the fourth quarter of fiscal 2009, the price of a bushel of corn ranged from a low of $3.75 to a high of $4.50. Such variations in costs have had and are expected to have, from time to time, significant adverse effects on the results of our operations, as we are not always able to keep pace proportionately with price increases due to several factors, such as the terms of sales contracts that limit our ability to raise prices, price competition from substitute products and competition from global competitors with different input commodity prices due to subsidies, tariffs, or other unique advantages.

Our hedging strategy may not protect us from changes in prices of commodities.

Formerly, we engaged in the purchase of commodity and natural gas futures and options and in the forward purchases of grain and natural gas to hedge economic risks associated with fluctuating grain and natural gas prices. . We no longer engage in such activities based on expected use of our facilities, and now intend to purchase derivatives and enter contracts for future delivery only to protect margins on contracted alcohol sales and expected ingredients sales. Our cash flow limitations may restrict our ability to engage in such activities. Management will attempt to recover higher commodity costs experienced through higher sales prices, but market considerations may not always permit this, and even where prices can be adjusted there would likely be a lag between when we incurred 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 adjust the prices we charge under sales contracts, we may be adversely impacted by market fluctuations in the cost of grain and natural gas.

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Our profitability is affected by the cost of natural gas.

Natural gas is a significant input cost, and comprised approximately 12 percent of our cost of goods sold in fiscal 2009, 18 percent of our costs of goods sold in fiscal 2008 and 15.4 percent of our cost of goods sold in fiscal 2007. We use natural gas extensively in our operations and the price of natural gas fluctuates, based on anticipated changes in supply and demand, weather and the prices of alternative fuels. During fiscal 2009 for example, the average quarterly price of natural gas fluctuated from a low of $7.05/MCF to a high of $12.89/MCF. Historically, prices of natural gas have been higher in the late fall and winter months than during other annual periods. We are not always able to pass on increases in energy costs to our customers, and margins and profitability have been and could continue to be adversely affected by fluctuations in the price of natural gas.

An interruption of operations at our Atchison facility could negatively affect our business.

Following the cessation of starch operations and the temporary shutdown of distillery operations at our Pekin plant, the bulk of our production activities takes place at our facility in Atchison. At interruption in or the loss of operations at this facility, or a strike by our unionized employees at this location, could delay or postpone production of our products, which could have a material adverse effect on our business, results of operation and financial condition.

Changes in interest rates may affect our profitability.

Approximately $16.8 million of the our debt outstanding at September 4, 2009 was subject to variable interest rates which move in direct relation to either three month LIBOR or three year U.S. treasury rates, depending on the lender. Any significant changes in these rates could materially affect our profitability by increasing our borrowing costs.

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

Over the course of the next few years we may need to make substantial capital expenditures. See Item 1. *Business of the Company - Energy* and *Regulation* and Item 7. *Managements Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Cash Flow Information Investing Cash Flows.* We may require additional long-term financing to meet certain of these requirements, but have not determined the amount, type or source of such financing. We cannot assure you that we will be able to arrange such financing on favorable terms, if at all. We may require the consent of Wells Fargo Bank to incur new debt and also may require the consent of Wells Fargo Bank to make such expenditures. Our new credit facility limits our ability to incur debt and the amount of such expenditures which we can make annually. We cannot assure you that we will be able to obtain such consent.

We are subject to extensive regulation, and compliance with existing or future laws and regulations 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 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 Environmental Protection Agency, and by various state and local authorities. Such regulation covers 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, permit revocation or modification, 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 affect any product recalls. These matters may have a material adverse effect on our business. See Item 1. *Business-Regulation* where we discuss environmental proceedings in which governmental agencies sought fines from us and required significant capital expenditures.

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

We rely on the continued services of key personnel involved in management, 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. A loss of our CEO could result in the acceleration of the debt under our new credit facility. We do not have key personnel life insurance covering any of our employees.

RISKS SPECIFIC TO OUR DISTILLERY PRODUCTS SEGMENT

Volatile corn 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 the profitability of our contracts.

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 ethanol 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 ethanol, which typically, but not always, tracked price fluctuations in gasoline prices. Distillers feed is sold for prices which historically have tracked the price of corn. In fiscal 2009 and 2008, however, the value of these co-products has lagged behind the significant and rapid increase in corn prices. In regard to distillers feed, we believe that in part this resulted from decreased demand in the European Union 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 feedstock whose cost may not have risen as corn prices have risen. As a result, the profitability of these products to us could be affected.

Our cost associated with our Pekin facility may increase.

During fiscal 2009, we determined to reduce our exposure to the fuel grade alcohol markets and temporarily shut down our Pekin plant. We temporarily laid off our employees and have reduced our costs of maintaining the plant to approximately $200,000 monthly. We are presently exploring our strategic alternatives for our Pekin facility, which include reopening it on a joint venture basis to produce fuel and food grade alcohol, reopening on our own or on a joint venture basis to produce food grade alcohol, selling it or continuing to hold it. As noted above under ***Risks that Affect our Business as a Whole We have incurred impairment and restructuring losses and may suffer future such losses*** **, a permanent shutdown could result in significant impairment charges, and, to a lesser degree, restructuring charges. Implementing another strategy could also result in such charges, although likely to a lesser degree, if at all. If we determine to reopen the plant, the longer we wait to do so the more difficulty we will have in rehiring or replacing our skilled workers and the more likely it is that our other start-up costs will increase.**

RISKS SPECIFIC TO OUR INGREDIENT SOLUTIONS SEGMENT

Business Strategy Risks

Our business strategy for our ingredient solutions segment includes focusing our efforts on the production of specialty proteins and starches for sale to targeted domestic consumer packaged goods customers. We have reconfigured our ingredient solutions technology platforms around our customers and the bulk of our research and development is now customer focused. We have narrowed our product lines to drive towards a higher-value product mix. We also intend to explore opportunities for acquisitions and strategic alliances. We may need to incur additional indebtedness (which may be long-term), expend cash or use a combination thereof for all or part of the consideration to make acquisitions or be in future joint ventures, and there can be no assurance that we will have the

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requisite cash flow or access to funding. In this regard, our new credit facility restricts our ability to incur new debt and to make investments.

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

The markets for starches and proteins in which we participate are very competitive. Our principal competitors in these markets have substantial financial, marketing, and other resources. In some product categories, we compete not only with other wheat-based products but also with products derived from other sources. Competition is based on such factors as product innovation, product characteristics, product quality, price, color and name. 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 products for our customers or through new product introductions by our competitors.

RISKS SPECIFIC TO OUR OTHER SEGMENT

Our plant-based biopolymers and wood-based resins may not prove to be profitable.

Plant-based biopolymers and wood- based resins continue to represent an emerging area of our business. While commercialization of these products has begun, they continue to undergo further research and development as we explore additional enhancements to expand their functionality and use capabilities. To date, they have not contributed significant revenues or profit.

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 Cloud L. Cray, Jr., Richard B. Cray and Laidacker M. Seaberg.

If we fail to meet all applicable continued listing requirements of The NASDAQ Global Market and NASDAQ determines to delist our common stock, the market liquidity and market price of our common stock could decline.

Our common stock is listed on the NASDAQ Global Select Market. In order to maintain that listing, we must satisfy minimum financial and other continued listing requirements. For example, NASDAQ rules require that we maintain a minimum bid price of $1.00 per share for our common stock. Our common stock traded below this minimum bid price requirement for the third quarter and portions of the second and fourth quarters of fiscal 2009. Our stock was not affected because NASDAQ suspended this bid price requirement through July 31, 2009, but the requirement is now in effect. If our stock price falls below $1.00 in the future or if in the future we fail to meet other requirements for continued listing on the NASDAQ Global Select Market, our common stock could be delisted from The NASDAQ Global Select Market if we are unable to cure the events of noncompliance in a timely or effective manner. If our common stock were threatened with delisting from The NASDAQ Global Market, we may, depending on the circumstances, seek to extend the period for regaining compliance with NASDAQ listing requirements by moving our common stock to the NASDAQ Capital Market. If our common stock is not eligible for quotation on another market or exchange, trading of our common stock could be conducted in the over-the-

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counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of or to obtain accurate quotations for the price of our common stock, and there would likely also be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We maintain 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 (Corporate)	Leased	18,000	1
	Technical Innovation Center (Ingredient Solutions)	Leased	19,600	1
Kansas City, Kansas	Specialty proteins. (Ingredient Solutions)	Leased	27,400	N/A
Pekin, Illinois	Distillery, warehousing and quality control laboratories (Distillery Products)	Owned	462,926	49
Onaga, Kansas	Production of plant-based polymers and wood composites (Other)	Owned	23,040	3

Our facilities are generally in good operating condition, and are generally suitable for the business activity conducted therein and have productive capacities sufficient to maintain prior levels of production. Our Pekin facility presently is shut-down. We formerly owned an 83,200 square foot facility in Kansas City, Kansas, but sold it on August 21, 2009. We are now leasing a portion of that facility for three years. We have equipment used for the production of our Wheatex® line of products at this location which is operated by a third party under a toll manufacturing agreement with us. All of our other production facilities are owned, and all of our owned properties are subject to mortgages in favor of one or more of our various lenders. The executive offices and technical innovation center in Atchison are leased from the City of Atchison, pursuant to an industrial revenue bond financing. Our leasehold interest in these properties is subject to a leasehold mortgage. We also own or lease transportation equipment and facilities and a gas pipeline described under *Business Transportation and Energy*. Our loan agreements contain covenants that limit our ability to pledge our facilities to others.

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ITEM 3. LEGAL PROCEEDINGS

From September 16, 2008 until February 11, 2009, tests on our feed drying unit indicated that it was not in compliance with the volatile organic compound emission limit established in the Consent Agreement and Final Order (CAFO) entered into with the Kansas Department of Health and Environment (KDHE) on January 11, 2006. Official compliance testing in February 2009 demonstrated the unit to be in compliance. The KDHE has discretion under its penalty policy to pursue an enforcement action against the Company for failing to comply with the emission limit. Management has provided regular updates to the KDHE on efforts to bring the unit into compliance with the permit. Although no formal action has been taken, KDHE has advised management that a penalty is likely for this violation. We are unable to predict the magnitude of any penalty that KDHE may ultimately assess against us; however, representatives of KDHE have indicated that the penalty would be reasonable .

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters have been submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

Our Executive Officers are as follows:

Name	Age	Position
Timothy W. Newkirk	*41*	President and Chief Executive Officer
Donald G. Coffey, Ph.D.	*54*	Executive Vice President, Sales and Marketing
Clodualdo Ody Maningat, Ph.D.	*54*	Vice President, Application Technology and Technical Services
Marta L. Myers	*49*	Corporate Secretary and Executive Assistant to the President
Steven J. Pickman	*56*	Vice President, Corporate Relations and Marketing Services
David E. Rindom	*54*	Vice President, Human Resources
Randy M. Schrick	*59*	Vice President, Engineering

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, an ethanol production company located in Wichita, Kansas. He became Vice President of Global Operations for Abengoa Bioenergy S.L. following that company s acquisition of

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High Plains in January, 2002. He then served as Chief Operating Officer of Abengoa Bioenergy Corporation from August, 2003 until his return to MGP Ingredients as Director of Operations in 2005.

Dr. Coffey has served as Executive Vice President 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.

Dr. Maningat joined the Company in 1986. 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.

Ms. Myers joined the Company in 1996. She has served as Secretary since October 1996 and as Executive Assistant to the President since 1999. Previously, she was executive secretary for Superintendent of Schools for Unified School District 409, Atchison, Kansas.

Mr. Pickman joined the Company in 1985. He has served as Vice President, Corporate Relations and Marketing Services since June 2000. Previously he was Executive Director of Corporate Relations from 1999 to June 2000 and prior to that Corporate Director of Public and Investor Relations. Between 1985 and 1989 he served as the Director of Public Relations and Marketing Administration for the Company s former subsidiary, McCormick Distilling Company, Weston, Missouri.

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.

Mr. Schrick joined the Company in 1973. He has served as Vice President of Engineering since June 2009 and, prior to that, also served as Corporate Director of Distillery Products Manufacturing since June, 2008. He previously was Vice President, Manufacturing and Engineering since July 2002. 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. Prior to 1982, he was Production Manager at the Atchison plant. He was a Director of the Company from 1987 to 2008.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDERS MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

TRADING MARKET

Our Common Stock is traded on the NASDAQ Global Select Market. Our trading symbol is MGPI.

HISTORICAL STOCK PRICES

The table below reflects the high and low closing prices of our Common Stock for each quarter of fiscal 2009 and 2008:

	Sales Price	
	High	Low
2009		
First Quarter	$ 6.35	$ 2.84
Second Quarter	2.91	0.60
Third Quarter	0.96	0.50
Fourth Quarter	3.10	0.80
2008:		
First Quarter	$ 18.10	$ 10.13
Second Quarter	10.30	6.13
Third Quarter	10.28	6.16
Fourth Quarter	8.10	5.80

Our new credit facility with Wells Fargo Bank, National Association restricts our ability to pay cash dividends or make other distributions with respect to our stock. We may pay dividends only if (i) no default under the Credit Agreement has occurred or would occur as a result of the dividend, (ii) we have had Average Excess Availability of not less than $10,000 for the 60 day period prior to such dividend, (iii) after giving effect to such dividend, we have Average Excess Availability of not less than $5,000 and (iv) on the date of such dividend, we have no accounts payable which remain unpaid more than thirty (30) days after the invoice date. Average Excess Availability generally means, as of any date of determination by lender, the average of the amount available for borrowing under the new credit facility, assuming, for purposes of calculation, that all accounts payable which remain unpaid more than sixty (60) days after the invoice date thereof as the close of business on such date are treated as additional advances outstanding on such date.

We paid an annual cash dividend of $0.20 per share in October 2006 and semi-annual cash dividends of $0.10 per share in April 2007, $0.15 per share in October 2007 and $0.10 per share in April 2008. After we are free of restrictions in our credit agreement, any dividends will be paid at the discretion of the Board of Directors, which will consider various factors, including our operating results and cash requirements, in making

any decision respecting dividends.

RECORD HOLDERS

At August 31, 2009, there were approximately 693 holders of record of our Common Stock. We believe that the Common Stock is held by approximately 5,443 beneficial owners.

PURCHASES OF EQUITY SECURITIES BY ISSUER

We did not repurchase any shares of our stock during the three months ended June 30, 2009.

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ITEM 6. SELECTED FINANCIAL DATA ***(Dollars in thousands unless otherwise noted)***

Fiscal Year (1) (2) (3)	2009	2008	2007	2006	2005
Income Statement Data:					
Net sales	**$ 275,976**	$ 392,893	$ 367,994	$ 322,477	$ 275,177
Total cost of sales	**310,078**	388,662	320,721	276,498	249,449
Gross profit	**(34,102)**	4,231	47,273	45,979	25,728
Selling, general and administrative expenses	**21,401**	24,235	20,319	23,811	19,318
Other operating costs	**4,694**				
Write-off of assets		1,546			
Impairment of long-lived assets	**10,282**	8,100			
Severance and early retirement costs	**3,288**				
Other restructuring costs	**5,241**				
Income (loss) from operations	**(79,008)**	(29,650)	26,954	22,168	6,410
Other income, net	**112**	515	1,490	137	890
Gain on settlement of litigation, net of related expenses		7,046			
Interest expense	**(2,901)**	(1,490)	(964)	(1,482)	(1,393)
Equity in loss of unconsolidated subsidiary	**(114)**	(14)			
Income (loss) before income taxes	**(81,911)**	(23,593)	27,480	20,823	5,907
Provision (benefit) for income taxes	**(12,788)**	(11,851)	9,914	6,963	2,047
Net income (loss)	**$ (69,123)**	$ (11,742)	$ 17,566	$ 13,860	$ 3,860
Basic earnings per common share	**$ (4.17)**	$ (0.71)	$ 1.07	$ 0.86	$ 0.24
Cash dividends per common share	**$**	$ 0.25	$ 0.30	$ 0.15	$ 0.15
Weighted average basic common shares outstanding	**16,585**	16,531	16,428	16,106	15,975
Balance Sheet Data:					
Working capital(4)	**$ 31,242**	$ 51,127	$ 53,371	$ 51,063	$ 48,043
Total assets(4)	**145,132**	223,068	221,121	202,594	188,837
Long-term debt, less current maturities	**3,877**	1,301	8,940	12,355	16,785
Stockholders equity(4)	**63,884**	136,874	154,778	136,099	120,669
Book value per share	**$ 3.85**	$ 8.28	$ 9.38	$ 8.25	$ 7.32

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(1) Fiscal years 2005 and 2006 started on July 1 and ended on June 30. On June 8, 2006 the Board of Directors amended the Company s Bylaws to effect a change in the fiscal year from a fiscal year ending

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June 30 to a 52/53 week fiscal year. As a result of this change, fiscal 2007 ended on July 1, 2007. On March 6, 2008, the Board of Directors amended the Company s bylaws to effect a change in the fiscal year so that it would again end on June 30 each year.

(2) **Amounts for the fiscal year 2008 include a write-off of assets of $1,546, a write-down of inventory of $1,300 and a loss on the impairment of assets of $8,100, partially offset by a gain on the settlement of litigation of $7,000 and the removal of a $3,000 state tax valuation allowance ($2,000 net of taxes). For further discussion, see Notes 8, 9 and10 in *Notes to Consolidated Financial Statements* set forth in Item 8, and Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations Fiscal 2008 Compared to Fiscal 2007 Cost of Sales.***

(3) **Amounts for the fiscal year 2009 include a non-cash loss on the impairment of assets of $10,282, severance and early retirement costs of $3,288, other restructuring costs of $5,241 and other operating costs related to our currently closed Pekin, Illinois plant of $4,694. For further discussion, see Notes 9 and 10in *Notes to Consolidated Financial Statements* set forth in Item 8, and Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations Fiscal 2009 Compared to Fiscal 2008 Cost of Sales.***

(4) **Amounts for working capital, total assets, stockholders equity and book value per share for fiscal years 2008, 2007, 2006 and 2005 have been restated to reflect a reclassification of deferred credit from current liabilities to non-current liabilities. Deferred tax assets related to this credit have likewise been reclassified from current to non-current. Additionally, amounts for share-based compensation have been reclassified from non-current liabilities to additional paid in capital for the same years. For additional discussion, see Note 1 in *Notes to Consolidated Financial Statements* set forth in Item 8.**

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands unless otherwise noted)

GENERAL

We are a fully integrated producer of certain ingredients and distillery products and have three reportable segments, an ingredient solutions segment, a distillery products segment and an other segment. As described herein, we have made significant changes to our operations since June 30, 2008. In order to improve our operations, we have refocused our business on the production of value added ingredients and distillery products. We have realigned our production efforts and taken steps to reduce excess inventories. We have closed our flour mill in Atchison, ceased commodity starch and gluten production at our Pekin plant and taken steps to exit the personal care market and substantially reduce our emphasis on fuel grade alcohol. We also have temporarily ceased production of food grade alcohol at our Pekin plant. Most recently, we have sold our Kansas City, Kansas facility and related pet treat resin business. As a result of these actions, we will only produce minimal quantities of fuel grade alcohol as a by-product and will no longer sell mill feeds, we expect our production of distiller s grain to decline and we generally anticipate that revenues in future periods will be lower than historic levels. We expect to see improved profitability because of these steps. We incurred significant costs to implement these initiatives. During the year ended June 30, 2009, we have incurred impairment and restructuring

costs, aggregating $26,453. Products remaining within the ingredient solutions segment consist of starches, including specialty wheat starch and commodity wheat starch, and proteins, including specialty wheat proteins and commodity wheat gluten. Commodity wheat starch and commodity wheat gluten are being produced on a limited basis consistent with our new focus on the production of value added ingredients and distillery products. Distillery products consist of food grade alcohol, including beverage alcohol and industrial alcohol, and distiller s feed, which is a co-product of our distillery operations. Fuel grade alcohol, commonly known as ethanol, also will be produced solely as a co-product of food grade alcohol. Products in our other segment consist of plant-based resins and biopolymers and wood composites.

Our principal raw materials are corn and flour. Flour is processed into all of our products, and corn is processed into alcohol and animal feed. The cost of raw materials is subject to substantial fluctuations depending upon a number of factors which affect commodity prices in general, including crop conditions, weather, government

programs and purchases by foreign governments. During fiscal 2008 and 2009, market prices for grain increased substantially. The average price for a bushel of corn that we paid in fiscal 2008 increased by 38%, followed by a 9.1% percent increase in fiscal 2009. The average price that we paid per bushel for wheat in fiscal 2008 was approximately 68% higher than fiscal 2007, and until we entered into our flour supply agreement with ConAgra Mills in November 2008 increased 37.0% on average during the first four months of fiscal 2009 compared to the first four months of fiscal 2008. Prices for corn and wheat sometimes spiked higher than the average for the year. Our cost of flour continued to be impacted by wheat prices after November, as the monthly average price per bushel of wheat increased 11.5% from November 2009 to June 2009. Such variations in prices have had from time to time significant adverse effects on the results of our operations, as we are not always able to keep pace proportionately with price increases due to several factors, such as the terms of supply agreements that limited our ability to raise prices, price competition from substitute products and competition from global competitors with different input commodity prices due to subsidies, tariffs, or other unique advantages. We believe our focus on value-added products will reduce our risk to such price variations as larger profit margins related to such products can absorb higher levels of raw material volatility and as we may more readily seek adjustable price terms in contracts for such products.

In an attempt to minimize the effects of the volatility of raw material costs on operating profits, historically we have taken hedging positions by entering into contracts for future delivery or readily marketable exchange-traded commodity futures and option contracts to reduce the risk of future grain price increases. We also hedged the purchase price of natural gas used in the distilling process. We based the positions we took on anticipated production levels. The effectiveness of such hedging activities was dependent upon, among other things, the cost of corn, wheat and natural gas, as well as our ability to sell sufficient amounts of products to utilize all of the grain subject to futures contracts. We have changed our risk management program, and going forward intend to engage in more limited hedging activities and only purchase derivatives or enter contracts for future delivery in order to protect margins on contracted alcohol sales or expected ingredients sales. To the extent we do not enter such contracts and are also unable to timely adjust the prices we charge under sales contracts, we may be adversely impacted by market fluctuations in the cost of grain and natural gas. However, we believe our new program has less risk than our prior program.

We elected to discontinue the use of hedge accounting for all commodity derivative positions effective April 1, 2008. Since April 1, 2008, we have recorded all changes in the value of derivatives in cost of sales in our Consolidated Statements of Income. See *Critical Accounting Policies* below.

Energy comprises a major cost of operations, and seasonal increases in natural gas and other utility costs can affect our profitability. Except for fiscal 2007, in each fiscal year since fiscal 2002, energy costs have been higher than in the previous fiscal year. We sometimes try to protect ourselves from increased energy costs by entering contracts for future delivery. In fiscal 2009, we suffered $7,642 in losses from such a contract when we no longer required the gas that we contracted for following our decision to temporarily shut down our Pekin plant.

Substantially all of our sales are made directly or through distributors to manufacturers and processors of finished goods. 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. Sales of fuel grade ethanol 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 quarterly or six month periods, with very few agreements of twelve months duration or more.

We have benefited from a United States Department of Agriculture program in effect from June 1, 2001 to May 31, 2003 to support the development and production of value-added wheat proteins and starches. Current and prior period results reflect the recognition of revenue from this grant. See *Critical Accounting Policies-USDA Grant*.

As noted, we have determined to reduce our focus on the production of fuel grade alcohol and presently only produce the minimum amount (estimated at 2 million gallons annually) of fuel grade alcohol that is produced as a co-product of our food grade alcohol at our Atchison distillery. We are presently exploring our strategic alternatives for our Pekin facility, which include reopening it on a joint venture basis to produce fuel and food grade alcohol, reopening on our own or on a joint venture basis to produce food grade alcohol, selling it or continuing to

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hold it. We do not intend to pursue alternatives that significantly expose us to the risks of the fuel grade alcohol market.

CRITICAL ACCOUNTING POLICIES

In preparing financial statements, management must make estimates and judgments that affect the carrying values of our assets and liabilities as well as recognition of revenue and expenses. Management s estimates and judgments are based on our historical experience and management s knowledge and understanding of current facts and circumstances. The policies discussed below are considered by management to be critical to an understanding of our financial statements. The application of certain of these policies places significant demands on management s judgment, with financial reporting results relying on estimations about the effects of matters that are inherently uncertain. For all of these policies, management cautions that future events rarely develop as forecast, and estimates routinely require adjustment and may require material adjustment.

Hedging Activities. From time to time, we have entered into readily marketable exchange-traded commodity futures and option contracts to reduce the risk of future grain price increases. We have changed our risk management program, and going forward intend to only hedge to protect our anticipated margin in contracted alcohol sales and expected ingredients sales. Derivative instruments related to our hedging program are recorded as either assets or liabilities and are measured at fair market value. Consistent with application of hedge accounting under Statement of Financial Accounting Standards No. 133 as amended (SFAS 133), prior to April 1, 2008 changes in the fair market value of the derivative instruments designated as cash flow hedges were recorded either in current earnings or in other comprehensive income, depending on the nature of the hedged transaction. Gains or losses recorded in other comprehensive income were reclassified into current earnings in the periods in which the hedged items were consumed. Any ineffective portion of a hedged transaction was immediately recognized in current earnings.

We elected to discontinue the use of hedge accounting for all commodity derivative positions effective April 1, 2008. Accordingly, changes in the value of derivatives subsequent to March 31, 2008 have been recorded in cost of sales in our Consolidated Statements of Income. Additionally, derivative instruments entered into subsequent to March 31, 2008 have not been designated as hedges. The change in the market value of these instruments also has been recorded in cost of sales in our Consolidated Statements of Income. Regardless of accounting treatment, we believe all commodity hedges are economic hedges.

USDA Grant. As discussed in *Note 1 to the Notes to Consolidated Financial Statements*, we received a grant from the United States Department of Agriculture Commodity Credit Corporation totaling approximately $25,600 over the two-year period June 1, 2001 to May 31, 2003. The funds were awarded for research, marketing, promotional and capital costs related to value-added wheat gluten and starch products. Of the amount awarded, we allocated approximately $8,100 to operating costs and $17,500 to capital expenditures. Management has exercised judgment in applying grant proceeds to operating costs and capital expenditures in accordance with the terms of the grant. Funds applied to current operating costs were considered revenue as those costs were incurred during fiscal years 2002 and 2003. Funds applied to capital expenditures are being recognized in income over the periods during which applicable projects are depreciated. Substantially all of the funds applied to capital expenditures will be recognized in this

manner over approximately the next three to four years.

Impairment of Long-Lived Assets. We review long-lived assets, mainly equipment, 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 the 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. We have recognized a non-cash impairment loss of $10,282 and $8,100 during the years ended June 30, 2009 and 2008, respectively. We may incur further impairment losses with respect to these assets if the assumptions that we made when we performed our analysis prove to be incorrect or if we determine that we need to change our assumptions. Further, we have experienced operating losses in both our ingredient solutions and distillery products segment in each of the last two fiscal years. If high commodity prices or other factors result in continuing losses in either of these segments beyond our expectations, we may incur additional impairment losses related to those segments. Further, if we permanently close

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our Pekin facility and are unable to sell it, or if we sell our Pekin facility for less than its carrying value or are unable to reopen or implement some other strategic option with respect to our facility on a timely basis, we may incur impairment and other charges with respect to that facility.

Defined Benefit Retirement Plan. We sponsor two funded, noncontributory qualified Defined Benefit Retirement Plans that cover substantially all our union employees. The benefits under these plans are based upon years of qualified credited service. Our funding policy is to contribute annually not less than the regulatory minimum and not more than the regulatory maximum amount deductible for income tax purposes. The measurement and valuation date of the plans is June 30 of each year. We make various assumptions in valuing the liabilities and benefits under the plan each year. We consider the rates of return on long-term, high-quality fixed income investments using the Citigroup Pension Liability Index as of June 30, 2009. Assumptions regarding employee and retiree life expectancy are based upon the RP 2000 Combined Mortality Table.

Other Post-Retirement Benefits. We also provide certain other post retirement health care and life insurance benefits to certain retired employees. Currently, the plan covers approximately 363 participants, both active and retired. We fund the post retirement benefit plans on a pay-as-you-go basis and there are no assets that have been segregated and restricted to provide for post retirement benefits. We pay claims as they are submitted for the medical plan. We provide varied levels of benefits to participants depending upon the date of retirement and the location in which the employee worked. The retiree medical and life plans are available to employees who have attained the age of 62 and rendered the required five years of service. All health benefit plans provide company-paid continuation of the active medical plan until the retiree reaches age 65. At age 65, we pay a lump sum advance premium on behalf of the retiree to the MediGap carrier of the retiree s choice. The employee retirement date determines which level of benefits is provided.

Prior to the fiscal year ended June 30, 2008, the plan measurement and valuation date was May 31 of each year. Beginning with the fiscal year ended June 30, 2008, we changed the plan measurement and valuation date to June 30. In accordance with Statement on Financial Accounting Standard No. 158 *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (as amended)* (SFAS 158), we have made a $60 adjustment to retained earnings to reflect the adjustment related to adoption of the new measurement date. We make various assumptions in valuing the liabilities and benefits under the plan each year. We consider the rates of return on currently available, high-quality fixed income investments, using the Citigroup Pension Liability Index as of June 30. (Long term rates of return are not considered because the plan has no assets.) For fiscal 2009, the accumulated post retirement benefit obligation (APBO) increased to $8,799 from $7,697 for fiscal 2008. Assumptions regarding employee and retiree life expectancy are based upon the RP 2000 Combined Mortality Table. We also consider the effects of expected long term trends in health care costs, which are based upon actual claims experience and other environmental and market factors impacting the cost of health care in the short and long-term.

Other Significant Accounting Policies. Other significant accounting policies, not involving the same level of measurement uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. These policies require difficult judgments on complex matters that are often subject to multiple sources of authoritative guidance. See *Note 1* in *Notes to Consolidated Financial Statements* set forth in Item 8 for other significant accounting policies.

CHANGES IN SEGMENT REPORTING

For the year ended June 30, 2009, we refined our methodology for assessing identifiable earnings (losses) before income taxes for all segments whereby only direct selling, general and administrative costs are allocated to operating segments. Previously, we had allocated substantially all selling, general and administrative expenses to each operating segment based upon numerous factors and attributes. All selling, general and administrative expenses not directly attributable to operating segments have been restated within Corporate income (loss) before taxes for the years ended June 30, 2008 and July 1, 2007. Accordingly, amounts previously disclosed as earnings (loss) before income taxes for these periods have been adjusted to reflect these changes.

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DEVELOPMENTS IN THE INGREDIENT SOLUTIONS SEGMENT

In order to become more efficient and effective and to improve our results, we have refocused our business on the production of our value-added products. We believe the steps we have taken will help enable the Company to return to profitability, be more competitive, and have allowed the Company to obtain financing that will enable the Company to maintain operations.

Among the more important reasons for the decision to re-focus our ingredients solutions business are the following:

- We had underutilized ingredients solutions segment facilities at both of our Pekin, Illinois and Atchison, Kansas production facilities, and our commodity ingredients business had experienced continuing losses.

- We could no longer produce flour for our own use at costs that were competitive with those of third party producers.

We have substantially exited the commodity wheat gluten business and have curtailed our commodity starch production. By closing protein and starch production at Pekin, we have reduced the volume of our ingredient solutions business by approximately 44 percent, in terms of annualized sales, based on a comparison of fourth quarter fiscal 2009 sales to fiscal 2008 sales. Substantially all this decrease in fiscal 2009 relates to our lower margin protein products. We continue to focus our manufacturing efforts on improving our consistency and capabilities for producing our specialty product lines. For the year ended June 30, 2009, we have improved our starch recovery percentage in our Atchison facility from approximately 44 percent to 49 percent, which should result in improved margins on both commodity and specialty starches in future periods.

Other developments during the year ended June 30, 2009 included the following:

- We exited the personal care line of products after fulfilling all obligations with respect to our personal care customers, completing all production and liquidating all remaining inventory.

- We have implemented an on-line Customer Relationship Management (CRM) solution 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 food companies in the U.S.

DEVELOPMENTS IN THE DISTILLERY PRODUCTS SEGMENT

As previously mentioned in *Developments in the Ingredient Solutions Segment*, in order to become more efficient and effective and to improve our results, we have decided to refocus our business on the production of our value added products. With respect to our Distillery Products Segment, among the more important reasons for the decision to re-focus the business are the following:

- Market economics for fuel grade alcohol have continued to erode, and recent prices have been at or below production cost.

- Incremental ethanol production decisions have been made difficult by continued volatility in corn and ethanol prices.

- With current ethanol industry capacity in excess of federal mandates, it does not seem likely that there will be a return to equilibrium in the ethanol markets in the short term.

We determined to reduce production of fuel grade alcohol and determined to temporarily shut down our Pekin plant. We do not expect the shutdown of Pekin to affect our food grade alcohol customers as we are continuing to optimize food grade alcohol production capabilities at Atchison. During the years ended June 30, 2009, 2008 and July 1, 2007, we estimate that our fuel grade alcohol sales accounted for approximately 17.2 percent,

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33.8 percent and 55.8 percent of our distillery segment revenues. Historically, we have produced substantially all of our food grade alcohol at Atchison and substantially all of our fuel grade alcohol at Pekin.

DEVELOPMENTS IN THE OTHER SEGMENT

At the end of the third quarter of fiscal 2008, we concluded that our pet business assets in the other segment and certain of our ingredient solutions segment assets in a mixed use facility in Kansas City, Kansas at which the Company s pet treat resins are made were impaired. At that time, we recorded an impairment charge of $8,100. During the quarter ended December 31, 2008, based on a recent appraisal, we performed another test for impairment on this equipment, resulting in a further charge of $811. During the quarter ended June 30, 2009, based upon final negotiations with our buyer, we recorded a final impairment charge of $1,351.

At the end of the fiscal year ended June 30, 2008, the Company s management evaluated strategic alternatives with respect to the mixed use facility and committed to a plan to sell the assets at this facility. Buildings and equipment with an adjusted cost basis of $5,600 were reported as current assets as Assets held for sale on the Company s consolidated balance sheet as of June 30, 2008. During the year ended June 30, 2009, after evaluating new strategic alternatives with respect to our Kansas City Kansas facility, we concluded that certain assets related to the production of our Wheatex® line of special proteins would be retained. Accordingly, assets consisting of manufacturing equipment with a net book value of $2,015 previously reported as current assets in Assets held for sale , were reclassified to non-current assets as Property and equipment, at cost and Less: accumulated depreciation.

On August 21, 2009, we sold our Kansas City, Kansas, facility to Sergeant s Pet Care Products, Inc. for an initial payment of $3,585, with potential additional payments over the next three years based on Sergeant s income from sales of our existing products to our existing customers during that period. Such payments will be 40% of Sergeant s pet treat income (as defined) in the first year after closing, declining to 10% of such pet treat income in the third year. The sale to Sergeant s includes all equipment used for the production and packaging of pet-related products, which principally include extruded plant-based resins and finished pet treats. We will retain ownership of equipment that is used for the production of our Wheatex® textured wheat proteins, which are sold for use in meat extension and vegetarian product applications. This equipment is located in a separate section of the facility that will be leased to us and will be operated by a subsidiary of Sergeants for a period of three years under a toll manufacturing arrangement.

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SEGMENT RESULTS

The following is a summary of revenues and pre-tax income (loss) allocated to each reportable operating segment for the three fiscal years ended June 30, 2009, June 30, 2008 and July 1, 2007 (See *Note13* in our *Notes to Consolidated Financial Statements* in Item 8 for additional information regarding our operating segments.)

(dollars in thousands)	2009	2008	2007
Ingredient Solutions			
Net Sales	**$ 80,133**	$ 100,994	$ 67,791
Pre-Tax Income (Loss)	**(6,720)**	(7,554)	(252)
Distillery Products			
Net Sales	**190,862**	285,738	294,393
Pre-Tax Income (Loss)	**(24,367)**	10,501	45,687
Other			
Net Sales	**4,981**	6,161	5,810
Pre-Tax Income (Loss)	**40**	(3,641)	(2,371)

(i) Non-direct selling, general and administrative, interest expense, investment income and other general miscellaneous expenses are classified as corporate. In addition, we do not assign or allocate special charges to the Company s operating segments. For purposes of comparative analysis, the gain on the settlement of litigation, loss on impairment of long-lived assets, severance and early retirement costs, other restructuring costs, loss on natural gas contract and the write-off of assets recognized for the years ended June 30, 2009 and 2008 have been excluded from our segments.

The following table is a reconciliation between pre-tax income by segment and net income

	2009	2008	2007
Income (loss) before income taxes			
Ingredient solutions	**$ (6,720)**	$ (7,554)	$ (242)
Distillery products	**(24,367)**	10,501	45,687
Other	**40**	(3,641)	(2,371)
Corporate	**(24,411)**	(20,299)	(15,594)
Gain on settlement on litigation(1)		7,046	
Impairment of long-lived assets(1)	**(10,282)**	(8,100)	
Severance and early retirement costs(1)	**(3,288)**		
Other restructuring costs(1)	**(5,241)**		
Unrealized loss on natural gas contract(1)	**(7,642)**		
Write-off of fixed assets(1)		(1,546)	
Total income (loss) before income taxes	**(81,911)**	(23,593)	27,480
Provision (benefit) for income taxes	**(12,788)**	(11,851)	9,914
Net income (loss)	**$ (69,123)**	$ (11,742)	$ 17,566

FISCAL 2009 COMPARED TO FISCAL 2008

GENERAL

Consolidated net losses for the year ended June 30, 2009 increased compared to the year ended June 30, 2008 with a net loss of $69,123 on consolidated sales of $275,976 versus a net loss of $11,742 on consolidated sales

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of $392,893 for the year ended June 30, 2008. Restructuring costs related to the impairment of long lived assets, severance and other restructuring of $10,282, $3,288 and $5,241, respectively, were incurred in fiscal 2009. Additionally, we incurred $7,642 in losses on a natural gas contract for our Pekin, Illinois production facility. Cost of sales was impacted primarily by the positive impact of the discontinuation of production of certain commodity ingredient products at our Pekin plant as well as the discontinuation of the production of fuel grade alcohol due to unfavorable market conditions, partially offset by higher grain costs. During the year ended June 30, 2008, we realized a gain on the settlement of litigation, net of related expenses of $7,046. No such gain was realized during fiscal 2009,

INGREDIENT SOLUTIONS

Total ingredient solutions sales revenue for the year ended June 30, 2009 decreased by $20,861, or 20.7 percent, compared to the year ended June 30, 2008. Revenues for specialty ingredients increased during this period $1,398, or 2.4 percent. Revenues for specialty starches increased as a result of improved pricing, partially offset by reduced unit sales. Revenues for specialty proteins decreased as a result of lower unit sales partially offset by improved per unit prices. Revenues for commodity vital wheat gluten for the year ended June 30, 2009 decreased by $17,715, or 56.4 percent, primarily as a result of reduced sales volume resulting from our decision to focus on value-added specialty products rather than commodity products. Revenues for commodity starch increased $984, or 27.1 percent, as a result of improved sales volume related to inventory reductions of commodity starch consistent with our strategy of focusing on value added starch and protein products as well as improved pricing. Margins continued to be significantly impacted by increased cost of sales related to increased wheat prices. As noted above in *Developments in the Ingredient Solutions Segment*, beginning in the quarter ended December 31, 2008, we entered into a supply contract for flour with ConAgra Mills whereby they are supplying our wheat flour requirements for use in the production of protein and starch ingredients. As a result, we no longer purchase wheat directly. However, the price we pay ConAgra for flour is a function of the per-bushel cost of wheat and, accordingly, wheat prices continue to directly impact the cost of raw materials for our ingredient solutions segment.

DISTILLERY PRODUCTS

Total distillery products sales revenue for the year ended June 30, 2009 decreased $94,876, or 33.2 percent, compared to the year ended June 30, 2008. This decrease was due primarily to reduced revenues for fuel grade alcohol of $84,553, or 64.1 percent, as a result of our planned reduction of fuel grade alcohol related to poor market conditions. Distillery products revenue was also adversely impacted by lower revenues from distiller s grain . Due to reduced volumes resulting from planned reductions of fuel grade alcohol, less distiller s grain is being produced, resulting in lower distiller s grain sales and revenues. This decrease in fuel alcohol and distiller s grain revenue was partially offset by increased revenues related to food grade alcohol of $2,161, or 1.9 percent, over the year ended June 30, 2008. Increases in revenue for food grade alcohol were attributable to improved pricing partially offset by reduced volume. For the year ended June 30, 2009, margins were impacted by increased cost of sales related to increased corn prices compared to the year ended June 30, 2008. For the year ended June 30, 2009, the per-bushel cost of corn, before adjustments for the impact of our hedging practices, averaged nearly 9.1 percent higher than the year ended June 30, 2008.

OTHER PRODUCTS

For the year ended June 30, 2009, revenues for other products decreased $1,180, or 19.2 percent as a result of reduced revenues for pet products related to reduced unit sales. Revenues for plant-based biopolymer products for the year ended June 30, 2009 increased $166 as a result of increased unit sales partially offset by reduced per unit pricing.

SALES

Net sales for the year ended June 30, 2009 decreased $116,917, or 29.76 percent, compared to the year ended June 30, 2008 as a result of decreased sales in all segments. For the year ended June 30, 2009, decreased revenues in the Ingredient solutions segment were related to reduced revenues for vital wheat gluten and, to a lesser degree, specialty proteins. Vital wheat gluten revenues declined as a result of our planned reduction referred to under Development in Ingredient Solutions Segment. Both commodity starch and specialty starch revenues

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increased as a result of increased sales volumes as well as improved per unit pricing. Decreased revenues for mill feeds of $5,527 resulted from the cessation of sales of mill feeds as a result of the discontinuation of flour mill operations in Atchison. Decreased sales in the distillery products segment were primarily related to reductions in production and sales of fuel grade alcohol of $84,553 and good grade beverage alcohol of $1,103, partially offset by increased sales of food grade industrial alcohol of $3,264. Revenues for industrial alcohol increased as a result of improved per unit pricing partially offset by decreased sales volume.

COST OF SALES

For the year ended June 30, 2009, cost of sales decreased $78,584, or 20.2 percent, while sales decreased 29.8 percent compared to the year ended June 30, 2008. This decrease in cost of sales was primarily the result of the reduced production and sales of fuel grade alcohol and vital wheat gluten. These factors, which served to reduce cost of sales overall, were partially offset by the impact of higher corn and natural gas costs as well as increased costs of other inputs used in the manufacturing process. Our higher corn costs were directly the result of higher corn prices experienced during the year ended June 30, 2009 compared to prior years. For the year ended June 30, 2009, the per-bushel cost of corn, adjusted for the impact of mark to market adjustments on related derivative instruments, was 32.6 percent higher than the year ended June 30, 2008 (the actual price for corn, unadjusted for the effects of hedging, increased 9.1 percent). For the year ended June 30, 2009, the per million cubic feet (mcf) cost of natural gas averaged nearly 17.2 percent higher than the year ended June 30, 2008. Beginning in the quarter ended December 31, 2008, we ceased purchasing and processing wheat into flour in favor of directly purchasing flour at a lower cost than for what we could manufacture.

With the changes effected at our Pekin plant, commitments for the purchase of natural gas through the remainder of the year ended June 30, 2009 under a single contract for our Pekin plant were in excess of projected consumption. Accordingly, we settled such commitments for the difference between the prices to which we committed to and the market price of natural gas upon settlement. We have recorded a charge of $7,642 for the year ended June 30, 2009 to cost of sales for losses realized upon settlement of this contract.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended June 30, 2009 decreased $2,834, or 11.7 percent, compared to the year ended June 30, 2008. These decreases were primarily the result of changes we made within the organization during the quarter ended December 31, 2008 and referred to in *Developments in the Ingredient Solutions Segment* and *Developments in the Distillery Products Segment* resulting in lower administrative headcount and related costs. These factors, which served to decrease selling, general and administrative expenses, were partially offset by increased expenses associated with maintaining our line of credit (including a commitment fee of $458), increases in other professional fees and increased compensation expenses related to an expansion of our sales force related to our increased focus on the production and sale of specialty value-added ingredients.

OTHER OPERATING COSTS

Other operating costs of $4,694 were incurred for the year ended June 30, 2009. These costs primarily relate to charges for maintaining facilities while idled.

IMPAIRMENT: LONG LIVED ASSETS

In response to the losses incurred during the first quarter of fiscal 2009, we took actions since the end of the first quarter in an effort to return to profitability. These actions included significant changes to operations.

Ingredient Solutions Segment. On October 20, 2008 we announced that we had signed a non-binding letter of intent to acquire our flour requirements from a third party, were ceasing operations at our flour mill in Atchison, Kansas and were reducing our workforce by approximately 44 persons. The workforce reduction consisted of a combination of temporary lay-offs and early retirement offers. On November 6, we announced that the anticipated supply contract for flour had been signed, and the layoffs became permanent. Our decision to close our flour mill was due to the fact that we could no longer produce flour for our own use at costs that are competitive with those of

third party producers. As a result of this action, we performed an impairment analysis and recorded a $2,831 non-cash impairment charge in the Condensed Consolidated Statements in the second quarter related to the flour mill assets.

On November 5, we announced plans to significantly reduce production of commodity wheat proteins and starches by ceasing protein and starch production operations at our Pekin, Illinois plant, effective November 12, 2008. The majority of the Pekin facility s protein and starch production consisted of gluten and commodity starches. The action resulted in an additional work force reduction of approximately 80 persons, consisting of a combination of lay-offs and early retirement offers. As a result of the shutdown, we performed an impairment analysis and in the second quarter recorded a $4,960 non-cash impairment charge in the Condensed Consolidated Statements related to the Pekin protein and starch assets. On January 29, 2009, we determined to cease the manufacture and sale of personal care ingredients products at our Atchison facility. We have completed the exit of the personal care line of products after fulfilling all obligations with respect to our personal care customers, completing all production and liquidating all remaining inventory. As a result of this action, in the second quarter we incurred a non-cash impairment charge of $329 in the Condensed Consolidated Statements related to the write down of equipment used in the production of personal care products.

In measuring for impairment of assets at our flour mill and our Pekin facility s protein and starch production facility, management assumed no sales or other disposition but instead adjusted net values of these assets to zero as no further cash flow related to these assets was anticipated.

Distillery Segment. In November of 2008, we determined to curtail fuel alcohol production at Pekin to approximately 30 million gallons annually until market conditions became more favorable. Subsequent to December 31, 2008, we determined that we could further adjust our production process at Pekin in a way that permitted us to produce only minor quantities of fuel grade alcohol as a by-product of the production of food grade alcohol and determined to otherwise terminate the production of fuel grade alcohol. Subsequently, we determined to shut down food grade production at the plant for a temporary period. On March 31, 2009, we announced that we were considering our strategic options for the Pekin plant. We performed an impairment analysis of our other long lived assets and determined no further impairment charges were necessary as a result of these activities. The remaining net book value of assets at the Pekin facility is approximately $29,000. After considering our assumption that we expect to implement a strategic option with respect to this facility within the next year and the results of an appraisal for this facility prepared by a third party, management believes the fair value of this facility is in excess of net book value.

Other Segment. At the end of the third quarter of fiscal 2008, we concluded that our pet business assets in the other segment and certain of our ingredient solutions segment assets in a mixed use facility in Kansas City, Kansas at which our pet treat resins are made were impaired. At that time, we recorded an impairment charge of $8,100, of which $4,700 related to assets allocated to the Company s other segment. During the quarter ended December 31, 2008, management performed another test for impairment of these assets as a result of an appraisal resulting in a further charge of $811. As part of our closing process for the quarter ended June 30, 2009, we performed an additional impairment test based upon current negotiations for the sale of the Kansas City facility and recorded an additional impairment charge of $1,351. On August 21, 2009, we completed the sale of our Kansas City, Kansas facility for $3,585.

SEVERANCE AND EARLY RETIREMENT COSTS

In connection with the production changes described above, we also incurred $3,288 in severance related charges associated with early retirements and job eliminations during the second quarter. These charges have been presented in the Company s Consolidated Statements of Income as Severance and early retirement costs.

OTHER RESTRUCTURING COSTS

In connection with the production changes described above, in the second quarter we also incurred a $2,185 net loss, which is net of approximately $1,109 in realized gains previously recorded in accumulated other comprehensive income. In addition, we recognized $2,925 in lease termination costs which we expect to incur with respect to 147 railcars which we formerly used to transport flour and whose leases expire through 2013. We have

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recognized this expense because we no longer utilize these cars in our business. Expected payments accrued reflect the net present value of the remaining obligation net of units which are estimated to be returned to the lessor sooner than the lease termination date. The discount rate used was 7.0 percent and was based on our borrowing costs at December 31, 2008. Twenty-six of the railcars have been returned to the lessor as of June 30, 2009. We estimate that the remaining railcars will either be returned to the lessor or assigned to other third parties over the course of four years.

OTHER INCOME, NET

Other income, net, decreased $403, or 78.3 percent, for the year ended June 30, 2009 compared to the year ended June 30, 2008. These changes were principally attributable to changes in interest capitalized as well as to the effect of certain other non-recurring, non-operating revenue items. It is our practice to credit other income for capitalized interest.

GAIN ON SETTLEMENT OF LITIGATION, NET OF RELATED EXPENSES

On December 27, 2007, the Company settled its two-year patent infringement and contract litigation. Under the terms of the settlement, the Company agreed to dismiss its lawsuit with prejudice and was paid $8,000, which was received on December 28, 2007. In connection with the settlement, the Company also granted the other parties in the lawsuit a non-exclusive license under its U.S. Patent No. 5,665,152. During fiscal 2008, the Company incurred professional fees of $954, related to this litigation. This amount has been netted against the gross proceeds for a net amount of $7,046. The Company has recorded the settlement as a separate line item below income from operations. The Company used the proceeds from the settlement to reduce the amount outstanding under its line of credit.

No such settlements were incurred during the quarter or year-to-date periods ended June 30, 2009.

INTEREST EXPENSE

Interest expense for the year ended June 30, 2009 increased $1,411 compared to the year ended June 30, 2008. These increases were the result of higher balances and higher interest rates on our outstanding line of credit compared to the same periods in the prior year. These increases were partially offset by reduced balances on our long-term notes payable.

EQUITY IN LOSS OF JOINT VENTURE

On July 17, 2007, we completed a transaction with Crespel and Dieters GmbH & Co. KG for the formation and financing of a joint venture, D.M. Ingredients, GmbH (DMI), located in Ibbenburen, Germany. DMI s primary operation is the production and tolling of the Wheatex® series of textured wheat proteins made from vital wheat gluten for marketing by MGPI domestically and, through our partner and third parties,

internationally. Currently, the joint venture is utilizing a third party toller in the Netherlands to produce the Wheatex® products. We own a 50 percent interest in DMI, and account for it using the equity method of accounting. As of June 30, 2009, we had invested $375 in DMI since July 2007.

For the year ended June 30, 2009, DMI incurred a net loss of $228 related to costs incurred for the initial implementation of operations. Again, no sales revenue was reported. As a 50 percent joint venture holder, our equity in this loss was $114.

DMI s functional currency is the European Union Euro. Accordingly, changes in the holding value of the Company s investment in DMI resulting from changes in the exchange rate between the U.S. Dollar and the European Union Euro are recorded in other comprehensive income as a translation adjustment on unconsolidated foreign subsidiary net of deferred taxes.

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INCOME TAXES

For the year ended June 30, 2009, we had an income tax benefit of $12,788, resulting in an effective rate of (15.6) percent. For the year ended June 30, 2008, our income tax benefit was $11,851 for an effective rate of (50.2) percent.

For the year ended June 30, 2009, the effective rate was primarily impacted by the establishment of a valuation allowance against the net deferred tax assets of the company of approximately $20,347. The net deferred tax assets, as detailed in footnote4 in our Notes to Consolidated Financial Statements, , consist largely of Federal and state net operating loss carryforwards, state credit carryforwards, basis differences in fixed assets and various non-deductible accruals. Realization of the benefits of these deferred tax assets was deemed to be uncertain, resulting in the recording of a current year valuation allowance. As a result of filing our fiscal 2008 tax return, we have received tax refunds of $9,500. Based upon our operating results in the current fiscal year, we expect to be eligible to receive federal and state income tax refunds of approximately $5,500 after filing fiscal 2009 year tax returns. (We have assigned this refund to one of our creditors.) The expected refunds would exhaust our ability to carry back any further losses under current tax law.

For the year ended June 30, 2009, there was a $929 decrease in our gross uncertain tax positions largely due to certain remediation efforts undertaken by the company and the expiration of the statute of limitations for the June 30, 2005 fiscal year.

NET INCOME

As the result of the factors outlined above, we experienced a net loss of $69,123 in the year ended June 30, 2009, compared to a net loss of $11,742 in the year ended June 30, 2008.

FISCAL 2008 COMPARED TO FISCAL 2007

GENERAL

Although net sales increased by $24,899, from $367,994 in fiscal 2007 to $392,893 in fiscal 2008, consolidated earnings for fiscal 2008 declined by $29,308, from net income of $17,566 in fiscal 2007 to a net loss of $11,742 in fiscal 2008. The decline was principally due to a decline in the profitability of our distillery products segment resulting from continued higher corn prices coupled with reduced ethanol prices and unit sales. Losses in the ingredient solutions segment increased over the prior year primarily as a result of the impact of rising wheat costs. Rising wheat costs also negatively impacted the other segment, consisting primarily of developing business lines for pet product and plant-based biopolymer applications.

During the year ended June 30, 2008, there were several non-recurring events which impacted our results, as set forth below.

- We realized a net gain on the settlement of our two-year patent infringement and contract litigation of $7,046, net of related professional fees of $954 incurred during fiscal 2008.

- We reassessed the need for a valuation allowance which previously offset the deferred tax asset related to certain state tax credit carryforwards. We determined that the valuation allowance was no longer appropriate and therefore removed it, resulting in a net tax benefit of approximately $2,000.

- We determined that the assets at our Kansas City, Kansas facility exceeded their estimated realizable fair value. Accordingly, we recorded a non-cash pre-tax charge of $8,100 related to the impairment of these assets, of which $4,700 related to our other segment and $3,400 to our ingredient solutions segment.

- During the fourth quarter of fiscal 2008, we completed a complete assessment of our property, plant and equipment and concluded that assets with a cost of approximately $30,000 with related accumulated

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depreciation of approximately $28,500 should be written off. Accordingly, a related non-cash charge to earnings of $1,500 has been recorded in the fourth quarter of fiscal 2008.

INGREDIENT SOLUTIONS

Total ingredient solutions sales revenue for the year ended June 30, 2008 increased by $33,203, or 49.0 percent, compared to the year ended July 1, 2007. Revenues for specialty ingredients, consisting of specialty proteins and specialty starches, increased by $12,020, or 25.9 percent, during the year ended June 30, 2008 compared to the year ended July 1, 2007. Revenues for specialty proteins increased as a result of higher unit sales as well as increased per unit prices. Revenues for specialty starches rose as the result of improved pricing and unit sales. Revenues for vital wheat gluten, which increased $17,799, or 130.0 percent, were a result of both increased sales volume as well as higher per-unit pricing. Revenues for commodity starch decreased $315,000, or 7.8 percent, as a result of reduced sales volume, consistent with the implementation of our strategy of continued development and commercialization of our value-added wheat proteins and starches. This decrease in commodity starch unit sales was partially offset by improved per-unit pricing. While sales revenue for the ingredient solutions segment improved overall, margins continued to be significantly impacted by increased cost of sales related to record high wheat prices. The per bushel cost of wheat for the year ended June 30, 2008 increased by 63 percent over the year ended July 1, 2007.

DISTILLERY PRODUCTS

Total distillery products sales revenue for the year ended June 30, 2008 decreased $8,655, or 2.9 percent, compared to the year ended July 1, 2007. This decrease was due to reduced revenues for fuel grade alcohol of $32,248 due to reduced ethanol prices, reduced production levels in the second and third quarters related to fermentation and other production problems and reduced production levels during the later part of the fourth quarter of fiscal 2008 due to higher corn costs and lower ethanol prices. Decreases in revenues for fuel grade alcohol were partially offset by increased revenue from food grade alcohol of $15,018 attributable to increased per-unit prices as well as improvements in unit sales. Distiller s grain revenue for the year ended June 30, 2008 increased $8,113, or 26.0 percent, over the year ended July 1, 2007 as a result of improved pricing offset partially by reduced unit sales. In addition to reduced revenues for distillery products for the year ended June 30, 2008, margins were significantly impacted by increased cost of sales related to increased corn prices compared to the year ended July 1, 2007. For the year ended June 30, 2008, the per-bushel cost of corn, adjusted for the impact of our hedging practices, was 23 percent higher than the year ended July 1, 2007. These increased costs, coupled with reduced revenues, yielded a substantially reduced profit for the segment.

OTHER PRODUCTS

For the year ended June 30, 2008, revenues for other products, consisting primarily of pet treats and plant-based biopolymers, increased $351, or 6.0 percent, compared to the year ended July 1, 2007, primarily as a result of increased unit sales and improved per-unit prices for biopolymer products, partially offset by reduced unit sales of pet treat products. Selling prices for pet treat products improved over the year ended July 1, 2007.

SALES

Net sales for the year ended June 30, 2008 increased $24,899, or 6.8 percent, compared to the year ended July 1, 2007 as a result of increased sales in the ingredient solutions segment related to improvements in unit sales as well as overall improvements in pricing for both commodity and specialty products. These increases were partially offset by reduced revenues in the distillery products segment resulting principally from reduced per unit prices and unit sales for fuel grade alcohol. For fuel grade alcohol, the per-unit price declined 3.0 percent while unit sales declined over 17.2 percent. Per unit prices for food grade alcohol improved approximately 6.3 percent during the year while unit sales improved approximately 8.1 percent. Revenues for distillers feed improved as a result of increased per-unit pricing. Net sales for our other segment increased $351 for the reasons stated above.

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COST OF SALES

For the year ended June 30, 2008, cost of sales rose $67,941 (21.2 percent) compared to the year ended July 1, 2007. This increase was primarily the result of higher grain costs and higher costs of other inputs used in the manufacturing process combined with the impact of changes in production rates. For the year ended June 30, 2008, the per-bushel cost of corn, adjusted for the impact of our hedging practices, was 23.0 percent higher than the year ended July 1, 2007 (the actual price for corn, unadjusted for the effects of hedging, increased 38.0 percent). For the year ended June 30, 2008, the per-bushel cost of wheat averaged 63.0 percent higher than the year ended July 1, 2007, while the average cost for natural gas rose 14.8 percent.

During the year ended June 30, 2008, we identified a portion of our inventory that we felt was either outdated or in need of additional processing to meet necessary quality standards, resulting in a charge to earnings of $1,300.

Included within the cost of sales for the year ended June 30, 2008 were mark-to-market adjustments on undesignated derivative instruments outstanding at June 30, 2008 resulting in a reduction to cost of sales expense of $838.

As described in Note 1 of our Notes to Condensed Consolidated Financial Statements, incorporated herein by reference, effective April 1, 2008, we elected to discontinue the use of hedge accounting for all commodity derivative positions. Accordingly, changes in the value of all derivatives subsequent to March 31, 2008 were recorded in cost of sales in the Company s Consolidated Statements of Income. As of June 30, 2008, a mark-to-market adjustment of $3,593 (or $2,149, net of tax of $1,444) was included in accumulated other comprehensive income related to previously designated derivatives. This amount was recognized during the year ended June 30, 2009.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended June 30, 2008 increased by $3,916 to $24,235 from $20,319 for the year ended July 1, 2007. In the year ended June 30, 2008, we incurred increased costs related to the implementation of certain information technology and communication systems, increased employee health care benefits costs as well as increased occupancy costs, including depreciation, related to our new administrative offices and technology center. We also incurred increased costs related to legal, accounting and other professional fees and increased compensation expense related to higher administrative level staffing as well as higher research and development staffing. These factors, which contributed to increased selling, general and administrative expenses, were partially offset by lower compensation costs related to the Company s management incentive programs.

We adjusted our selling, general and administrative expenses for the year ended June 30, 2008 for a reduction of $954 to reclassify first and second quarter legal and professional expenses related to the gain on settlement of litigation from selling, general and administrative to the gain on settlement of litigation.

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WRITE-OFF OF ASSETS

During the quarter ended June 30, 2008, in connection with the preparation of our financial statements for the year ended June 30, 2008, we undertook a review of our property, plant and equipment records in order to identify assets that were no longer in service or had been abandoned in place. The focus of this review was identifying assets that were fully depreciated to determine the propriety of continued inclusion within the property, plant and equipment records. In performing our review, we considered such factors as salvage values, current asset implementation and potential future asset implementation. Upon completion of our review, we noted assets with a cost of approximately $30,000 and related accumulated depreciation of approximately $28,500 that had been abandoned or were no longer in active service. Accordingly, we recorded a charge to operating earnings of $1,500 for the year ended June 30, 2008.

LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS

In connection with the preparation of our financial statements for the quarter ended March 31, 2008, we undertook a review of our long-lived assets contained within our other and ingredient solutions segments in accordance with Statement of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). The review took into account the impact of the rising trend of commodity prices on existing contracts and consumer preferences, anticipated sales to existing customers, the failure of anticipated business to develop, recent decisions to cease R&D activities on pet treats and reduce staffing in the pet treat area and plans to shift production of certain texturized wheat proteins to third parties. Based upon this review, management estimated that the carrying value of the assets comprising its Kansas City manufacturing facility (KCIT facility) exceeded the estimated realizable fair value of these assets. In accordance with SFAS No. 144, we recorded a non-cash pre-tax charge of $8,100 at the end of the third quarter related to the impairment of these assets. Of this amount, $4,700 relates to assets allocated to our other segment and $3,400 relates to assets allocated to our ingredient solutions segment.

OTHER INCOME, NET

Other income net, for the year ended June 30, 2008, decreased $975 compared to the year ended July 1, 2007. This decrease was primarily related to changes in interest capitalized as well as the effect of certain other non-recurring, non-operating revenue items. It is our practice to credit other income for interest incurred that is capitalized.

EQUITY IN LOSS OF JOINT VENTURE

For the year ended June 30, 2008, our German joint venture company, DMI, incurred a net loss of $28 related to costs incurred for the initial implementation of operations. No sales revenue was reported. As a 50 percent joint venture holder, our equity in this loss was $14.

DMI s functional currency is the European Union Euro. Accordingly, changes in the holding value of the Company s investment in DMI resulting from changes in the exchange rate between the U.S. Dollar and the European Union Euro are recorded in other comprehensive income as a translation adjustment on unconsolidated foreign subsidiary net of deferred taxes.

GAIN ON SETTLEMENT OF LITIGATION

On December 27, 2007, we settled a two-year patent infringement and contract litigation. Under the terms of the settlement, we agreed to dismiss our lawsuit with prejudice and were paid $8,000, which we received on December 28, 2007. In connection with the settlement, we also granted the other parties in the lawsuit a non-exclusive license under our U.S. Patent No. 5,665,152. During fiscal 2008, we incurred professional fees of $954, related to this litigation. This amount has been netted against the gross proceeds for a net amount of $7,046 We have recorded the settlement as a separate line item below income from operations. We used the proceeds from the settlement to reduce the amount outstanding under our line of credit.

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INTEREST EXPENSE

Interest expense for the year ended June 30, 2008 increased $526 compared to the year ended July 1, 2007. These increases were the result of higher balances on our outstanding line of credit compared to the same periods in the prior year. These increases were partially offset by reduced balances on our long-term notes payable.

INCOME TAXES

For the year ended June 30, 2008, our income tax benefit was $11,851 for an effective rate of (50.2) percent compared to a provision of $9,914 for the year ended July 1, 2007 for an effective rate of 36.1 percent. Excluding certain one-time discrete items applicable to this year, our effective rate was 42.2 percent.

As of the close of the second quarter of fiscal 2008, we had approximately $3,000 in unused Kansas State Income Tax Credits (tax credits) related to capital investments we have made at our Atchison, Kansas facility. During the quarter, management reassessed the need for a valuation allowance which previously offset the deferred tax asset related to the credit carryforwards. It was determined that the valuation allowance was no longer appropriate and it was therefore removed, resulting in a new tax benefit for the year ended June 30, 2008 of approximately $2,000. In making this determination, we considered whether it was more likely than not that we would be able to continue meeting wage base and training requirements in an annual recertification process. We also considered whether it was more likely than not that we would have sufficient taxable income to utilize the carryforwards. Based on our analysis as of December 31, 2007, we concluded that it was more likely than not that the credits would be available to us. The tax credit carryforwards will expire as follows: $1,700 generated in fiscal year 2005 will expire in fiscal year 2014 and $1,300 generated in fiscal year 2006 will expire in fiscal year 2015.

NET INCOME

As the result of the foregoing factors, we experienced a net loss of $11,742 for the year ended June 30, 2008 compared to net income of $17,566 for the year ended July 1, 2007.

QUARTERLY FINANCIAL INFORMATION

Our sales have not been seasonal during fiscal years 2009 and 2008. The table below shows quarterly information for each of the years ended June 30, 2009 and 2008.

Quarter (dollars in thousands, except per share amounts)	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Total**
Fiscal 2009(2)(3)(4)					
Sales:	$ 99,020	$ 73,242	$ 54,562	$ 49,152	$ 275,976
Gross profit	(16,687)	(23,648)	91	6,142	(34,102)
Net loss	(17,243)	(42,716)	(6,248)	(2,916)	(69,123)
Earnings per share (diluted)(1)	$ (1.04)	$ (2.58)	$ (0.38)	$ (0.18)	$ (4.17)
Fiscal 2008(5)(6)(7)					
Sales:	$ 87,977	$ 93,995	$ 106,694	$ 104,227	$ 392,893
Gross profit	5,860	3,196	3,740	(8,565)	4,231
Net income (loss)	(353)	5,229	(6,629)	(9,989)	(11,742)
Earnings per share (diluted)	$ (0.02)	$ 0.31	$ (0.40)	$ (0.60)	$ (0.71)

(1) Earnings per share per quarter does not sum to total earnings per share for fiscal 2009 due to rounding.

(2) Net loss for the second quarter of fiscal 2009 includes a loss on a natural gas contract of $5,447, loss on impairment of assets of $8,931, severance and early retirement costs of $3,288 and other restructuring costs of $5,241.

(3) Net loss for the third quarter of fiscal 2009 includes a loss on a natural gas contract of $2,106.

(4) Net loss for the fourth quarter of fiscal 2009 includes a loss on a natural gas contract of $89 and a loss on impairment of assets of $1,351.

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(5) Net income for the second quarter of fiscal 2008 includes a gain on the settlement of litigation of $7,046.

(6) Net loss for the third quarter of fiscal 2008 includes a loss on impairment of assets of $8,100.

(7) Net loss for the fourth quarter of fiscal 2008 includes a loss on write-off of assets of $1,546.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of cash are for the cost of raw materials and energy used in our production processes, salaries, debt service obligations on our borrowings and capital expenditures. Our principal sources of cash are revenues from the products we make and our revolving credit facility. We expect our sources of cash to be adequate to provide for our needs in fiscal 2009.

On August 25, 2009, the Company was required to make a deposit of approximately $1,600 to its surety bond carrier. This deposit secured the Company s obligations under surety bonds maintained to meet regulatory requirements for distillery operations. Funds for this deposit were borrowed under the terms of the New Credit Agreement. Also in August, the Company received $325 as a deposit refund from a vendor.

The following table is presented as a measure of our liquidity and financial condition as of June 30, 2009 and 2008: (Dollars in thousands)

		2009		**2008**
Cash and cash equivalents	**$**	**178**	$	
Working capital		**31,242**		51,127
Amounts available under lines of credit		**4,190**		17,000
Credit facility, notes payable and long-term debt		**33,337**		33,493
Stockholders equity		**63,884**		136,874

Certain components of our liquidity and financial results for the years ended June 30, 2009, June 30, 2008 and July 1, 2007 were as follows: (Dollars in thousands)

		2009		**2008**		**2007**
Depreciation and amortization	**$**	**11,946**	$	15,172	$	14,467
Capital expenditures		**2,069**		7,432		23,188
EBITDA	**$**	**(67,064)**	$	(6,931)	$	42,911

EBITDA equals earnings before interest, taxes, depreciation and amortization.

EBITDA

We have included EBITDA because we believe it provides investors with additional information to measure our performance and liquidity. EBITDA is not a recognized term under generally accepted accounting principles (GAAP) and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, it is not intended to be a measure of free cash flow for management s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Because not all companies use identical calculations, this presentation may not be comparable to other similarly titled measures of other companies.

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The following table sets forth a reconciliation of net income to EBITDA for the years ended June 30, 2009, June 30, 2008 and July 1, 2007 (Dollars in thousands):

	2009	2008	2007
Net income (loss)	**$ (69,123)**	$ (11,742)	$ 17,566
Provision (benefit) for income taxes	**(12,788)**	(11,851)	9,914
Interest expense	**2,901**	1,490	964
Depreciation	**11,946**	15,172	14,467
EBITDA	**$ (67,064)**	$ (6,931)	$ 42,911

The following table sets forth a reconciliation of EBITDA to cash flows from operations for the years ended June 30, 2009, June 30, 2008 and July 1, 2007 (Dollars in thousands):

Fiscal year ended	**June 30, 2009**	**June 30, 2008**	**July 1, 2007**
EBITDA	**$ (67,064)**	$ (6,931)	$ 42,911
Benefit (provision) for income taxes	**12,788**	11,851	(9,914)
Interest expense	**(2,901)**	(1,490)	(964)
Non-cash charges against (credits to) net income:			
Deferred income taxes	**(7,217)**	(4,569)	234
Loss (gain) on sale of assets	**(285)**	5	(103)
Loss on impairment of assets	**10,282**	8,100	
Fixed asset write-off		1,546	
Equity in loss of unconsolidated subsidiary	**114**	14	
Changes in accounts receivable	**15,684**	211	(2,101)
Changes in inventory	**42,456**	(16,478)	(12,216)
Changes in other operating assets and liabilities	**(699)**	2,391	(3,108)
Cash flow from operations	**$ 3,158**	$ (5,350)	$ 14,739

CASH FLOW INFORMATION

Summary cash flow information follows for the years ended June 30, 2009, June 30, 2008 and July 1, 2007, respectively: *(Dollars in thousands)*

	2009	2008	2007
Cash flows provided by (used for)			
Operating activities	**$ 3,158**	$ (5,350)	$ 14,739
Investing activities	**(1,325)**	(7,955)	(23,001)
Financing activities	**(1,655)**	9,405	(2,333)
Increase (decrease) in cash and cash equivalents	**178**	(3,900)	(10,595)
Cash and cash equivalents at beginning of year		3,900	14,495
Cash and cash equivalents at end of year	**$ 178**	$	$ 3,900

During the year ended June 30, 2009, our consolidated cash increased $178 compared to a decrease of $3,900 during the year ended June 30, 2008. Operating cash flow improved over the year ended June 30, 2008 primarily as a result of reductions in inventory as well as reductions in accounts receivable related to reduced operating and production levels throughout the year ended June 30, 2009. These factors, which served to increase operating cash, were significantly offset by reduced cash flow resulting from an increase in net loss from $11,742 for the year ended June 30, 2008 to a net loss of $69,123 for the year ended June 30, 2009. As a direct result of our borrowing limitations, cash outflows related to capital expenditures during the year ended June 30, 2009 were reduced compared to the year ended June 30, 2008. Net proceeds from our line of credit as well as proceeds from other various term notes of $7,350 provided a source of cash.

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During the fiscal year ended June 30, 2008, our consolidated cash decreased $3,900 compared to a decrease of $10,595 during the year ended July 1, 2007. The 2008 fiscal year s decrease was primarily a result of reduced operating cash flow resulting from an increase in inventory carrying costs, increased refundable income taxes, and reduced net income from $17,566 to ($11,742). The impact of reduced operating cash flow was partially offset by reduced cash outflows related to capital expenditures during the year ended June 30, 2008 compared to the year ended July 1, 2007.

Operating Cash Flows. Summary operating cash flow information for the years ended June 30, 2009, June 30, 2008 and July 1, 2007, respectively is as follows: *(Dollars in thousands):*

	2009	**2008**	**2007**
Net income	**$ (69,123)**	$ (11,742)	$ 17,566
Depreciation	**11,946**	15,172	14,467
Loss (gain) on sale of assets	**(285)**	5	(103)
Write-off of assets		1,546	
Loss on impairment of assets	**10,282**	8,100	
Deferred income taxes	**(7,217)**	(4,569)	234
Equity in loss of unconsolidated subsidiary	**114**	14	
Changes in:			&