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

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from _______ to _______

Commission file number 0-17196

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

Kansas (State or Other Jurisdiction of Incorporation or Organization)	48-0531200 (I.R.S. Employer Identification No.)
100 Commercial Street, Box 130, Atchison, Kansas (Address of Principal Executive Offices)	66002 (Zip Code)

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

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

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

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

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

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

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to their Form 10-K. [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 ___ Accelerated filer ___ Non-accelerated filer ___ 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 ___ 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 June 29, 2012, was $38,041,322.

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

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated herein by reference:

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

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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 affiliates include directors and executive officers. Such assumption does not constitute an admission by the Company or any director or executive officer that any director or executive officer is an affiliate of the Company.

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”, “encouraged”, “opportunities”, “pot negatives of these terms or 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) disruptions in operations at our Atchison facility or Indiana Distillery, (ii) the availability and cost of grain and fluctuations in energy costs, (iii) the effectiveness of our hedging strategy, (iv) the competitive environment and related market conditions, (v) the ability to effectively pass raw material price increases on to customers, (vi) the viability of the Illinois Corn Processing, LLC (“ICP”) joint venture and its ability to obtain financing, (vii) our ability to maintain compliance with all applicable loan agreement covenants, (viii) our ability to realize operating efficiencies, (ix) actions of governments, (x) and consumer tastes and preferences. For further information on these and other risks and uncertainties that may affect our business, see Item 1A. Risk Factors.

METHOD OF PRESENTATION

All amounts in this report, except for share, bushels, gallons, pounds, mmbtu, per share, per bushel, per gallon and percentage amounts, are shown in thousands.

AVAILABLE INFORMATION

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

PART I

ITEM 1. BUSINESS

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

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

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

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

Effective December 31, 2011, we changed our fiscal year end from June 30 to December 31. We believe that this change in fiscal year better aligns the reporting of our financial results with those of our joint venture partners and strengthens our ability to gauge growing and harvesting conditions for seasonal grain crops. This change also enables our strategic planning process to better synchronize with our key customers’ product development initiatives. The consolidated financial statements presented herein include the results for the year ended December 31, 2012 (our first full fiscal year since the year end change), the six month transition period of July 1, 2011 to December 31, 2011, and the fiscal year ended June 30, 2011. The unaudited comparative information for the year ended December 31, 2011 and the six months ended December 31, 2010 is included in Note 17. Transition Period Comparative Data.

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GENERAL INFORMATION

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

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

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

2012 AND RECENT DEVELOPMENTS

Acquisition of the Indiana Distillery

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

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

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

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

Agreement to Develop New Technologies and Products

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

Ownership change of ICP

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

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

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

Grain Supply Agreements

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

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

Sale of Other Segment

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

FINANCIAL INFORMATION ABOUT SEGMENTS

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

BUSINESS STRATEGY

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

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

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

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

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

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

PRODUCT SALES

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

PRODUCT GROUP SALES

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

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

DISTILLERY PRODUCTS SEGMENT

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

Food grade alcohol consists of beverage alcohol and industrial food grade alcohol that are distilled to remove impurities. Fuel grade alcohol is grain alcohol that has been distilled to remove all water to yield 200 proof alcohols suitable for blending with gasoline. We presently generate and sell only minimal amounts as a co-product of the food grade alcohol production process at our Atchison distillery in order to reduce our exposure to the fuel grade alcohol market.

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

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

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

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

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

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

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

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

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

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

Distillers Feed. Distillers feed is principally derived from the residue of corn from alcohol processing operations. The residue is dried and sold primarily to processors of animal feeds as a high protein additive. We compete with other distillers of alcohol as well as a number of other producers of animal food additives in the sale of distillers feed. During the year ended December 31, 2012 distillers feed prices were higher on average compared to the six month transition period ended December 31, 2011 due to increased prices for corn, the basic raw material from which distillers feed is derived.

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

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

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

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

INGREDIENT SOLUTIONS SEGMENT

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

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

Specialty Wheat Starches. Wheat starch constitutes the carbohydrate-bearing portion of wheat flour. We produce a premium wheat starch powder by extracting the starch from the starch slurry, substantially free of all impurities and fibers, and then drying the starch by spray, flash or drum. Premium wheat starch differs from low grade or B wheat starches, which are extracted along with impurities and fibers and are used primarily as a binding agent for industrial applications, such as the manufacture of charcoal briquettes. We do not sell low grade or B starches. Premium wheat starch differs from corn starch in its granular structure, color, granular size and name identification.

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

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

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

Specialty Wheat Starches

- Fibersym® Resistant Starch series. These starches serve as a convenient and rich source of dietary fiber. Unlike traditional fiber sources like bran, our resistant starches possess a clean, white color and neutral flavor that allow food formulators to create a wide range of both traditional and non-traditional fiber enhanced products that are savory in both appearance and taste. Applications include pan breads, pizza crust, flour tortillas, cookies, muffins, pastries and cakes.

- FiberRite® RW Resistant Starch. FiberRite® RW is a product that boosts dietary fiber levels while also reducing fat and caloric content in such foods as breads, sweet goods, ice cream, yogurt, salad dressings, sandwich spreads and emulsified meats.

- Pregel™ Instant Starch series. Our Pregel ™ starches perform as an instant thickener in bakery mixes, allowing fruit, nuts and other particles such as chocolate pieces to be uniformly suspended in the finished product. In coating systems, batter pick-up can be controlled for improved yield and consistent product appearance. Additionally, shelf-life can be enhanced due to improved moisture retention, allowing products to remain tender and soft over an extended storage period.

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

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

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

Specialty Wheat Proteins

- Arise® series. Our Arise® series of products consists of specialty wheat proteins that increase the freshness and shelf life of frozen, refrigerated and fresh dough products after they are baked. Certain ingredients in this series are also sold for use in the manufacturing of high protein, lower net carbohydrate products.

    - Wheatex® series. This series consists of texturized wheat proteins made from vital wheat gluten by changing it into a pliable substance through special processing. The resulting solid food product can be further enhanced with flavoring and coloring and reconstituted with water. Texturized wheat proteins are used for meat, poultry and fish product enhancements and/or substitutes. Wheatex® mimics the textural characteristics and appearance of meat, fish and poultry products. It is available in a variety of sizes and colors and can be easily formed into patties, links or virtually any other shape the customer requires.

- FP™ series. The FP™ series of products consists of specialty wheat proteins, each tailored for use in a variety of food applications. These include proteins that can be used to form barriers to fat and moisture penetration to enhance the crispness and improve batter adhesion in fried products, effectively bond other ingredients in vegetarian patties and extended meat products, increase the softness and pliability of flour tortillas, and fortify nutritional drinks.

- HWG 2009™. This is a lightly hydrolyzed wheat protein that is rich in peptide-bonded glutamine, an amino acid that counters muscle fatigue brought on by exercise and other physical activities. Applications include nutritional beverages and snack products.

Vital Wheat Gluten. Vital wheat gluten is a free-flowing light tan powder which contains approximately 75 to 80 percent protein. When we process flour to derive starch, we also derive vital wheat gluten. Vital wheat gluten is added by bakeries and food processors to baked goods, such as breads, and to pet foods, cereals, processed meats, fish and poultry to improve the nutritional content, texture, strength, shape and volume of the product. The neutral flavor and color of wheat gluten also enhances, but does not change, the flavor and color of food. The cohesiveness and elasticity of the gluten enables the dough in wheat and other high protein breads to rise and to support added ingredients, such as whole cracked grains, raisins and fibers. This allows the baker to make an array of different breads by varying the gluten content of the dough. Vital wheat gluten is also added to white breads, hot dog buns and hamburger buns to improve the strength and cohesiveness of the product.

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

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

OTHER SEGMENT

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

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

PATENTS

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

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

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

RESEARCH AND DEVELOPMENT

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

SEASONALITY

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

TRANSPORTATION

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

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

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

RAW MATERIALS

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

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

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

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

ENERGY

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

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

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

EMPLOYEES

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

REGULATION

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

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

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

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

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

INVESTMENT IN EQUITY METHOD INVESTMENTS

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

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

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

- Under the LLC Interest Purchase Agreement, we sold ICP Holdings 50% of the membership interest in ICP. This agreement gave ICP Holdings the option to purchase up to an additional 20% of the membership interest in ICP at any time between the second and fifth anniversary based on an agreed to criteria. As described above, this option was exercised on February 1, 2012.

- Pursuant to the Limited Liability Company Agreement, control of day to day operations generally is retained by the members, acting by a majority in interest. Following ICP Holdings' exercise of its option referred to above, ICP Holdings owns 70% of ICP and generally is entitled to control its day to day operations. However, if SEACOR Energy Inc. were to default under its marketing agreement, referred to below, we could assume sole control of ICP's daily operations until the default is cured.

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

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

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

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

The Marketing Agreement had an initial term of one year but automatically renewed for one year terms thereafter, subject to specified exceptions, including the following: (i) there was an uncured breach by one of the parties, (ii) we gave timely notice of termination, (iii) we (or our affiliates) cease to be a member of the joint venture, or (iv) the parties were unable to mutually agree to modifications to the Marketing Agreement that are proposed in good faith by one of the parties as necessary or desirable to further the purposes of the parties' respective expectations of economic benefits to be derived under the Marketing Agreement and their interests in ICP. Effective January 1, 2013, the Marketing Agreement expired. For six months following expiration or termination of the Marketing Agreement, ICP will provide us with reasonable assistance to transition production of the products it makes for us to another producer that we designate. SEACOR Energy Inc. has entered into a similar agreement with ICP with respect to the marketing of fuel grade alcohol.

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

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

OFFICERS OF THE REGISTRANT

The Company’s officers are listed below.

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

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

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

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

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

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

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

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

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

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

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

ITEM 1A. RISK FACTORS

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

RISKS THAT AFFECT OUR BUSINESS AS A WHOLE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our high quality marketing agreement with ICP has expired.

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

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

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

– Impairment of Long-Lived Assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Also, the distribution of beverage alcohol products is subject to extensive taxation in the United States and internationally (and, in the United States, at both at the federal and state government levels), and beverage alcohol products themselves are the subject of national import and excise duties in most countries around the world. This taxation has a minor effect on us; however, it has larger effects on our beverage alcohol customers, and accordingly, an increase in taxation or in import or excise duties could significantly harm our sales revenues and margins, both through the reduction of overall consumption and by encouraging consumers to switch to lower-taxed categories of beverage alcohol.

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

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

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

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

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

Unsuccessful research and product launches could affect our profitability.

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

RISKS SPECIFIC TO OUR DISTILLERY PRODUCTS SEGMENT

Volatile grain prices affect our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RISKS SPECIFIC TO OUR INGREDIENT SOLUTIONS SEGMENT

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

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

OTHER RISKS

Common stockholders have limited rights under our Articles of Incorporation.

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

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

Our common stock is listed on the NASDAQ Stock Market. Our public float at December 31, 2012 (including non-vested restricted stock awards held by non-affiliates) was approximately 11,850,879 shares, as approximately 6,083,354 shares are held by affiliates. Over the year ended December 31, 2012, our daily trading volume as reported to us by NASDAQ has fluctuated from788 to 718,072 shares (excluding block trades). When trading volumes are relatively light, significant price changes can occur even when a relatively small number of shares are being traded and an investor's ability to quickly sell quantities of stock may be affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

Location	Purpose	Owned or Leased	Plant Area (in sq. ft.)	Tract Area (in acres)
Atchison, Kansas	Grain processing, distillery, warehousing, and research and quality control laboratories (Distillery Products and Ingredient Solutions)	Owned	494,640	26
	Principal executive office building (Corporate)	Leased	18,000	1
	Technical Innovation Center (Ingredient Solutions, Distillery Products and Other)	Leased	19,600	1
Lawrenceburg and Greendale, Indiana	Distillery, warehousing, tank farm and quality control facilities	Owned	1,458,143	43
Onaga, Kansas (1)	Production of plant-based polymers and wood composites (Other)	Owned	23,040	3
Lenexa, Kansas	Administrative Office Space	Leased	3,222	1

(1) Subsequent to December 31, 2012, the production facility for plant-based polymers and wood composites was sold as further described in Note 20. Subsequent Events.

Our 30% owned joint venture subsidiary, ICP, owns the following facility:

Pekin, Illinois	Distillery, warehousing and quality control laboratories (Distillery Products)	Owned	462,926	49

The foregoing facilities are generally in good operating condition, and are generally suitable for the business activity conducted therein. We operated our Atchison distillery operations at full capacity during much of 2012. We have existing manufacturing capacity to grow our ingredients business at our Atchison plant if the market for our ingredients business improves. Our Indiana Distillery was operating below its rated capacity when it was acquired. We grew this business during 2012 and operated near full capacity as we closed out the year ended December 31, 2012. The Pekin distillery operation, which is owned by ICP, was operating below full capacity during the year 2012 due to general market conditions.

Except for our process water cooling system project, which is leased under a capital lease, all of the other production facilities that we or ICP utilize are owned, and all of our owned properties are subject to mortgages in favor of one or more of our lenders. ICP's facility is subject to a mortgage in favor of its lender. 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 Item 1. Business – Transportation and Item 1. Business – Energy. Our loan agreements contain covenants that limit our ability to pledge our facilities to others.

ITEM 3. LEGAL PROCEEDINGS

There are various legal proceedings involving the Company and its subsidiaries. Except for the following matter, management considers that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position or overall trends in results of operations of the Company.

In 2006, we entered a Consent Agreement with the Kansas Department of Health and Environment (KDHE) which, among other matters, imposed a source-wide, rolling 12-month volatile organic compounds (VOC) emissions cap on our Atchison facility. Pursuant to a second amendment that we entered in 2010, we agreed to complete a closed-loop, process water cooling system project, resulting in significant VOC reduction, in accordance with a scheduled timeline extending over an approximate 17-month period ending on September 30, 2011. We completed this in July 2011 at a cost of approximately $10,000. We also agreed to a $5 per month penalty for any month that we might exceed the rolling 12-month cap and a $1 per day penalty for each day that we fail to submit certain monthly reports. During the year ended December 31, 2012, we were not subjected to any penalties related to the above criteria.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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.

In connection with the Reorganization, our Common Stock was deemed to commence trading on the NASDAQ Global Select Market under the symbol "MGPI" on January 4, 2012. As a result of the Reorganization, common shares of MGPI Processing, Inc. (formerly MGP Ingredients, Inc.), which previously traded on the NASDAQ Global Select Market under the symbol "MGPI", were deemed to no longer be publicly traded. The Reorganization did not require shareholders to exchange their stock certificates.

HISTORICAL STOCK PRICES AND DIVIDENDS

The table below reflects the high and low closing prices of our Common Stock and dividends per share for each quarter of the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011:

	Sales Price		Dividend
	High	Low	Per Share
For the Year Ended December 31, 2012			
For the Quarter Ended March 31, 2012	$6.37	$5.28	$0.05
For the Quarter Ended June 30, 2012	4.90	3.43	-
For the Quarter Ended September 30, 2012	3.68	3.30	-
For the Quarter Ended December 31, 2012	3.71	3.40	-
			$0.05
For the Transition Period from July 1, 2011 to December 31, 2011			
For the Quarter Ended September 30, 2011	$8.75	$5.07	$0.05
For the Quarter Ended December 31, 2011	6.82	4.27	-
			$0.05
For the Year Ended June 30, 2011			
For the Quarter Ended September 30, 2010	$8.15	$6.46	$0.05
For the Quarter Ended December 31, 2010	11.90	8.14	-
For the Quarter Ended March 31, 2011	11.06	7.90	-
For the Quarter Ended June 30, 2011	9.00	7.75	-
			$0.05

Our Credit Agreement with Wells Fargo Bank, limits the amount of cash dividends that we may pay if we don't maintain excess availability of $9,625 and a fixed charge coverage ratio for the most recently completed twelve months of at least 1.20:1.00.

On February 28, 2013, the Board of Directors declared a five (5) cent dividend per share of common stock. The dividend will be paid on April 10, 2013 to holders of record on March 18, 2013.

We expect to continue our policy of paying periodic cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements, and debt service obligations.

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RECORD HOLDERS

At March 1, 2013, there were approximately 677 holders of record of our Common Stock. We believe that the Common Stock is held by approximately 4,110 beneficial owners.

TRADING VOLUMES

According to reports received from NASDAQ, the average daily trading volume of our Common Stock (excluding block trades) ranged from 788 to 718,072 shares during the year ended December 31, 2012.

PURCHASES OF EQUITY SECURITIES BY ISSUER

We did not sell or purchase our equity securities during the quarter ended December 31, 2012.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide Item 6 disclosure in this Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in thousands except per-share amounts)

GENERAL

We produce certain distillery products and ingredients and as of December 31, 2012, we had three reportable segments: a distillery products segment, an ingredient solutions segment, and an other segment. As previously discussed, substantially all assets used in the other segment were sold effective February 8, 2013. 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. Customers who purchase whiskey or bourbon may also enter into separate warehouse service agreements with us, allowing the product to age. As part of our acquisition of LDI's Distillery Business, we assumed certain multi-year contracts to supply distilled products as well as certain contracts to provide barreling warehousing services, which typically are multi-year contracts. Sales of fuel grade alcohol are made on the spot market. Contracts with distributors may be for multi-year terms with periodic review of pricing. Contracts with ingredients customers are generally price and term agreements which are fixed for three or six month periods, with very few agreements of twelve months duration or more.

Since fiscal 2009, when we incurred significant impairment and restructuring costs, our business focus has been on the production of value-added ingredients and distillery products. As a part of our strategy, given the available capacity at our Indiana Distillery, we produce certain volumes of bourbon and whiskey that is in addition to current customer demand. This product is barreled and included in our inventory. Our goal is to maintain inventory levels for whiskey and bourbon sufficient to satisfy anticipated future purchase orders in the wholesale market. Production schedules are adjusted from time to time to bring inventories into balance with established future demand. The majority of our former Pekin plant's capacity for several years had been dedicated to the production of fuel grade alcohol, of which the market economics has been volatile in recent years. The Pekin plant is now owned and operated by a joint venture, ICP, which produces food grade alcohol, which we have historically purchased, and fuel grade alcohol, which SEACOR Energy Inc. purchases. We retain some exposure to the volatility to fuel grade alcohol through our remaining interest in ICP as well as from the fuel that we make as a co-product at our Atchison facility. Through our investment in ICP, we have an opportunity to participate when the economics of that market are good, and we believe that the extent of our exposure to bad markets is significantly less than when we operated Pekin ourselves. Further, we have the ability, through the termination provisions in the ICP Limited Liability Company Agreement, to limit our operating losses by causing ICP to shut down the plant if losses reach specified amounts. ICP's revolving credit facility has expired and has not been renewed. If ICP should be unable to secure financing from its lender or another source, this creates a risk to ICP's future working capital needs.

Our principal raw materials are corn and flour. Corn is processed into alcohol and animal feed and flour is processed into all of our products, except whiskey and bourbon. 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, disease, plantings, government programs and policies, competition for acquisition of inputs such as agricultural commodities, purchases by foreign governments and changes in demand resulting from population growth and customer preferences. While corn prices have fluctuated significantly over the past several years and the overall trend in recent prices has been up, there has been a lot of variability in corn pricing during this period. We expect corn pricing to remain volatile in the near term due to a number of factors impacting global demand and supply of this commodity. These fluctuating prices create challenges since our customers are interested in stable prices for the distillery products they purchase from us.

We have a supply agreement with ConAgra Mills, who supplies wheat flour for use in the production of protein and starch ingredients. 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. We believe our focus on value-added products can 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. However, we will continue to be affected by commodity price fluctuations to some degree, which may be significant at times, and may not be able to recoup cost increases in our selling prices, particularly when price fluctuations are volatile.

Historically, we have engaged in the forward purchase of grain and in the purchase of commodity futures and options to hedge economic risks associated with fluctuating grain and grain products prices. These contracts help fix corn prices over short periods of time, generally three to six months, which is consistent with most of the sales orders we typically enter into with our distillery customers. During fiscal 2011, we changed our risk management program related to the volatility of raw material costs, and began purchasing a larger amount of contracts for future delivery, which we typically held until maturity, in order to protect margins on contracted, and a portion of spot market, alcohol sales and expected ingredients sales. During the six month transition period ended December 31, 2011, we began to buy and sell derivative instruments to manage market risk associated with alcohol purchases, including ethanol futures and options contracts, in order to mitigate risks associated with our investment in ICP. During the quarter ended March 31, 2012, we entered into a grain supply contract for our Indiana Distillery that permits us to purchase corn for delivery up to 12 months in the future, at negotiated prices. During the quarter ended June 30, 2012, we extended this grain supply agreement used for its Indiana Distillery to its Atchison facility. The pricing is based on a formula with several factors. We now order corn anywhere from a month to 12 months in the future. As we are now able to purchase corn for delivery up to 12 months in the future under these grain supply agreements, we have reduced the volume of our corn futures and options contracts.

From April 1, 2008 until June 30, 2011, we did not use hedge accounting for our open commodity derivative positions. This was primarily due to the increased record keeping and documentation requirements needed to meet these accounting standards. This accounting policy led to significant volatility in earnings as a result of unrealized losses (or gains) on our open contracts. Effective July 1, 2011 we elected to restart the use of hedge accounting for qualifying derivative contracts entered into on and after July 1, 2011and we continued to use hedge accounting until February 29, 2012. During this period of hedge accounting, we typically entered into cash flow hedges to cover between 70 and 80 percent of our monthly anticipated grind. To the extent we did not enter such cash flow hedges and were unable to timely adjust the prices we charged under sales contracts, we could be adversely impacted by market fluctuations in the cost of grain and natural gas. During the quarter ended September 30, 2011, we began to buy and sell derivative instruments to manage market risks associated with ethanol purchases, including ethanol futures and options contracts. These contracts were entered into to mitigate risks associated with our investment in ICP. On February 29, 2012, we de-designated our cash flow hedges. See Note 14. Derivative Instruments and Fair Value Measurements and "Critical Accounting Policies and Estimates".

Energy represents a major cost of operations, and seasonal increases in natural gas and other utility costs can affect our profitability. Energy costs have typically increased year to year. We sometimes try to protect ourselves from increased energy costs by entering into natural gas contracts for future delivery.

Historically, we recorded the collection of excise taxes on distilled products sold to customers as accrued expenses and no revenue or expense was recognized in the Consolidated Statements of Operations. With the Company's acquisition of the distillery operations of LDI on December 27, 2011, the Company is now subject to more excise taxes. In the quarter ended March 31, 2012, because excise taxes exceeded 1 percent of net sales, the Company began to present excise taxes as a caption on the Consolidated Statements of Operations, which is a reduction to gross sales. The prior years and quarters within those years have been conformed to the current presentation. This reclassification had no impact on net loss or reported loss per share.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing consolidated 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 consolidated 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.

Derivative and Hedging Activities. From April 1, 2008 until June 30, 2011 and from February 29, 2012 to December 31, 2012, we did not use hedge accounting for our open commodity derivative positions. Accordingly, during these periods changes in the value of derivatives have been recorded in cost of sales in our Consolidated Statements of Operations. Additionally, derivative instruments entered into during these periods have not been designated as hedges. Derivative instruments related to our hedging program have been recorded as either assets or liabilities and measured at fair value. The change in the fair value of these instruments has been recorded in cost of sales in our Consolidated Statements of Operations.

From July 1, 2011, until February 28, 2012, we used hedge accounting for qualifying derivative contracts entered into on or after July 1, 2011. On February 29, 2012, we discontinued hedge accounting and de-designated our cash flow hedges, which resulted in a reclassification of a $27 loss from accumulated other comprehensive income ("AOCI") into current period earnings. The application of hedge accounting requires significant resources, record-keeping and analytical systems. Under hedge accounting, the changes in fair value of such contracts historically were highly effective at offsetting changes in price movements of the hedged items. Consistent with application of hedge accounting under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging, gains and losses arising from open and closed hedging transactions were recorded as part of other comprehensive income (loss) and are recognized in costs of sales as part of product costs when the related products are sold. Any ineffective portion of a hedged transaction was immediately recognized in current earnings.

We may discontinue cash-flow hedge accounting for a particular derivative instrument prospectively when we (i) determine that the derivative is no longer considered to be highly effective in offsetting changes in the expected cash flows of the hedged item; (ii) the derivative is sold, terminated or exercised; (iii) we de-designate the derivative as a hedging instrument because it is unlikely that a forecasted transaction will occur; or (iv) it determines that designation of the derivative as a hedging instrument is no longer appropriate. When cash flow hedge accounting is discontinued, we continue to carry the derivative on the Consolidated Balance Sheet at its fair value, and gains and losses that were included in AOCI are deferred until the original hedged item affects earnings. However, if the original hedged transaction is no longer probable of occurring, the related gains and losses incurred as of discontinuation are recognized in current period earnings.

Regardless of accounting treatment, we believe all of our commodity hedges are economic hedges.

Business Combination. We account for acquired businesses using the acquisition method of accounting, which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The difference between the total cost of the acquisition and the sum of the fair values of the acquired tangible and identifiable intangible assets less liabilities is recorded as either goodwill or bargain purchase gain, depending on whether total cost exceeds, or is less than, such net fair values. A bargain purchase gain must be recognized in earnings as of the acquisition date. Any adjustments to the fair values assigned to the assets acquired and the liabilities assumed during the measurement period, which may be up to one year from the acquisition date, has a corresponding increase or decrease to bargain purchase gain or goodwill. Transaction costs are expensed as incurred.

We completed a significant business acquisition during the six month transition period ended December 31, 2011 with our acquisition of LDI's Distillery Business. In connection with this acquisition, we recognized a bargain purchase gain of $13,048 (net of taxes of $8,336) based on the difference between the purchase price ($11,041) and fair values of the assets acquired. We acquired these assets from a distressed seller.

Some of the more significant estimates and assumptions used by management in valuing our acquisition of LDI's Distillery Business and allocating purchase price include: (a) the business enterprise value, which is based on estimated future cash flows (including timing) which are estimated using the income approach and discount rates reflecting the risk inherent in the future cash flows, and (b) the values of land, buildings and equipment, which are estimated using the cost and market approaches. The determination of fair value is based on internal assumptions as well as assistance from third party valuation specialists. The estimated fair values recorded were based on unobservable inputs, which are material and represent Level 3 measures in the fair value hierarchy discussed in Note 14. Derivative Instruments and Fair Value Measurements. There are also judgments made to determine the expected useful life assigned to each class of assets acquired and the duration of liabilities assumed. The judgments made in this determination of the estimated fair value assigned to the assets acquired and liabilities assumed, as well as the estimated useful life of each asset and the duration of each liability, can materially impact the financial statements in periods after acquisition, such as through depreciation and amortization expense.

We believe the resulting bargain purchase gain of $13,048 (net of taxes of $8,336) is reasonable based on the following circumstances: (a) the seller was financially distressed, (b) LDI's Distillery Business was not widely marketed for sales – an investment bank was hired, however efforts were initially unsuccessful, (c) the machinery and equipment are highly specialized for the industry, resulting in limited alternative uses for the property, and (d) independent property appraisals and business valuations indicated that its fair value was in excess of the purchase price. See Note 18. Business Combination.

Impairment of Assets.

Impairment of Investments

We review our investments in non-consolidated subsidiaries for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary include, but are not limited to, the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment. 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.

The Company's evaluation of ICP includes a specific assessment of the fair value of ICP's net assets, after considering ICP capitalization, sales proceeds of other similar plants and expected net sales proceeds that management would expect to be realized if ICP were sold to a third party. Given this specific situation, the Company's management has concluded the fair value of the Company's 30% interest in ICP is greater than the $6,898 carrying value of the ICP investment at December 31, 2012.

No events or conditions occurred during the year ended December 31, 2012, during the six month transition period ended December 31, 2011 or the year ended June 30, 2011 that required us to record an impairment. Given significant contingencies related to ICP (see Note 3. Equity Method Investments), we anticipate that impairment testing will be required at each quarterly reporting period for the foreseeable future given the volatility of the business in which ICP operates and the since fair values can change over time. If there was an other than temporary decline in the fair value of the ICP investment below ICP's carrying value management would record an impairment charge to write down the invested value at that time.

Impairment of Long-Lived Assets

We review long-lived assets, mainly buildings and equipment assets, for impairment when events or circumstances indicate that usage may be limited and carrying values may not be fully recoverable.

In making such assessments, management must make estimates and judgments relating to anticipated revenues and expenses and values of our assets and liabilities. Management's estimates and judgments are based on our historical experience and management's knowledge and understanding of current facts and circumstances. Management derives data for its estimates from both outside appraisals and internal sources, and considers such matters as product mix, unit sales, unit prices, input costs, expected target volume levels in supply contracts and expectations about new customers as well as overall market trends. Should events indicate the assets cannot be used as planned, the realization from alternative uses or disposal is compared to the carrying value. 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.

No events or conditions occurred during the year ended December 31, 2012 or the year ended June 30, 2011 that required us to record an impairment.

We recognized non-cash impairment losses of $706 and $595 during the six month transition period ended December 31, 2011. In measuring the $706 impairment loss, management estimated the undiscounted future cash flows generated by the equipment that manufacture Wheatex® and determined that the estimated cash flows were less than their carrying values. Given the short duration of future cash flow stream, the undiscounted future cash flows were determined to be fair value. In conjunction with the impairment described above, management performed an impairment review of certain other equipment used to produce Wheatex®. In this review, management reviewed the timing of the anticipated business development and recent decisions to not renew leases where Wheatex® is currently produced. The carrying values of the equipment were reduced to fair value, which resulted in a charge of $595. Because of the uncertainty in estimated cash flow estimates, management estimated fair value using a third party appraisal. During the year ended December 31, 2012, we were able to identify a buyer for certain equipment previously used to produce Wheatex® that we had previously impaired. We sold this equipment, resulting in a gain on sale of $889 during the year ended December 31, 2012.

Defined Benefit Retirement Plans. We sponsor two funded, noncontributory qualified Defined Benefit Retirement Plans that cover substantially all our union employees at Atchison and former union employees at Pekin, who did not begin work at ICP, and thus remain our obligation. The benefits under these plans are based upon years of qualified credited service. However, benefit accruals under both plans were frozen in the second quarter of 2010. 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. Historically, the measurement and valuation date of the plans was June 30 of each year; however in conjunction with our change in fiscal year end, the measurement date was changed to December 31, beginning December 31, 2011. 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 December 31, 2012. 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 277 participants, both active and retired. The number of participants was reduced during fiscal 2010, in part due to the transfer of employees to our joint venture, ICP, as described elsewhere. These actions caused a partial settlement and curtailment of our obligation for accrued retirement benefits. The number of participants was further reduced during the year ended December 31, 2012, when we made a change to the plan to terminate health care and life insurance benefits at retirement age for non-union employees who were not at least 60 years old on September 1, 2012, which was treated as a negative plan amendment and a curtailment.

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 union 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.

Consistent with the discussion above, our plan measurement date is now December 31. 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 December 31 (long term rates of return are not considered because the plan has no assets). For the year ended December 31, 2012, the accumulated post retirement benefit obligation ("APBO") decreased to $5,700 from $6,309 at December 31, 2011. A portion of the other post-retirement benefits obligation reduction was due to the previously mentioned negative plan amendment and curtailment during the year ended December 31, 2012. The effect of this plan change was a negative plan amendment of $1,165 and a $79 curtailment. The negative plan amendment includes $1,021 for health care benefits and $144 for life insurance benefits. These amounts will be recognized into income over the average remaining years of service to retirement and the average expected lifetime remaining for health care benefits and life insurance benefits, respectively. The accounting impact for the curtailment resulted in immediate recognition of a benefit related to unamortized prior service cost of $79. 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.

Income Taxes. We account for deferred income tax assets and liabilities resulting from the effects of transactions reported in different periods for financial reporting and income tax under the liability method of accounting for income taxes. This method gives consideration to the future tax consequences of the deferred income tax items and immediately recognizes changes in income tax laws upon enactment as well as applied income tax rates when facts and circumstances warrant such changes. We establish a valuation allowance to reduce deferred tax assets when it is more likely than not that a deferred tax asset may not be realized. Additionally, we follow the provisions of FASB ASC 740, Income Taxes, related to the accounting for uncertainty in income tax positions, which requires management judgment and use of estimates in determining whether the impact of a tax position is "more likely than not" of being sustained on audit by the relevant taxing authority. We consider many factors when evaluating and estimating our tax positions, which may require periodic adjustment and which may not accurately anticipate actual outcomes.

2012 AND RECENT INITIATIVES

Acquisition of the Indiana Distillery

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

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

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

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

Agreement to Develop New Technologies and Products

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

Ownership change of ICP

On February 1, 2012, ICP Holdings, an affiliate of SEACOR Energy Inc., exercised its option to purchase from us an additional 20 percent of the membership interest in ICP, reducing our ownership from 50% to 30%. The proceeds for this sale approximated $9,103. Following its exercise, ICP Holdings owns 70 percent of ICP, is entitled to name 4 of ICP's 6 advisory board members, and generally has control of ICP's day-to-day operations. We own are entitled to name 2 of ICP's 6 advisory board members. The transaction resulted in a pre-tax gain of $4,055 during the quarter ended March 31, 2012.

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

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

Grain Supply Agreements

During the quarter ended March 31, 2012, we entered a grain supply contract for the Indiana Distillery and during the quarter ended June 30, 2012 we extended this agreement for use at our Atchison facility. The grain supply contracts permit us to purchase corn for delivery up to 12 months in the future, at negotiated prices. The pricing for these contracts is based on a formula using several factors. If we don't purchase a minimum amount of grain, the supplier may terminate the contract.

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

Sale of Other Segment

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

Use of Hedge Accounting

Reducing earnings volatility from commodity price swings has long been at the forefront of our risk management strategy, and in early calendar 2011, the Company's Board of Directors made the decision to adopt hedge accounting. Effective July 1, 2011, we elected to restart the use of hedge accounting for qualifying derivative contracts entered into on and after July 1, 2011. For further discussion related to the accounting policy and accounting requirements for our derivative instruments, see Note 1. Nature of Operations and Summary of Significant Accounting Policies – Derivative Instruments and Note 14. Derivative Instruments and Fair Value Measurements set forth in Item 8.

Our utilization of hedge accounting proved to mitigate a portion of our earnings volatility that had been experienced over the few years leading up to the restart of hedge accounting.

In connection with our new grain supply agreements previously discussed, we now order corn anywhere from a month to 12 months in the future. We have determined that the firm commitments to purchase corn under the terms of these new agreements meet the normal purchases and sales exception as defined under ASC 815, Derivative and Hedging, and exclude the fair value of these commitments from recognition in our financial statements until the actual contracts are physically settled. Accordingly, on February 29, 2012, we discontinued hedge accounting and de-designated our cash flow hedges, which resulted in a reclassification of a $27 loss from accumulated other comprehensive income into earnings for the quarter ended March 31, 2012. The volume of corn futures and options and the use of hedge accounting has been reduced under our current strategy. In support of this strategy, as of December 31, 2012, we had no exchange traded corn futures contracts designated as cash flow hedges.

SEGMENT RESULTS

The following is a summary of revenues and pre-tax income (loss) allocated to each reportable operating segment for the year ended December 31, 2012, the year ended December 31, 2011 (unaudited), the six month transition period ended December 31, 2011, the six months ended December 31, 2010 (unaudited) and the year ended June 30, 2011. See Note 12. Operating Segments set forth in Item 8 for additional information regarding our operating segments.

	Years Ended		Six Months Ended		Year Ended
	December 31, 2012	December 31, 2011 (unaudited)	December 31, 2011	December 31, 2010 (unaudited)	June 30, 2011
Distillery Products					
Net Sales	$276,690	$ 221,730	$118,437	$ 85,700	$ 188,993
Pre-Tax Income	14,874	2,997	1,234	15,426	19,720
Ingredient Solutions					
Net Sales	56,488	56,774	27,596	28,587	57,765
Pre-Tax Income	5,217	1,008	1,044	1,863	1,828
Other(1)					
Net Sales	1,157	960	444	642	1,157
Pre-Tax Income (Loss)	(429)	(658)	(274)	(136)	(521)

(1) This segment was sold subsequent to December 31, 2012 as further described in Note 20. Subsequent Events.

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

Income (loss) before income taxes	Years Ended December 31, 2012(1)	Years Ended December 31, 2011(1) (unaudited)	Six Months Ended December 31, 2011(1)	Six Months Ended December 31, 2010(1) (unaudited)	Year Ended June 30, 2011(1)
Distillery products	$ 14,874	$ 2,997	$ 1,234	$ 15,426	$ 19,720
Ingredient solutions	5,217	1,008	1,044	1,863	1,828
Other(2)	(429)	(658)	(274)	(136)	(521)
Corporate	(21,775)	(22,288)	(11,422)	(8,875)	(22,272)
Gain on sale of joint venture interest	4,055	-			
Impairment of long-lived assets	-	(1,301)	(1,301)	-	-
Bargain purchase gain, net of tax	-	13,048	13,048	-	-
Total income (loss) before income Taxes	1,942	(7,194)	2,329	8,278	(1,245)
Provision (benefit) for income taxes	318	(8,272)	(8,306)	34	68
Net income (loss)	$ 1,624	$ 1,078	$ 10,635	$ 8,244	$ (1,313)

(1) 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 our operating segments. For purposes of comparative analysis, gain on sale of joint venture interest, loss on impairment of long-lived assets and bargain purchase gain for the year ended December 31, 2012, the year ended December 31, 2011, the six month transition period ended December 31, 2011, the six months ended December 31, 2010 and for the year ended June 30, 2011 have been excluded from our segments.

(2) This segment was sold subsequent to December 31, 2012 as further described in Note 20. Subsequent Events.

YEAR ENDED DECEMBER 31, 2012 COMPARED TO DECEMBER 31, 2011

Note that in the discussion that follows, the results for year ended December 31, 2011 are unaudited.

GENERAL

Consolidated earnings for the year ended December 31, 2012 increased compared to a year ago, with net income of $1,624 on consolidated net sales of $334,335 versus net income of $1,078 on consolidated net sales of $279,464 for the year ended December 31, 2011.

The increase in net sales was primarily the result of our increased sales volume in the distillery products segment. Our net income increased for the year ended December 31, 2012 primarily due to:

- higher gross margins,
- a temporary production interruption during the quarter ended June 30, 2011, and a lag in the adjustment of alcohol prices we charged to customers compared to rising corn prices,
- a $4,055 gain recorded during the quarter ended March 31, 2012 related to the sale of a 20 percent interest in our joint venture, ICP,
- a smaller loss from our joint venture operations, and
- a favorable swing in earnings on the mark-to-market adjustment for open derivative contracts.

These increases to net income were partially offset by increased selling, general and administrative expenses for the year ended December 31, 2012 related to the Indiana Distillery, which we owned for all of calendar 2012 versus five days during calendar 2011. Also partially offsetting the net income increase was a decrease in the bargain purchase gain, which was $0 and $13,048 for the year ended December 31, 2012 and 2011, respectively.

In our distillery products segment, we achieved both volume and pricing increases compared to the same period a year ago. In our ingredient solutions segment we experienced a decrease in volume, partially offset by an increase in pricing. Other segment sales increased slightly. Pricing in our distillery products segment out-paced the increased costs for corn (exclusive of the impact related to the accounting for open commodity contracts), which led to an increase in return on sales.

In our distillery products segment, return on sales increased from 1.4 percent for the year ended December 31, 2011, to 5.4 percent for the year ended December 31, 2012. Pricing in our ingredients solutions segment outpaced the nominal increase in flour prices, which led to return on sales increasing from 1.8 percent for the year ended December 31, 2011, to 9.2 percent for the year ended December 31, 2012.

DISTILLERY PRODUCTS

Total distillery products sales revenue for the year ended December 31, 2012 increased $54,960, or 24.8 percent, compared to the year ended December 31, 2011. This increase was primarily attributable to an increase in sales of high quality alcohol of 22.4 percent, which was due to a 16.9 percent increase in per unit pricing as well as a 4.7 percent increase in volume compared to the same period a year ago. With the acquisition of the Indiana Distillery, which we owned only five days during the year ended December 31, 2011, we increased production for food grade alcohol sales. Also contributing to the overall sales increase for the year ended December 31, 2012 compared to the year ended December 31, 2011 in the distillery products segment were increases of $14,102 and $2,555, in distillers feed and warehousing revenue, respectively, attributable to increased production capacity and storage, from our acquisition of the Indiana Distillery. Our pricing out-paced the increased costs for corn (exclusive of the impact related to the accounting for open commodity contracts), while natural gas pricing decreased. For the year ended December 31, 2012, the per-bushel cost of corn averaged approximately 5.3 percent higher than the year ended December 31, 2011. On the other hand, the per-million cubic foot cost of natural gas averaged approximately 15.6 percent lower than a year ago. As previously described in “General”, return on sales increased for the year ended December 31, 2012 compared to a year ago, which was primarily driven by a favorable swing in earnings related to the accounting for open commodity contracts. For the year ended December 31, 2012, our unrealized gains and losses on open commodity contracts had a $2,164 favorable impact to cost of sales compared to a $3,993 unfavorable impact for the year ended December 31, 2011.

INGREDIENT SOLUTIONS

For the year ended December 31, 2012, total ingredient solutions sales revenue decreased by $286, or 0.5 percent, compared to the year ended December 31, 2011. Specialty starches saw a 9.4 percent decrease in revenues compared to a year ago due to a volume decrease partially offset by an increase in per unit pricing. Revenues for specialty proteins for the year ended December 31, 2012 increased 1.3 percent compared to the year ended December 31, 2011 due to a volume and pricing increase. Commodity starch saw a 17.0 percent increase in revenues compared to a year ago due to per unit pricing and volume increases. Revenues for commodity starches and proteins totaled 2.7 percent and 0.3 percent of total segment sales for the year ended December 31, 2012, compared to 2.8 percent and 0.1 percent for the year ended December 31, 2011. Our margins in the ingredient solutions segment saw an increase during the year ended December 31, 2012 compared to the year ended December 31, 2011. This was principally due to improved average selling prices and lower natural gas prices partially offset by higher raw material costs for flour. Natural gas prices averaged approximately 15.6 percent lower compared to the year ended December 31, 2011. Flour costs averaged approximately 0.2 percent higher per pound compared to a year ago.

NET SALES

Net sales for the year ended December 31, 2012 increased $54,871, or 19.6 percent, compared to the year ended December 31, 2011. The increase was primarily attributable to increased net sales in the distillery products segment partially offset by decreased net sales in the ingredient solutions segment. Net sales in the distillery products segment as a whole increased primarily as a result of higher volumes of food grade alcohol, as well as from increased prices per unit. Expanded production from our new Indiana Distillery, which we owned only five days during the year ended December 31, 2011, contributed to increased sales of food grade alcohol during the year ended December 31, 2012. The decrease in net sales in the ingredient solutions segment was due to decreased volume partially offset by improved pricing. Our other segment experienced a de minimis increase in net sales due to slight volume and pricing increases.

COST OF SALES

For the year ended December 31, 2012, cost of sales increased $36,526, or 13.4 percent, compared to the year ended December 31, 2011. For the year ended December 31, 2012, cost of sales was 92.5 percent of net sales, which generated a gross profit margin of 7.5 percent. For the year ended December 31, 2011, cost of sales was 97.6 percent of net sales, which generated a gross margin of 2.4 percent.

For the year ended December 31, 2012, our higher overall costs were directly the result of production increases related to distillery products and higher corn prices.   Expansion of our production ability of food grade alcohol from our new Indiana Distillery, which we owned only five days during the year ended December 31, 2011, allowed us to produce a greater volume of distillery products for the year ended December 31, 2012. We saw an increase in the per-bushel cost of corn and the per-pound cost of flour, which averaged 5.3 and 0.2 percent higher, respectively than the year ended December 31, 2011 (exclusive of the impact related to the accounting for open commodity contracts). These cost increases were partially offset by a year-over-year favorable impact related to the accounting for open commodity derivative contracts and lower natural gas prices. For the year ended December 31, 2012, our open commodity contracts had a $2,164 favorable impact to cost of sales compared to a $3,993 unfavorable impact for the year ended December 31, 2011. We used these contracts to mitigate the impact of changes in commodity prices. We saw a decrease in the per-million cubic foot cost of natural gas, which averaged nearly 15.6 percent lower, than the year ended December 31, 2011.

From April 1, 2008 until June 30, 2011, we did not use hedge accounting for our open commodity derivative positions. This was primarily due to the increased record keeping and documentation requirements needed to meet these accounting standards. This accounting policy led to significant volatility in earnings as a result of unrealized losses (or gains) on our open contracts.   Effective July 1, 2011 we elected to restart the use of hedge accounting for qualifying derivative contracts entered into on and after July 1, 2011 until February 29, 2012. During this period of hedge accounting, we typically entered into cash flow hedges to cover between 70 and 80 percent of our monthly anticipated grind. During the quarter ended September 30, 2011, we began to buy and sell derivative instruments to manage market risks associated with ethanol purchases, including ethanol futures and options contracts. These contracts were entered into to mitigate risks associated with our investment in ICP. On February 29, 2012, we de-designated our cash flow hedges. See Note 14. Derivative Instruments and Fair Value Measurements.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2012 increased by $4,549, or 20.7 percent, compared to the year ended December 31, 2011. This increase was primarily due to the inclusion of costs of LDI's Distillery Business in as well as higher management incentives under existing programs. These increases were partially offset by lower professional fees for the year ended December 31, 2012 as compared to the year ended December 31, 2011, when we incurred additional professional fees related primarily to our corporate reorganization, our change in year end, and our acquisition of LDI's Distillery Business.

OTHER OPERATING COSTS AND (GAINS) LOSSES ON SALE OF ASSETS

Other operating costs for the year ended December 31, 2012 decreased $1,108, compared to the year ended December 31, 2011. The decrease was primarily due to net gain on sale of assets of $832 for the year ended December 31, 2012 compared to a net loss on sale of assets of $117 for the year ended December 31, 2011.

GAIN ON SALE OF JOINT VENTURE INTEREST

As previously discussed, on February 1, 2012, ICP Holdings exercised its option to purchase from us an additional 20 percent of the membership interest in ICP. The sales price was $9,103 and the transaction resulted in a pre-tax gain of

$4,055 for the year ended December 31, 2012.

INTEREST EXPENSE

Interest expense for the year ended December 31, 2012 increased $448 compared to the year ended December 31, 2011. This increase was primarily the result of higher average daily balance and interest rate on our line of credit as well as higher long term debt compared to a year ago. Increased borrowings resulted from the LDI acquisition as well as working capital increases.

EQUITY IN EARNINGS (LOSS)

ICP

On February 1, 2012, ICP Holdings exercised its option to purchase an additional 20 percent of the membership interest in ICP. Following its exercise, we own 30 percent of ICP.

For the year ended December 31, 2012, ICP had a loss of $1,539. As a 50 percent owner for the month of January 2012 and a 30 percent owner for the months of February through December 2012, our portion of the loss was $327. For the year ended December 31, 2011, ICP had a loss of $5,708. As a 50 percent owner, our portion of the loss was $2,854. We do not plan to source products from ICP after March 2013.

As further described in Note 3. Equity Method Investments, ICP's Limited Liability Company Agreement gives us and our joint venture partner, ICP Holdings, a subsidiary of SEACOR Energy Inc., certain rights to shut down the Pekin plant if ICP operates at an EBITDA loss of $500 in any quarter. Such rights are conditional in certain instances but are absolute if EBITDA losses aggregate $1,500 over any three consecutive quarters or if ICP's net working capital is less than $2,500. ICP experienced EBITDA losses in excess of $500 in the quarters ended December 31, 2009, March 31, 2010, December 31, 2010, June 30, 2011 and September 30, 2011. For the three consecutive quarters ending both September 30, 2011 and June 30, 2011, ICP experienced an EBITDA loss in excess of the $1,500 aggregate loss threshold amount permitted over any three consecutive quarters. Losses of such nature are also events of default under ICP's term loan and revolving credit facility. Both ICP Holdings and ICP's lender, an affiliate of SEACOR Energy Inc., permanently waived rights for covenant violations through September 30, 2011.

D.M. Ingredients, GmbH ("DMI")

For the years ended December 31, 2012 and 2011, DMI had earnings of $52 and 131, respectively. As a 50 percent joint venture holder, our equity in earnings was $26 and $65 for the years ended December 31, 2012 and 2011, respectively.

DMI's functional currency is the European Union Euro. Accordingly, changes in the holding value of our 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.

NET INCOME (LOSS)

As the result of the factors outlined above, we experienced a net income of $1,624 for the year ended December 31, 2012, respectively, compared to net income of $1,078 for the year ended December 31, 2011, respectively.

SIX MONTH TRANSITION PERIOD ENDED DECEMBER 31, 2011 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2010

Note that in the discussion that follows, the results for six months ended December 31, 2010 are unaudited.

GENERAL

Consolidated earnings for the six month transition period ended December 31, 2011 increased by $2,391, or 29.0 percent, compared to the same period a year ago with a net income of $10,635 on consolidated sales of $146,477 versus net income of $8,244 on consolidated sales of $114,929 for the six months ended December 31, 2010.

The increase in earnings was the result of a $13,048 bargain purchase gain (net of taxes of $8,336) associated with our acquisition of LDI's Distillery Business, partially offset by earnings decreases in our distillery products, ingredients solutions and other segments, a $1,301 impairment on long-lived assets and a $551 loss related to our joint venture operations.

In our distillery products segment, we achieved both volume and overall pricing increases compared to the same period a year ago. In our ingredient solutions segment, we achieved pricing increases, however we experienced a decrease in volume compared to the same period a year ago. Other segment sales declined slightly. While our pricing increased across the distillery products and ingredient solutions segments, these pricing increases were outpaced by the increased costs for corn and flour. Increased raw material costs had the most significant impact in our distillery products segment, where our return on sales decreased to 1.0 percent for the six month transition period ended December 31, 2011, from 18.0 percent for the six months ended December 31, 2010. The ingredient solutions segment pricing was similarly impacted, where our return on sales decreased to 3.8 percent for the six month transition period ended December 31, 2011 from 6.5 percent for the six months ended December 31, 2010. Also contributing to our overall decrease in earnings across all segments were production interruptions at our Atchison plant during September, 2011, a 10-day production shutdown of our protein and starch products during December, 2011 and the unfavorable impact of losses on open derivative commodity contracts not designated as cash flow hedges.

DISTILLERY PRODUCTS

Total distillery products sales revenue for the six month transition period ended December 31, 2011 increased $32,737, or 38.2 percent, compared to the six months ended December 31, 2010. This increase was primarily attributable to an increase of 35.6 percent in volume of high quality food grade alcohol. The increase in high quality food grade alcohol was due to a 24.7 percent increase in per unit pricing as well as an 8.8 percent increase in volume for the same period. Also contributing to the increase in sales revenue were $5,995 and $930 increases in distillers feed revenue and fuel grade alcohol, respectively. While overall revenues for distillery products increased for the six month transition period ended December 31, 2011 as compared to the same period a year ago, return on sales decreased as previously described in "-General". The decrease in our earnings was due to a significant increase in corn prices, partially offset by lower prices for natural gas and increased average prices for the segment as a whole. While our overall pricing has improved, corn price increases outpaced our sales price increases to our customers. For the six month transition period ended December 31, 2011, the per-bushel cost of corn averaged nearly 53.4 percent higher than the six months ended December 31, 2010. The per-million cubic foot cost of natural gas averaged nearly 8.2 percent lower than the same period a year ago. Our ICP joint venture was similarly impacted by higher corn prices, which contributed to our low margin yields for the six month transition period ended December 31, 2011 and the comparable period a year ago.

INGREDIENT SOLUTIONS

Total ingredient solutions sales revenue for the six month transition period ended December 31, 2011 decreased by $991, or 3.5 percent, compared to the six months ended December 31, 2010. Revenues for specialty proteins for the six month transition period ended December 31, 2011 decreased 11.0 percent compared to the six months ended December 31, 2010 due to a decrease in volume, partially offset by improved per unit pricing. Specialty starches saw a 0.9 percent decrease in revenues compared to the same period a year ago due to a volume decrease partially offset by an increase in per unit pricing. Given that our focus remains on the production and commercialization of specialty ingredients, we have seen revenues for commodity starches and proteins remain low as a percentage of total segment sales; they totaled 7.5 percent and 0.4 percent of total segment sales for the six months ended December 31, 2011 and 2010, respectively. In addition to the overall decrease in revenues for the ingredient solutions segment, our margins saw a slight decrease during the six month transition period ended December 31, 2011 compared to the six months ended December 31, 2010. This was principally due to our sales prices being outpaced by the cost of flour and lower volumes. During December, 2011, we had a planned production shutdown of our protein and starch products in order to stabilize production with market inventory levels. Natural gas prices averaged approximately 8.2 percent lower compared to the six months ended December 31, 2010. Flour costs, on the other hand, averaged approximately 34.0 percent higher per pound compared to the same period a year ago.

NET SALES

Net sales for the six month transition period ended December 31, 2011 increased $31,548, or 27.4 percent, compared to the six months ended December 31, 2010. The increase was attributable to increased net sales in the distillery products segment. Net sales in the distillery products segment as a whole increased primarily as a result of higher volumes of food grade alcohol along with higher average selling prices for the segment as a whole. We saw a decrease in net sales in the ingredient solutions segment, driven primarily by decreased volume of specialty proteins partially offset by higher segment average selling prices. Net sales for our other segment decreased due to a lower volumes of our plant-based biopolymer products.

COST OF SALES

For the six month transition period ended December 31, 2011, cost of sales increased $47,748, or 49.9 percent, compared to the six months ended December 31, 2010. Our higher overall costs were directly the result of higher corn and flour prices, the unfavorable impact of losses on open derivative commodity contracts not designated as cash flow hedges, and increased transportation costs related to a flood in Atchison, Kansas. We saw increases in the per-bushel cost of corn and the per-pound cost of flour, which averaged nearly 53.4 percent and 34.0 percent higher, respectively, than the six months ended December 31, 2010. For the six month transition period ended December 31, 2011, cost of sales was 98.0 percent of net sales, which generated a gross profit margin of 2.0 percent. For the six months ended December 31, 2010, cost of sales was 83.3 percent of net sales, which generated a gross margin of 16.7 percent.

Cost of sales was also impacted by changes in the fair value of open derivatives contracts not designated as cash flow hedges. For the six month transition period ended December 31, 2011, our open derivative commodity contracts not designated as cash flow hedges had a $634 unfavorable impact to cost of sales, compared to a $1,694 favorable impact for the six months ended December 31, 2010. These cost increases were partially offset by a decrease in the per-million cubic foot cost of natural gas, which decreased 8.2 percent compared to the same period a year ago.

We restarted hedge accounting for qualifying derivative contracts entered into on and after July 1, 2011 as further discussed in “-General and Critical Accounting Policies and Estimates and Derivatives and Hedging Activities” above and in Note 1.Nature of Operations and Summary of Significant Accounting Policies set forth in Item 8, Financial Statements and Supplementary Data of this Form 10-K and incorporated herein by reference. For derivatives that qualify as hedges for accounting purposes, the change in fair value has no net impact on earnings, to the extent the derivative is considered effective, until the hedged transaction affects earnings. For derivatives that are not designated as hedging instruments for accounting purposes, or for the ineffective portion of a hedging instrument, the change in fair value affects current period net earnings. Had we not used hedge accounting for qualifying derivatives entered into on or after July 1, 2011, we would have recognized an additional $127 of losses in current period earnings.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six month transition period ended December 31, 2011 increased $830, or 7.8 percent compared to the six months ended December 31, 2010, due primarily to an increase in acquisition costs related to the purchase of LDI's Distillery Business and general compensation increases.

OTHER OPERATING COSTS AND (GAINS) LOSSES ON SALE OF ASSETS

Other operating cost for the six month transition period ended December 31, 2011 decreased $536, or 82.5 percent, compared to the six months ended December 31, 2010. The decrease was primarily due to the reduction in the loss on sale of assets, which was $117 for the six month transition period ended December 31, 2011 compared to $322 for the six months ended December 31, 2010. Also contributing to this decrease is a $274 expense reduction recorded during the six month transition period ended December 31, 2011 related to our lease termination restructuring accrual as further described in Note 9. Restructuring Costs and Loss on Impairment of Assets.

BARGAIN PURCHASE GAIN (NET OF TAX)

A bargain purchase gain of $13,048 (net of taxes of $8,336) was recorded during the six month transition period ended December 31, 2011 based on the excess of the fair value of the net assets acquired in the acquisition of LDI's Distillery Business over the purchase price. The final purchase price adjustment may change the recorded gain. Any final adjustments are not expected to be material. There was no bargain purchase gain for the six months ended December 31, 2010.

OTHER INCOME, NET

Other income, net, increased $45 for the six month transition period ended December 31, 2011 compared to the six months ended December 31, 2010. This increase was principally attributable to changes in interest capitalized as well as to the effect of certain other non-recurring, non-operating revenue items.

INTEREST EXPENSE

Interest expense for the six month transition period ended December 31, 2011 increased $64, or 24.1 percent, compared to the six months ended December 31, 2010. This increase was the result of an increase in the average daily balance compared to the same period in the prior year, partially offset by a lower average interest rate on our credit facility.

EQUITY IN EARNINGS (LOSS)

ICP

For the six month transition period ended December 31, 2011, ICP had a loss of $1,240. As a 50 percent joint venture member during the transition period, our portion of the net loss was $620. ICP incurred a loss due to raw material price increases and unrealized losses on open derivative contracts. For the six months ended December 31, 2010, ICP had earnings of $1,328. As a 50 percent joint venture member for the six months ended December 31, 2010, our portion of the earnings was $664.

D.M. Ingredients, GmbH ("DMI")

For the six month transition period ended December 31, 2011, DMI had earnings of $138. As a 50 percent joint venture member, our portion of the earnings was $69 for the six month transition period ended December 31,

2011. For the six months ended December 31, 2010, DMI incurred a net loss of $64. As a 50 percent joint venture member, our equity in this loss was $32 for the six months ended December 31, 2010.

DMI's functional currency is the European Union Euro. Accordingly, changes in the holding value of our 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.

INCOME TAXES

For the six month transition period ended December 31, 2011 and for the six month period ended December 31, 2010, the effective tax rate was (358.2) percent and 0.4 percent, respectively. For the six month transition period ended December 31, 2011, the effective rate differed from our statutory rate primarily due to the bargain purchase gain transaction and a change in the valuation allowance maintained against deferred tax assets. We believe it is more likely than not that we will be able to utilize additional income tax benefits from our existing deferred tax assets that were previously offset by a valuation allowance. For the six month ended December 31, 2010, tax expense was negligible due to the use of net operating loss carryforwards previously reserved. For further discussion on the deferred income tax valuation allowance, see Note 5. Income Taxes set forth in Item 8.

NET INCOME

As the result of the factors outlined above, we experienced net income of $10,635 on net sales of $146,477 for the six month transition period ended December 31, 2011 compared to net income of $8,244 on net sales of $114,929 for the six months ended December 31, 2010.

QUARTERLY FINANCIAL INFORMATION

Our sales have not been seasonal during the year ended December 31, 2012, the six month transition period ended December 31, 2011, or during the year ended June 30, 2011. The table below shows quarterly information for the year ended December 31, 2012, the six month transition period ended December 31, 2011, and the year ended June 30, 2011.

Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Year Ended December 31, 2012(1)(2)					
Net sales	$ 86,344	$ 85,534	$ 76,107	$ 86,350	$334,335
Gross profit	5627	5,916	6,060	7,420	25,023
Net income (loss)	1,876	(850)	418	180	1,624
Earnings (loss) per share (diluted)(5)	$ 0.10	$ (0.05)	$ 0.02	$ 0.01	$0.09
Six Months Ended December 31, 2011(3)(4)					
Net sales	$ 76,138	$ 70,339	n/a	n/a	$146,477
Gross profit	2,791	155	n/a	n/a	2,946
Net income (loss)	(5,509)	16,144	n/a	n/a	10,635
Earnings (loss) per share (diluted)(5)	$ (0.31)	$ 0.89	n/a	n/a	$0.59
Year Ended June 30, 2011					
Net sales	$ 56,978	$ 57,951	$ 64,188	$ 68,798	$247,915
Gross profit (loss)	10,354	8,792	6,519	(2,788)	22,877
Net income (loss)	5,002	3,242	701	(10,258)	(1,313)
Earnings (loss) per share (diluted)(5)	$ 0.28	$ 0.18	$ 0.04	$ (0.58)	$(0.07)

(1) Net income for the first quarter of the year ended December 31, 2012 includes a $4,055 gain on sale of joint venture interest.

(2) Net income for the third quarter of the year ended December 31, 2012 includes an $889 gain on sale equipment that was previously impaired.

(3) Net income for the second quarter of the transition period ending December 31, 2011 includes a $13,048 bargain purchase gain (net of taxes of $8,336) related to the acquisition of LDI's Distillery Business.

(4) Net income for the second quarter of the transition period ending December 31, 2011 includes a $1,301 impairment loss on long-lived assets.

(5) Earnings (loss) per share per quarter does not sum to total earnings (loss) per share due to rounding as well as due to allocation of losses under the two class method during periods of losses. For the quarters ended December 31, 2012 and June 30, 2012, the losses were fully allocated common stock.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of cash in the ordinary course are for the cost of raw materials and energy used in our production processes, salaries, debt service obligations on our borrowings, and capital expenditures. Generally, during periods when commodities prices are rising, our operations require increased use of cash to support inventory acquisition. Supply for commodities has been tight during the year ended December 31, 2012 due to the drought in the United States. Market prices for commodities, including corn, were near historic highs nearly throughout the second half of 2012. Our principal sources of cash are revenues from the products we make and our revolving credit facility. We also have used cash for acquisitions and received cash from investment or asset dispositions and tax refunds.

On February 1, 2012, we sold a 20 percent interest in ICP to ICP Holdings for $9,103. The sale resulted when ICP Holdings exercised an option it acquired from Processing when ICP Holdings purchased its existing interest in ICP in 2009.

As we now purchase corn for future delivery under new grain supply agreements, we have reduced the volume of our open corn futures and options contracts at December 31, 2012. As a result, our restricted cash requirements have decreased.

On December 27, 2011, we closed our acquisition of LDI's Distillery Business. The purchase price of the acquisition was equal to the current assets minus current liabilities as of December 27, 2011, which was estimated at closing to be $11,041. The purchase price was funded through our bank revolving credit facility and was subject to post closing adjustments for working capital true-ups.

On June 28, 2011, we financed a major portion of the new water cooling towers and related equipment being installed at our Atchison facility to U.S. Bancorp Equipment Finance, Inc. for proceeds of $7,335. The proceeds are included in cash as of June 30, 2011. Processing entered into a lease with U.S. Bancorp for this same equipment and we will make monthly payments under the lease of approximately $110 for 72 months are treated as proceeds from issuance of long term debt. See Note 4. Corporate Borrowings and Capital Lease Obligations set forth in Item 8 further discussion of this arrangement.

Under agreements that we made in March 2011 with a third-party logistics company that contracts with transportation companies, fees for the previous six months are paid in early January and July of each calendar year. We paid $7,770 for our second billing under this agreement on January 6, 2012 and we paid $6,864 for our third billing under this agreement on July 6, 2012. During August 2012, we amended our agreements with the third-party logistics company that contracts with transportation companies so that invoices for fees will be submitted to us on a weekly basis with 90 days to pay each invoice. In conjunction with this amendment, we established a $2,000 letter of credit.

On February 28, 2013, the Board of Directors declared a five (5) cent dividend per share of common stock. The dividend will be paid on April 10, 2013 to holders of record on March 18, 2013.

On March 1, 2012, the Board of Directors declared a five (5) cent dividend per common stock, payable to holders of record on March 22, 2012. The $914 dividend was paid on April 19, 2012.

On August 25, 2011 the Board of Directors declared a five (5) cent dividend per share of common stock, payable to holders of record on September 15, 2011. The $906 dividend was paid on October 13, 2011.

On August 26, 2010, the Board of Directors declared a five (5) cent dividend per share of common stock, payable to holders of record on September 15, 2010. The $891 dividend was paid October 6, 2010.

We have budgeted approximately $8,000 in routine capital expenditures over the next twelve months related to other improvements in and replacements of existing plant and equipment and information technology. As of December 31, 2012, we had contracts to acquire capital assets of approximately $585.

We expect our sources of cash to be adequate to provide for budgeted capital expenditures and anticipated operating requirements.

The following table is presented as a measure of our liquidity and financial condition as of December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Cash and cash equivalents	$-	$383
Working capital	48,320	18,887
Amounts available under lines of credit	18,381	23,358
Credit facility, notes payable and long-term debt	32,744	29,664
Stockholders' equity	86,827	84,430

Certain components of our liquidity and financial results were as follows:

	Years Ended		Six Months Ended		Year Ended
	December 31, 2012	December 31, 2011 (unaudited)	December 31, 2011	December 31, 2010 (unaudited)	June 30, 2011
Depreciation and amortization	$11,568	$ 9,807	$5,047	$ 4,083	$ 8,843
Capital expenditures	9,229	21,514	12,403	3,663	12,775
Cash flows from operations	(5,026)	(5,480)	(9,603)	(1,160)	3,139

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CASH FLOW INFORMATION

Summary cash flow information follows for:

	Years Ended		Six Months Ended		Year Ended
	December 31, 2012	December 31, 2011 (unaudited)	December 31, 2011	December 31, 2010 (unaudited)	June 30, 2011
Cash flows provided by (used in):					
Operating activities	$(5,026)	$ (5,480)	$(9,603)	$ (1,160)	$ 3,139
Investing activities	3,205	(21,435)	(12,324)	(3,663)	(12,775)
Financing activities	1,438	26,826	14,707	(1,074)	10,870
Increase in cash and cash equivalents	(383)	(89)	(7,220)	(5,897)	1,234
Cash and cash equivalents at beginning of period	383	472	7,603	6,369	6,369
Cash and cash equivalents at end of period	$-	$ 383	$383	$ 472	$ 7,603

During the year ended December 31, 2012, our consolidated cash decreased $383 to $0 as compared to the year ended December 31, 2011, in which there was a $89 decrease in cash. Operating cash outflows improved slightly primarily from improved earnings (after giving effect to a non-cash deductions), and improvements in restricted cash. These increases to operating cash flow were partially offset by decreases in accounts payable and accounts payable to affiliate and increases in inventory and receivables. Cash outflows related to capital expenditures during the year ended December 31, 2012 decreased compared to the year ended December 31, 2011, while proceeds from the disposition of property and of our 20 percent interest in ICP increased. During the year ended December 31, 2012, borrowings on debt exceeded payments on debt by $3,080 as compared to the year ended December 31, 2011, in which borrowings exceeded payments on debt by $27,155.

During the six month transition period ended December 31, 2011, our consolidated cash decreased $7,220 to $383 as compared to the six months ended December 31, 2010, in which there was a $5,897 decrease. Decreased operating cash flow resulted from lower net income (before considering the $13,084 bargain purchase gain, net of taxes of $8,336). Contributing to decreased operating cash flows was an increase in restricted cash and an $8,340 non-cash deduction related to deferred income taxes, partially offset by a decrease in accounts receivable (net of receivables purchased in our acquisition of LDI’s Distillery Business) and additional cash provided by changes in accounts payable to affiliate and accrued expenses (net of accrued expenses assumed from acquisition of LDI’s Distillery Business). Cash outflows related to capital expenditures during the six month transition period ended December 31, 2011 totaled $12,403 (which includes $10,901 related to the acquisition of LDI’s Distillery Business) compared to the six months ended December 31, 2010, which totaled $3,663. During the six month transition period ended December 31, 2011, borrowings on debt exceeded payments on debt by $15,599 as compared to the six months ended December 31, 2010, in which payments on debt exceeded borrowings by $262.

Operating Cash Flows. Summary operating cash flow information for the year ended December 31, 2012, year ended December 31, 2011 (unaudited), the six month transition period ended December 31, 2011, the six months ended December 31, 2010 (unaudited), and for the year ended June 30, 2011, is as follows:

	Years Ended		Six Months Ended		Year Ended
	December 31, 2012	December 31, 2011 (unaudited)	December 31, 2011	December 31, 2010 (unaudited)	June 30, 2011
Net income (loss)	$1,624	$ 1,078	$10,635	$ 8,244	$ (1,313)
Depreciation and amortization	11,568	9,807	5,047	4,083	8,843
Gain on sale of joint venture interest	(4,055)	-	-	-	-
Loss (gain) on sale of assets	(832)	117	117	322	322
Share based compensation	969	1,119	510	-	1,164
Bargain purchase gain, net of tax	-	(13,048)	(13,048)	-	-
Loss on impairment of assets	-	1,301	1,301	-	-
Deferred income taxes	-	(8,340)	(8,340)	-	-
Equity in loss (earnings)	301	2,723	551	(632)	1,540
Changes in operating assets and liabilities, net of acquisition:					
Restricted cash	7,593	(7,115)	(6,577)	481	(57)
Receivables, net	(7,521)	(1,861)	4,368	(3,941)	(10,170)
Inventory	(5,450)	(197)	(4,082)	(2,505)	(2,568))
Prepaid expenses	261	154	244	406	316
Refundable income taxes	324	(78)	(37)	94	53
Accounts payable	(4,302)	6,545	412	(226)	5,907
Accounts payable to affiliate, net	(2,159)	2,405	1	(1,189)	1,215
Accrued expenses	593	(367)	(650)	(3,394)	(3,111)
Change in derivatives	(2,034)	(220)	(220)	(1,681)	2,267
Deferred credit	(630)	(900)	(303)	(284)	(881)
Accrued retirement health and life insurance benefits and other noncurrent liabilities	(1,081)	(689)	(76)	(46)	(659)
Other	(195)	2,086	544	(892)	271
Net cash provided by (used in) operating activities	$(5,026)	$ (5,480)	$(9,603)	$ (1,160)	$ 3,139

Operating cash outflows improved $454 to $(5,026) from $(5,480) for the year ended December 31, 2012. This slight decrease in operating cash outflow was primarily from improved earnings (after giving effect to a $4,055 deduction related to the non-cash gain on sale of our 20 percent interest in ICP for the year ended December 31, 2012; a $832 deduction related to a non-cash gain on sale of equipment for the year ended December 31 ,2012; a bargain purchase gain for the year ended December 31, 2011; and a smaller loss related to our equity method investments for the year end December 31, 2012 as compared to the year ended December 31, 2011), and year-over-year improvement in restricted cash as well as the timing of cash receipts and disbursements. The increase in sales, which contributed to the increase in receivables was due largely to the acquisition of the LDI Distillery Business, which we owned only five days during the year ended December 31, 2011. For the year ended December 31, 2012, we saw a decrease in restricted cash of $7,593 that was required to be pledged to the broker for our exchange-traded commodity instruments, due to decline in the number of open market positions and the fair market value of our open market positions relative to the respective contract prices, compared to an increase in the pledge requirement of $7,115 for the year ended December 31, 2011.

The above factors, which served to increase operating cash flow, were partially offset by the following:

- for the year ended December 31, 2012, an increase in receivables of $7,521 compared to an increase of $1,861 for the year ended December 31, 2011;
- for the year ended December 31, 2012, an increase in inventory of $5,450 compared to an increase of $197 for the year ended December 31, 2011. The acquisition of the Indiana Distillery, which we did not own a year ago, contributed to the increase in inventory. This is consistent with our strategy of barreling more product;

- for the year ended December 31, 2012, a decrease in accounts payable of $4,302 compared to an increase of $6,545 for the year ended December 31, 2011; and
- for the year ended December 31, 2012, a decrease in accounts payable to affiliate of $2,159 compared to an increase of $2,405 for the year ended December 31, 2011.

Cash flow from operations for the six month transition period ended December 31, 2011 decreased $8,443 to $(9,603) from $(1,160) for the six months ended December 31, 2010. This decrease in operating cash flow was primarily the result of a $13,048 non-cash deduction related to a bargain purchase gain (net of taxes of $8,336), and a $8,340 non-cash deduction related to deferred income taxes partially offset by a $2,391 increase in earnings, from net income of $8,244 for the six months ended December 31, 2010 to net income of $10,635 for the six month transition period ended December 31, 2011. Also contributing to decreased operating cash flows was an increase in restricted cash of $6,577 for the six months ended December 31, 2011 compared to a $481 decrease in restricted cash for the six months ended December 31, 2010. The increase in the restricted cash balance is due to a deposit required as a result of a decline in the market value of open contract positions relative to the respective contracts at December 31, 2011 as compared to June 30, 2011.

These factors, which served to decrease operating cash flow, were partially offset by the following:

- for the six month transition period ended December 31, 2011, a decrease in accounts receivable (net of receivables purchased in our acquisition of LDI's Distillery Business) generated $4,368 of positive cash flows compared to a $3,941 use of cash for the six months ended December 31, 2011;
- for the six month transition period ended December 31, 2011, an increase in accounts payable to affiliate generated $1 of positive cash flows compared to a $1,189 use of cash for the six months ended December 31, 2011; and
- a smaller period-over-period decrease in accrued expenses. For the six month transition period ended December 31, 2011, a decrease in accrued expenses (net of accrued expenses assumed from our acquisition of LDI's Distillery Business) used $650 of cash compared to a $3,394 use of cash for the six months ended December 31, 2010.

Investing Cash Flows. Net investing cash flow for the year ended December 31, 2012 was $3,205 compared to $(21,435) for the year ended December 31, 2011. During the year ended December 31, 2012, we made capital investments of $9,229 and we also made a $500 expenditure to fund our portion of the capital improvements at ICP. During the year ended December 31, 2012, we received proceeds from the disposition of property and equipment of $3,263, of which $2,232 was classified as Assets held for sale at December 31, 2011. We also received proceeds of $9,103 related to the sale of a 20% interest in ICP during the year ended December 31, 2012. During the year ended December 31, 2011, we made capital investments of $21,514 and received proceeds of $79 from the disposition of property and equipment.

Net investing cash flow for the six month transition period ended December 31, 2011 was $(12,324) compared to $(3,663) for the six months ended December 31, 2010. During the six month transition period ended December 31, 2011, we made capital investments of $12,403, of which $10,901 related to our acquisition of LDI's Distillery Business. During the six months ended December 31, 2010, we made capital investments of $3,663.

Financing Cash Flows. Net financing cash flow for the year ended December 31, 2012 was $1,438 compared to $26,826 for the year ended December 31, 2011, for a net decrease in financing cash flow of $25,388. During the year ended December 31, 2012, we had net borrowings of $4,751 under our operating line of credit compared to net borrowings of $21,056 for the year ended December 31, 2011. Our net payments on long-term debt totaled $1,671 for the year ended December 31, 2012 compared to net borrowings of $6,099 for the year ended December 31, 2011. We also incurred $644 of loan fees during the year ended December 31, 2012.

Net financing cash flow for the six month transition period ended December 31, 2011 was $14,707 compared to $(1,074) for the six months ended December 31, 2010, for a net increase in financing cash flow of $15,781. During the six month transition period ended December 31, 2011, we had net borrowings of $16,484 under our operating line of credit compared to net borrowings of $86 for the six months ended December 31, 2010. This increase in financing cash flow was partially offset by an increase in payments on long-term debt, which totaled $885 for the six month transition period ended December 31, 2011 compared to payments on long-term debt of $348 for the six months ended December 31, 2010.

CAPITAL EXPENDITURES

For the year ended December 31, 2012, we made $9,707 of capital investments, of which $9,229 was a use of cash and $478 remained payable at December 31, 2012. The capital investments related primarily to facility improvements and upgrades.

For the six month transition period ended December 31, 2011, we made capital investments of $13,203, of which $12,403 was a use of cash and $800 remained payable at December 31, 2011. The primary investments were our acquisition of LDI's Distillery Business for $11,041 and improvements to the Atchison facility. For the year ended June 30, 2011, we made capital investments of approximately $14,581, of which $12,775 was a use of cash and $1,806 remained payable at June 30, 2011. The primary investments were the flour mill site, the SAP computer system, and the water cooling system project as further described below. For the year ended June 30, 2010, we incurred $2,062 in capital expenditures, primarily related to production and capacity upgrades. For the year ended June 30, 2009, we incurred $2,069 in capital expenditures, primarily related to production and capacity upgrades. We also made improvements to our information technology property and data center in both years.

In fiscal 2011 we began work on a major capital project designed to provide environmental benefits at our Atchison, Kansas distillery while also enhancing alcohol production capabilities. The project involved the installation of a new, state-of-the art water cooling system to replace older equipment used to supply water for multiple components of the distillation process. It was completed during July 2011 at a cost of approximately $10,000.

LINE OF CREDIT

Reference is made to Note 4. Corporate Borrowings and Capital Lease Obligations and above for information on our Credit Agreement. On November 2, 2012, we entered into an Amended and Restated Credit Agreement, and ancillary documents with Wells Fargo (the "Credit Agreement"). The Credit Agreement amends our Former Credit Agreement with the lender in all material respects, key terms of the amended agreement are as follows:

The Credit Agreement matures on November 2, 2017, provides for letters of credit and revolving loans with a Maximum Revolver Commitment of $55,000, subject to borrowing base limitations, generally based on the value of eligible inventory, as defined in the Credit Agreement, and accounts receivable owned by the Borrowers. The Credit Agreement includes a possible future $5,000 fixed asset sub-line facility that increases the applicable borrowing base by up to $5,000 in the event that certain unencumbered equipment and real estate is mortgaged (e.g., the equipment and real estate at the Lawrenceburg distillery) and certain Excess Availability (as defined in the Credit Agreement) thresholds are satisfied. Borrowings under the Credit Agreement may bear interest either on a Base Rate model or a LIBOR Rate model. For LIBOR Rate Loans, the interest rate is equal to the per annum LIBOR Rate (based on 1, 2, 3 or 6 months) plus 2.00 – 2.50 % (depending upon the average Excess Availability, as described below). For Base Rate Loans, the interest rate shall be the greatest of (a) 1.00%, (b) the Federal Funds Rate plus 0.50%, (c) one-month LIBOR Rate plus 1.00%, and (d) Wells Fargo's "prime rate" as announced from time to time. The Credit Agreement provides for an unused line fee equal to 0.375% per annum multiplied by the difference of the total revolving loan commitment less the average outstanding revolving loans for the given period, as well as customary field examination and appraisal fees, letter of credit fees and other administrative fees.

We had $22,917 outstanding at November 2, 2012 under the Former Credit Agreement, which became the outstanding amount under the Credit Agreement. The amount of borrowings which we may make is subject to borrowing base limitations. As of December 31, 2012, our outstanding borrowings under this facility were $25,893, leaving $18,381 available for additional borrowings after giving effect to a $2,000 outstanding letter of credit that we have with one of our vendors.

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FINANCIAL COVENANTS

Under the Credit Agreement, we must comply with the following covenants:

Financial Covenants. For all periods in which the Excess Availability (which is the total availability for loans, less the Company's and its subsidiaries' trade payables aged in excess of historical levels and book overdrafts) is less than $9,625, we are required to have a Fixed Charge Coverage Ratio ("FCC")

[FCC means, with respect to any fiscal period and with respect to Parent determined on a consolidated basis in accordance with GAAP, the ratio of (i) EBITDA for such period minus unfinanced Capital Expenditures made (to the extent not already incurred in a prior period) or incurred during such period, to (ii) Fixed Charges for such period]

measured on a month end tailing basis, of at least 1.10:1.00 (a) for each month-end until October 31, 2013, the trailing months from November 1, 2012 through such date, and (b) as of each month-end commencing November 30, 2013 using a trailing twelve-month measure. Moreover, we are required to maintain Excess Availability on a consolidated basis of at least $4,000 at all times prior to the later of (x) November 2, 2013 and (y) the last day of the first twelve month period for which Borrowers have maintained a Fixed Charge Coverage Ratio of at least 1.10:1.00.

Other Restrictions. If we do not maintain Excess Availability of at least $9,625 and a Fixed Charge Coverage Ratio for the most recently ended twelve months of at least 1.20:1.00, then certain restrictions and payment limitations apply, including payment of dividends and distributions. We are also generally prohibited from incurring any liabilities, or acquiring any assets, except for certain ordinary holding company activities as further described in the Credit Agreement. Wells Fargo has significant lending discretion under the Credit Agreement, and may modify borrowing base and advance rates, the effect of which may limit the amount of loans that we may have outstanding at any given time. Wells Fargo may also terminate or accelerate our obligations under the Credit Agreement upon the occurrence of various events in addition to payment defaults and other breaches, including such matters as a change of control of the Company, defaults under other material contracts with third parties, and ERISA violations.

Financial Covenant Compliance/Violations

Under the Former Credit Agreement in effect at December 31, 2011, we were not in compliance with our Former Credit Agreement's minimum fixed charge coverage ratio of not less than 2.00 to 1.00 for the 12-month period ended December 31, 2011. We obtained a waiver from Wells Fargo for this default. We also obtained a waiver from Wells Fargo for noncompliance related to an administrative matter that requires submission of specified information to the lender within 120 days of year end for the year ending June 30, 2011.

Under the Former Credit Agreement as in effect at September 30, 2012, we were required to report adjusted net income each period. We were not in compliance with its Adjusted Net Income requirement to exceed the $(500) requirement at September 30, 2012. We obtained a waiver from Wells Fargo for this default and have since amended the agreement and eliminated the income requirement.

We were in compliance with our Credit Agreement's financial covenants at December 31, 2012.

OFF BALANCE SHEET OBLIGATIONS

Arrangement with Cargill. We have entered a business alliance with Cargill, Incorporated for the production and marketing of a new resistant starch derived from high amylose corn. We sold only an insignificant amount of the product, and the agreement with Cargill does not appear to be significant at this time. If we terminate the arrangement before the expiration of 18 months following certain force majeure events affecting Cargill, or if Cargill terminates the arrangement because of a breach by us of our obligations, Processing will be required to pay a portion (up to 50 percent) of the book value of capital expenditures, if any, made by Cargill to enable it to produce the product. This amount will not exceed $2,500 without our consent. Upon the occurrence of any such event, Processing also will be required to give Cargill a non-exclusive sublicense to use the patented process for the life of the patent in the production of high amylose corn-based starches for use in food products. The sublicense would be royalty bearing, provided we were not also then making the high amylose corn-based starch.

Industrial Revenue Bond. On December 28, 2006, we engaged in an industrial revenue bond transaction with the City of Atchison, Kansas in order to receive ten-year real property tax abatement on our newly constructed office building and technical center in Atchison, Kansas. At the time of this transaction, the facilities were substantially completed and had been financed with internally generated cash flow. We recorded the office building and technical center assets into property and equipment on the consolidated balance sheets. Pursuant to this transaction, the City issued $7,000 principal amount of its industrial revenue bonds to us and then used the proceeds to purchase the office building and technical center from us. The City then leased the facilities back to Processing under a capital lease, the terms of which provide for the payment of basic rent in an amount sufficient to pay principal and interest on the bonds. Processing's obligation to pay rent under the lease is in the same amount and due on the same date as the City's obligation to pay debt service on the bonds which we hold. The lease permits us to present the bonds at any time for cancellation, upon which our obligation to pay basic rent would be cancelled. We do not intend to do this until their maturity date in 2016, at which time we may elect to purchase the facilities for $100 (one hundred dollars). Because we own all outstanding bonds, management considers the debt de-facto cancelled and, accordingly, no amount for our obligations under the capital lease is reflected on our balance sheet. In connection with this transaction, we agreed to pay the city an administrative fee of $50, which is payable over 10 years. If we were to present the bonds for cancellation prior to maturity, the $50 fee would be accelerated.

Indemnification Arrangement with ICP and ICP Holdings. Processing's Contribution Agreement with ICP and the LLC Interest Purchase Agreement with ICP Holdings require it to indemnify ICP and ICP Holdings until the end of the applicable statute of limitations from and against any damages or liabilities arising from a breach of certain environmental and tax representations and warranties in the Contribution Agreement and the LLC Interest Purchase Agreement and also with respect to certain environmental damages or liabilities related to the recommencement of production at the Pekin plant or to operations at the Pekin plant prior to November 20, 2009.

Indemnification Arrangement with LDI. MGPII's Asset Purchase Agreement with LDI and Angostura US Holdings Limited, a Delaware Corporation, requires it to indemnify LDI from and against any damages or liabilities arising from a breach of representations and warranties in the Asset Purchase Agreement and also with respect to certain assumed liabilities.

NEW ACCOUNTING PRONOUNCEMENTS

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 16. Recently Issued Accounting Pronouncements set forth in Item 8.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide Item 7A disclosure in this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of MGP Ingredients, Inc. (the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in “Internal Control - Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management has concluded that the company’s internal control over financial reporting as of December 31, 2012 was effective.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
MGP Ingredients, Inc.:

We have audited the accompanying consolidated balance sheets of MGP Ingredients, Inc. and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the year ended December 31, 2012, the six months ended December 31, 2011, and the year ended June 30, 2011. These consolidated financial statements are the responsibility of the MGP Ingredients, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MGP Ingredients, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the year ended December 31, 2012, the six months ended December 31, 2011, and the year ended June 30, 2011, in conformity with U.S. generally accepted accounting principles.

(signed) KPMG LLP

Kansas City, Missouri
March 12, 2013

MGP INGREDIENTS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Sales	$ 338,232	$ 146,563	$ 248,189
Less: excise taxes	3,897	86	274
Net sales	334,335	146,477	247,915
Cost of sales (a)	309,312	143,531	225,038
Gross profit (loss)	25,023	2,946	22,877
Selling, general and administrative expenses	26,536	11,417	21,157
Other operating costs and (gains) losses on sale of Assets	(569)	114	1,075
Impairment of long-lived assets	-	1,301	-
Bargain purchase gain, net of tax	-	(13,048)	-
Income (loss) from operations	(944)	3,162	645
Gain on sale of joint venture interest	4,055	-	-
Other income (expense), net	2	48	8
Interest expense	(870)	(330)	(358)
Equity in loss	(301)	(551)	(1,540)
Income (loss) before income taxes	1,942	2,329	(1,245)
Provision (benefit) for income taxes	318	(8,306)	68
Net income (loss)	$ 1,624	$ 10,635	$ (1,313)
Per Share Data			
Total basic earnings (loss) per common share	$ 0.09	$ 0.59	$ (0.08)
Total diluted earnings (loss) per common share	$ 0.09	$ 0.59	$ (0.08)
Dividends per common share	$ 0.05	$ 0.05	$ 0.05

(a) Includes related party purchases of $49,891 for the year ended December 31, 2012, $40,159 for the six month transition period ended December 31, 2011 and $57,482 for the year ended June 30, 2011.

See Accompanying Notes to Consolidated Financial Statements

MGP INGREDIENTS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Net income (loss)	$ 1,624	$ 10,635	$ (1,313)
Other comprehensive income (loss), net of tax:			
Company sponsored benefit plans:			
Change in pension plans	583	(1,142)	1,257
Change in post employment benefits	85	290	1,535
Change in translation adjustment on non-consolidated foreign subsidiary	7	(41)	20
Commodity derivative activity:			
Net losses from cash flow hedges	(286)	(1,252)	-
Losses from cash flow hedges reclassified to cost of sales	186	539	-
Losses from de-designated cash flow hedges reclassified to cost of sales	27	-	-
Ineffective portion of cash flow hedges reclassified to cost of sales	200	586	-
Other comprehensive income (loss)	802	(1,020)	2,812
Comprehensive income	$ 2,426	$ 9,615	$ 1,499

See Accompanying Notes to Consolidated Financial Statements

MGP INGREDIENTS, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2012	December 31, 2011
Current Assets		
Cash and cash equivalents	$ -	$ 383
Restricted cash	12	7,605
Receivables (less allowance for doubtful accounts: December 31, 2012 - $12; December 31, 2011 - $63)	35,325	27,804
Inventory	36,532	31,082
Prepaid expenses	697	958
Derivative assets	-	1,304
Deferred income taxes	5,283	6,056
Refundable income taxes	242	566
Assets held for sale	-	2,300
Total current assets	78,091	78,058
Property and equipment, net of accumulated depreciation and amortization	75,391	77,079
Equity method investments	7,301	12,147
Other assets	2,388	1,873
Total assets	$ 163,171	$ 169,157
Current Liabilities		
Current maturities of long-term debt	$ 1,683	$ 1,670
Revolving credit facility	-	21,142
Accounts payable	18,860	22,704
Accounts payable to affiliate, net	4,008	6,167
Accrued expenses	5,220	4,023
Derivative liabilities	-	3,465
Total current liabilities	29,771	59,171
Long-term debt, less current maturities	5,168	6,852
Revolving credit facility	25,893	-
Deferred credit	4,133	4,195
Accrued retirement health and life insurance benefits	5,096	6,309
Other non current liabilities	1,000	2,144
Deferred income taxes	5,283	6,056
Total liabilities	76,344	84,727
Commitments and Contingencies – See Notes 4 and 7		
Stockholders' Equity		
Capital stock		
Preferred, 5% non-cumulative; $10 par value; authorized 1,000 shares; issued and outstanding 437 shares	4	4
Common stock		
	6,715	6,715

No par value; authorized 40,000,000 shares; issued 18,115,965 and 19,530,344 shares at December 31, 2012 and 2011, respectively; 17,934,233 and 18,115,965 shares outstanding at December 31, 2012 and 2011, respectively						
Additional paid-in capital		7,894			6,925	
Retained earnings		72,531			78,953	
Accumulated other comprehensive income (loss)		(233	)		(1,035	)
Treasury stock, at cost						
Common; 181,732 and 1,414,379 shares at December 31, 2012 and 2011, respectively		(84	)		(7,132	)
Total stockholders' equity		86,827			84,430	
Total liabilities and stockholders' equity	$	163,171		$	169,157	

See Accompanying Notes to Consolidated Financial Statements

MGP INGREDIENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Cash Flows from Operating Activities			
Net income (loss)	$ 1,624	$ 10,635	$ (1,313)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	11,568	5,047	8,843
Gain on sale of joint venture interest	(4,055)	-	-
Loss (gain) on sale of assets	(832)	117	322
Share based compensation	969	510	1,164
Bargain purchase gain, net of tax	-	(13,048)	-
Loss on impairment of assets	-	1,301	-
Deferred income taxes	-	(8,340)	-
Equity in loss	301	551	1,540
Changes in operating assets and liabilities, net of acquisition:			
Restricted cash	7,593	(6,577)	(57)
Receivables, net	(7,521)	4,368	(10,170)
Inventory	(5,450)	(4,082)	(2,568)
Prepaid expenses	261	244	316
Refundable income taxes	324	(37)	53
Accounts payable	(4,302)	412	5,907
Accounts payable to affiliate, net	(2,159)	1	1,215
Accrued expenses	593	(650)	(3,111)
Change in derivatives	(2,034)	(220)	2,267
Deferred credit	(630)	(303)	(881)
Accrued retirement health and life insurance benefits and other noncurrent liabilities	(1,081)	(76)	(659)
Other	(195)	544	271
Net cash provided by (used in) operating activities	(5,026)	(9,603)	3,139
Cash Flows from Investing Activities			
Additions to property and equipment	(9,229)	(1,502)	(12,775)
Acquisition of LDI's Distillery Business	-	(10,901)	-
Investments in/ advances to equity method investments	(500)	-	-
Proceeds from sale of interest in ICP, net	9,103	-	-
Proceeds from disposition of property and Equipment	3,263	79	-
Other	568	-	-
Net cash provided by (used in) investing activities	3,205	(12,324)	(12,775)
Cash Flows from Financing Activities			
Payment of dividends	(914)	(906)	(891)
Purchase of treasury stock	(84)	(84)	(33)

Proceeds from stock plans	-	-	48
Exercise of stock options	-	98	452
Loan fees incurred with borrowings	(644)	-	-
Proceeds from issuance of long-term debt	-	-	7,335
Principal payments on long-term debt	(1,671)	(885)	(699)
Proceeds from revolving credit facility	127,089	165,242	317,179
Principal payments on revolving credit facility	(122,338)	(148,758)	(312,521)
Net cash provided by financing activities	1,438	14,707	10,870
Increase (decrease) in cash and cash equivalents	(383)	(7,220)	1,234
Cash and cash equivalents, beginning of period	383	7,603	6,369
Cash and cash equivalents, end of period	-	$ 383	$ 7,603

See Accompanying Notes to Consolidated Financial Statements

MGP INGREDIENTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Capital Stock Preferred	Issued Common	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, July 1, 2010	$4	$6,715	$ 7,606	$71,428	$ (2,827)	$(10,142)	$72,784
Comprehensive income:							
Net loss				(1,313)			(1,313)
Other comprehensive income					2,812		2,812
Options exercised			53			622	675
Dividends paid				(891)			(891)
Share-based compensation			1,164				1,164
Stock plan shares issued from treasury, net of forfeitures			(1,350)			1,350	-
Stock shares repurchased						(33)	(33)
Balance, June 30, 2011	$4	$6,715	$ 7,473	$69,224	$ (15)	$(8,203)	$75,198
Comprehensive income:							
Net income				10,635			10,635
Other comprehensive income					(1,020)		(1,020)
Options exercised			(1)			98	97
Dividends paid				(906)			(906)
Share-based compensation			510				510
Stock plan shares issued from treasury, net of forfeitures			(1,057)			1,057	-
Stock shares repurchased						(84)	(84)
Balance, December 31, 2011	$4	$6,715	$ 6,925	$78,953	$ (1,035)	$(7,132)	$84,430
Comprehensive income:							
Net income				1 ,624			1,624
Other comprehensive income					802		802
Dividends paid				(914)			(914)
Share-based compensation			969				969
Stock shares repurchased						(84)	(84)
Cancellation of treasury stock				(7,132)		7,132	-
Balance, December 31, 2012	$4	$6,715	$ 7,894	$72,531	$ (233)	$(84)	$86,827

See Accompanying Notes to Consolidated Financial Statements

MGP INGREDIENTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise noted)

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Company processes flour, corn, barley and rye into a variety of products through an integrated production process. The Company is a producer of certain distillery and ingredients products derived from grain and has three reportable segments: distillery products, ingredient solutions, and other. Effective February 8, 2013, the Company sold substantially all assets included in its other segment as further described in Note 20. Subsequent Events. The distillery products segment consists primarily of food grade alcohol, and to a much lesser extent, fuel grade alcohol, and distillers feed. Fuel grade alcohol and distillers feed are co-products of our distillery operations. The ingredient solutions segment products primarily consist of specialty starches, specialty proteins, commodity starches and commodity vital wheat gluten. Included in the other segment products are comprised of plant-based biopolymers and wood-based composite resins manufactured through the further processing of certain of our proteins and starches and wood.

The Company sells its products on normal credit terms to customers in a variety of industries located primarily throughout the United States and Japan. The Company operates plants in Atchison, Kansas, and Lawrenceburg and Greendale, Indiana.

During the second quarter of fiscal 2010, through a series of transactions, the Company formed a joint venture by contributing its former Pekin, Illinois plant to a newly formed company, Illinois Corn Processing, LLC ("ICP"), and then selling a 50 percent interest in ICP. In 2012, the Company sold an additional 20 percent interest in ICP. The Company historically purchased food grade alcohol products manufactured by ICP. The Company produces textured wheat proteins through a toll manufacturing arrangement at a facility in the Netherlands, and operated a facility in Onaga, Kansas for the production of plant-based biopolymers and wood composites. During December 2011, through its wholly owned subsidiary MGPI-I, the Company acquired the beverage alcohol distillery assets ("Distillery Business") of LDI.

Fiscal Year End Change. Effective December 31, 2011, the Company changed its fiscal year end from June 30 to December 31. The consolidated financial statements presented herein include the Company's results for the year ended December 31, 2012 (the Company's first full fiscal year since the year end change), the six month transition period of July 1, 2011 to December 31, 2011, and the year ended June 30, 2011.

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

Use of Estimates. The financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The application of certain of these policies places significant demands on management's judgment, with financial reporting results relying on estimation 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.

Principles of Consolidation. The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Short-term liquid investments with an initial maturity of 90 days or less are considered cash equivalents. Cash equivalents are stated at cost, which approximates market value due to the relatively short maturity of these instruments.

Restricted Cash. The Company segregates certain interest bearing cash accounts in accordance with commodity exchange requirements. Restricted cash consists of interest bearing clearing accounts on deposit with and pledged to the Company's broker for exchange-traded commodity instruments, as further described in Note 14.Derivative Instruments and Fair Value Measurements.

Receivables. Receivables are stated at the amounts billed to customers. The Company provides an allowance for estimated doubtful accounts. This allowance is based upon a review of outstanding receivables, historical collection information and an evaluation of existing economic conditions impacting the Company's customers. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Receivables are considered delinquent after 30 days past the due date. These delinquent receivables are monitored and are charged to the allowance for doubtful accounts based upon an evaluation of individual circumstances of the customer. Account balances are written off after collection efforts have been made and potential recovery is considered remote.

Inventory. Inventory includes finished goods, raw materials in the form of agricultural commodities used in the production process and certain maintenance and repair items. Inventories are stated at the lower of cost or market on the first-in, first-out ("FIFO") method. Inventory valuations are impacted by constantly changing prices paid for key materials, primarily corn.

Derivative Instruments. The Company applies the provisions of Accounting Standards Codification ("ASC") 815 – Derivatives and Hedging. The Company uses derivative financial instruments primarily to offset exposure to market risk in commodity prices, primarily for corn and, in the transition period, ethanol, which are key components in the Company's operations. The Company recognizes all derivatives as either assets or liabilities at their fair values. Accounting for changes in the fair value of a derivative depends on whether the derivative has been designated as a cash flow hedge and the effectiveness of the hedging relationship. Derivatives qualify for treatment as cash flow hedges for accounting purposes when there is a high correlation between the change in fair value of the hedging instrument ("derivative") and the related change in value of the underlying commitment ("hedged item"). For derivatives that qualify as cash flow hedges for accounting purposes, except for ineffectiveness, the change in fair value has no net impact on earnings, to the extent the derivative is considered effective, until the hedged item or transaction affects earnings. For derivatives that are not designated as hedging instruments for accounting purposes, or for the ineffective portion of a hedging instrument, the change in fair value affects current period net earnings. While management believes that each of these instruments are primarily entered into to effectively manage various market risks, none of the open derivative contracts entered into prior to July 1, 2011 were designated and accounted for as cash flow accounting hedges.

Effective July 1, 2011, management elected to restart hedge accounting for qualifying derivative contracts entered into on or after July 1, 2011. On February 29, 2012, the Company discontinued hedge accounting and de-designated its hedge positions. On the date a derivative contract was entered into, the Company was required to designate the derivative as a hedge of variable cash flows to be paid with respect to certain forecasted cash purchases of commodities used in the manufacturing process ("a cash-flow hedge"). This accounting requires linking all derivatives that were designated as cash-flow hedges to specific firm commitments or forecasted transactions. For cash flow hedging relationships entered into from July 1, 2011 to February 28, 2012, to qualify for cash flow hedge accounting, the Company formally documented the hedging relationship and its risk management objective and strategy for undertaking the hedge transactions, the hedging instrument, the hedged item, the nature of the risk hedged, the hedging instrument's effectiveness in offsetting the hedged risk, and a description of the method utilized to measure ineffectiveness. The Company formally assessed, both at the hedge's inception and on an ongoing basis, whether the derivatives that were used in hedging transactions were highly effective in offsetting changes in the expected cash flows of hedged items. Changes in fair value of contracts that qualified as cash-flow hedges that were highly effective were marked to fair value as derivative assets or derivative liabilities with the offset recorded to accumulated other comprehensive income (loss) ("AOCI"). Gains and losses on commodity hedging contracts were reclassified from AOCI to current earnings when the finished goods produced using the hedged item were sold. The maximum term over which the Company hedges exposures to the variability of cash flows for commodity price risk was generally 12 months. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash-flow hedge was reported in current period earnings.

The Company discontinues cash flow hedge accounting for a particular derivative instrument prospectively when (i) it determines that the derivative is no longer considered to be highly effective in offsetting changes in the expected cash flows of the hedged item; (ii) the derivative is sold, terminated or exercised; (iii) it de-designates the derivative as a hedging instrument because it is unlikely that a forecasted transaction will occur; or (iv) it determines that designation of the derivative as a hedging instrument is no longer appropriate. When cash flow hedge accounting is discontinued, the Company continues to carry the derivative on the Consolidated Balance Sheet at its fair value, and gains and losses that were included in AOCI are deferred until the original hedged item affects earnings. However, if the original hedged transaction is no longer probable of occurring, the related gains and losses incurred as of discontinuation are recognized in current period earnings.

Assets Held for Sale. The Company records assets held for sale at the lower of the carrying value or estimated fair value less costs to sell. In determining the fair value of the assets less cost to sell, the Company considers factors including current appraisals and any recent legitimate offers. If the estimated fair value less cost to sell of an asset is less than its current carrying value, the asset is written down to its estimated fair value less cost to sell. Depreciation is discontinued when assets are classified as held for sale. At December 31, 2012 none of the Company's assets met this criteria.

Properties, Depreciation and Amortization. Property and equipment are typically stated at cost. Additions, including those that increase the life or utility of an asset, are capitalized and all properties are depreciated over their estimated remaining useful lives. Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	20 – 40 years
Transportation equipment	5 – 6 years
Machinery and equipment	10 – 12 years

Maintenance costs are expensed as incurred. The cost of property and equipment sold, retired or otherwise disposed of as well as related accumulated depreciation and amortization is eliminated from the property accounts with related gains and losses reflected in the Consolidated Statements of Operations. The Company capitalizes interest costs associated with significant construction projects. Total interest incurred for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and for the year ended June 30, 2011is noted below:

Periods ended,	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Interest costs charged to expense	$ 870	$ 330	$ 358
Plus: Interest cost capitalized	136	62	160
Total	$ 1,006	$ 392	$ 518

Equity Method Investments. The Company applies the provisions of ASC 810 – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which include a qualitative approach to identifying a controlling financial interest in a variable interest entity and determination of the primary beneficiary.

The Company accounts for its investment in non-consolidated subsidiaries under the equity method of accounting when the Company has significant influence, but does not have more than 50% voting control, and is not considered the primary beneficiary. Under the equity method of accounting, the Company reflects its investment in non-consolidated subsidiaries within the Company's Consolidated Balance Sheets as "Equity Method Investments"; the Company's share of the earnings or losses of the non-consolidated subsidiaries are reflected as "Equity in earnings (loss)" in the Consolidated Statements of Operations.

The Company reviews its investments in non-consolidated subsidiaries for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary include, but are not limited to, the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment.

Earnings (loss) per Share. The Company applied the provisions of ASC 260 – Earnings Per Share. Basic and diluted earnings (loss) per share are computed using the two-class method, which is an earnings allocation formula that determines net income (loss) per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Per share amounts are computed by dividing net income (loss) from continuing operations attributable to common shareholders by the weighted average shares outstanding during each year or period.

Deferred Credit. In 2001, the United States Department of Agriculture developed a grant program for the gluten industry. The Company received nearly $26,000 of grants. The funds were required to be used for research, marketing, promotional and capital costs related to value-added gluten and starch products. Funds allocated on the basis of current operating costs were recognized in income as those costs were incurred. Funds allocated based on capital expenditures are being recognized in income as the related assets are depreciated. As of December 31, 2012 and 2011, deferred credit related to the USDA Grant was $3,599 and $4,195, respectively. In 2012, the Lawrenceburg Conservancy District (LCD) in Greendale, IN agreed to reimburse the Company up to $1,250 of certain capital maintenance costs of a Company-owned warehouse structure that is integral to the efficacy of the LCD's flood control system. Certain capital maintenance activities per the agreement were completed prior to December 31, 2012 and the remaining capital maintenance activities are expected to be completed during calendar year 2013. As of December 31, 2012, $568 had been reimbursed by the LCD and was included as a deferred credit. When the qualifying maintenance activities are completed, the deferred credit balance will be recognized in income as the related asset is depreciated.

Income Taxes. Deferred income tax assets and liabilities resulting from the effects of transactions reported in different periods for financial reporting and income tax are recorded using the liability method of accounting for income taxes. This method gives consideration to the future tax consequences of the deferred income tax items and immediately recognizes changes in income tax laws upon enactment as well as applied income tax rates when facts and circumstances warrant such changes. A valuation allowance is established to reduce deferred income tax assets when it is more likely than not that a deferred income tax asset may not be realized. Additionally, the Company follows the provisions of FASB ASC 740, Income Taxes, related to the accounting for uncertainty in income tax positions, which requires management judgment and the use of estimates in determining whether the impact of a tax position is "more likely than not" of being sustained. The Company considers many factors when evaluating and estimating its tax positions, which may require periodic adjustment and which may not accurately anticipate actual outcomes. It is reasonably possible that amounts reserved for potential exposure could change significantly as a result of the conclusion of tax examinations and, accordingly, materially affect the Company's operating results.

Revenue Recognition. Revenue from the sale of the Company's products is recognized as products are delivered to customers according to shipping terms and when title and risk of loss have transferred. Income from various government incentive grant programs is recognized as it is earned.

The Company's Distillery segment routinely produces unaged distillate and this product is frequently barreled and warehoused at a Company location for an extended period of time in accordance with directions received from the Company's customers. This product must meet customer acceptance specifications, the risks of ownership and title for these goods must be passed, and requirements for bill and hold revenue recognition must be met prior to the Company recognizing revenue for this product. Separate warehousing agreements are maintained for customers who store their product with the Company and warehouse revenues are recognized as the service is provided.

Sales include customer paid freight costs billed to customers of $10,653 for the year ended December 31, 2012, $6,528 for the six month transition period ended December 31, 2011 and $12,540 for the year ended June 30, 2011.

Excise Taxes. Certain sales of the Company are subject to excise taxes, which the Company collects from customers and remits to governmental authorities. The Company records the collection of excise taxes on distilled products sold to these customers as accrued expenses. No revenue or expense is recognized in the consolidated statements of operations related to customer-paid excise taxes.

Research and Development. Research and development costs are expensed as incurred. These costs totaled $2,344 for the year ended December 31, 2012, $954 for the six month transition period ended December 31, 2011 and $1,431 for the year ended June 30, 2011.

Long-Lived Assets and Loss on Impairment of Assets. Management reviews long-lived assets, mainly property and equipment assets, whenever events or circumstances indicate that usage may be limited and carrying values may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are determined to be impaired, the impairment is measured by the amount by which the asset carrying value exceeds the estimated fair value of the assets. Assets to be disposed are reported at the lower of the carrying amount or fair value less costs to sell. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Fair Value of Financial Instruments. The Company measures financial instruments in accordance with FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), for financial assets and liabilities measured on a recurring basis. ASC 820 defines the fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company determines the fair values of its financial instruments based on the fair value hierarchy established in ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy is broken down into three levels based upon the observability of inputs. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability. The Company has derivative financial instruments, which are subject to fair value measurements as further discussed in Note 14. Derivative Instruments and Fair Value Measurements.

FASB ASC 825, Financial Instruments, requires the disclosure of the estimated fair value of financial instruments. The Company's short term financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The revolving credit facility was classified as a short term financial instrument at December 31, 2011 and a long term financial instrument at December 31, 2012. The carrying value of the short term financial instruments approximates the fair value due to their short term nature. These financial instruments have no stated maturities or the financial instruments have short term maturities that approximate market.

The fair value of the Company's debt is estimated based on current market interest rates for debt with similar maturities and credit quality. The fair value of the Company's debt was $32,596 and $8,647 at December 31, 2012 and 2011, respectively. The financial statement carrying value was $32,744 and $8,522 at December 31, 2012 and 2011, respectively. These fair values are considered Level 2 under the fair value hierarchy.

Defined Benefit Retirement Plans. The Company accounts for its defined benefit plans in accordance with FASB ASC Topic 715, Compensation – Retirement Benefits ("ASC 715"). ASC 715 requires the Company to recognize in its statement of financial position either an asset or a liability for a defined benefit plan's funded status. The Company's liability is included in other non current liabilities on the Consolidated Balance Sheets.

The Company measures the funded status of its defined benefit plans using actuarial techniques that reflect management's assumptions for discount rate, expected long-term investment returns on plan assets, salary increases, expected retirement, mortality, and employee turnover. Assumptions regarding employee and retiree life expectancy are based upon the RP 2000 Combined Mortality Table. The discount rate is determined based on the rates of return on long-term, high-quality fixed income investments using the Citigroup Pension Liability Index as of year end. The expected long-term rate of return on plan assets assumption for the pension plans is determined with the assistance of actuaries, who calculate a yield considering the current asset allocation strategy, historical investment performance, and the expected future returns of each asset class and the expected future reinvestment of earnings and maturing investments.

Other Post-retirement Benefit Plan. The Company accounts for its post–retirement benefit plan in accordance with ASC Topic 715, which requires the Company to recognize in its statement of financial position either an asset or a liability for a postretirement plan's funded status. The Company's liability is included in Accrued Retirement Health and Life Insurance Benefits on the Consolidated Balance Sheets.

The Company measures the obligation for other post-retirement benefits using actuarial techniques that reflect management's assumptions for discount rate, salary increases, expected retirement, mortality, employee turnover and future increases in healthcare costs. Assumptions regarding employee and retiree life expectancy are based upon the RP 2000 Combined Mortality Table. The discount rate is determined based on the rates of return on long-term, high-quality fixed income investments using the Citigroup Pension Liability Index as of the measurement date.

Business Combination. The Company applies the acquisition method of accounting for business acquisitions in accordance with FASB ASC Topic 805, Business Combinations. The Company allocates the purchase prices of business acquisitions based on the fair value of the identifiable tangible and intangible assets.   The difference between the total cost of the acquisition and the sum of the fair values of the acquired tangible and identifiable intangible assets less liabilities is recorded as goodwill or bargain purchase gain as circumstances require. Transaction costs are expensed as incurred.

Stock Options and Restricted Stock Awards. The Company has share-based employee compensation plans, which are described more fully in Note 8. Employee Benefit Plans (primarily in the form of restricted stock and stock options). The Company accounts for share-based compensation using FASB ASC 718, Compensation – Stock Compensation ("ASC 718"). Under the provisions of ASC 718, the cost of Share-Based Payments is recognized over the service period based on the grant date fair value of the award.   The grant date fair value for stock options is estimated using the Black - Scholes option-pricing model adjusted for the unique characteristics of the awards.

NOTE 2: OTHER BALANCE SHEET CAPTIONS

Inventory. Inventory consists of the following:

	December 31, 2012	December 31, 2011
Finished goods	$ 14,272	$ 15,728
Barreled distillate	9,080	2,473
Raw materials	5,959	5,352
Work in process	2,571	3,529
Maintenance materials	4,116	3,468
Other	534	532
Total	$ 36,532	$ 31,082

Property and equipment. Property and equipment consist of the following:

	December 31, 2012	December 31, 2011
Land, buildings and improvements	$ 39,509	$ 40,073
Transportation equipment	2,360	2,087
Machinery and equipment	144,106	141,195
Construction in progress	4,544	2,030
Property and equipment, at cost	190,519	185,385
Less accumulated depreciation and Amortization	(115,128)	(108,306)
Property and equipment, net	$ 75,391	$ 77,079

Property and equipment includes machinery and equipment assets under capital leases totaling $8,376 at December 31, 2012 and December 31, 2011. Accumulated depreciation for these assets totaled $3,660, and $1,540 at December 31, 2012 and December 31, 2011, respectively.

Accrued expenses. Accrued expenses consist of the following:

	December 31, 2012	December 31, 2011
Employee benefit plans (Note 8)	$ 784	$ 421
Salaries and wages	1,843	1,334
Restructuring charges	643	745
Property taxes	512	426
Other accrued expenses	1,438	1,097
Total	$ 5,220	$ 4,023

NOTE 3: EQUITY METHOD INVESTMENTS

As of December 31, 2012, the Company's investments accounted for on the equity method of accounting consist of the following: (1) 30 percent interest in Illinois Corn Processing, LLC ("ICP"), which manufactures alcohol for fuel, industrial and beverage applications, and (2) 50 percent interest in D.M. Ingredients, GmbH, ("DMI"), which produces certain specialty starch and protein ingredients.

Processing completed a series of related transactions on November 20, 2009 pursuant to which Processing contributed its Pekin plant and certain maintenance and repair materials to a newly-formed company, ICP, and then sold 50 percent of the membership interest in ICP to ICP Holdings. In connection with these transactions, Processing entered into various agreements with ICP and ICP Holdings, including a Contribution Agreement, an LLC Interest Purchase Agreement, a Limited Liability Company Agreement and a Marketing Agreement, which are discussed in greater detail Note 3. Investment in Joint Ventures in Item 8 of Form 10-K for the six month transition period ended December 31, 2011.

On February 1, 2012, Illinois Corn Processing Holdings ("ICP Holdings"), an affiliate of SEACOR Energy Inc., exercised its option to purchase an additional 20 percent of the membership interest in ICP. The sales price was $9,103 and was determined in accordance with the LLC Interest Purchase Agreement. Following its exercise, ICP Holdings owns 70 percent of ICP, is entitled to name 4 of ICP's 6 advisory board members, and generally has control of ICP's day to day operations. Processing owns 30 percent of ICP and is entitled to name 2 of ICP's 6 advisory board members.

Certain Rights of Joint Venture Partners and ICP's lender

- Marketing Agreement

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

- ICP's lender

The ICP Limited Liability Company Agreement gives the Company and its joint venture partner, ICP Holdings certain rights to shut down the Pekin plant if ICP operates at an EBITDA loss of $500 in any quarter. Such rights are conditional in certain instances but are absolute if EBITDA losses aggregate $1,500 over any three consecutive quarters or if ICP's net working capital is less than $2,500. ICP Holdings also has the right to shut down the plant if ICP is in default under its loan agreement for failure to pay principal or interest for two months. For the three consecutive quarters ending both September 30, 2011 and June 30, 2011, ICP experienced an EBITDA loss in excess of the $1,500 aggregate loss threshold amount permitted over any three consecutive quarters, however both partners have agreed to waive rights related to EBITDA losses through September 30, 2011.

Losses of such nature are also events of default under ICP’s term loan and revolving credit agreements with its lender, an affiliate (sister company) of SEACOR Energy Inc., which, upon any requisite notice and/or lapse of time, would entitle the lender to impose a default rate of interest, foreclose on ICP’s assets and, in the case of the working capital deficiency or successive losses, enforce the closure provisions referred to above. During the six month transition period ended December 31, 2011, ICP experienced an EBITDA loss in excess of the $500 threshold amount in the quarter ended September 30, 2011. During fiscal year 2011, ICP experienced EBITDA losses in excess of the $500 threshold amount in the quarters ended December 31, 2010 and June 30, 2011. ICP Holdings permanently waived its rights for covenant violations related to these EBITDA losses. ICP’s revolving credit facility with an affiliate of SEACOR Energy Inc. was expired as of December 31, 2012 and has not been renewed. The Company has no further funding requirement to ICP.

Related Party Transactions

See Note 15. Related Party Transactions for discussion related to related party transactions with ICP.

Realizability of ICP investment

Based on the facts and circumstances that existed at December 31, 2012, including recurring losses experienced, forecasted losses expected for 2013, the expiration of ICP’s revolving credit agreement resulting in no assured liquidity source and the Company’s plan to substantially reduce the sourcing of their product from ICP, the Company’s management decided to assess their investment in ICP for impairment.

The Company’s impairment evaluation of ICP included a specific assessment of the fair value of ICP’s net assets, after considering ICP capitalization, sales proceeds of other similar plants that have been sold, and expected net sales proceeds that the Company would expect to be realized if ICP were sold to a third party. Given this specific situation, the Company’s management has concluded the fair value of the Company’s 30% interest in ICP is greater than the $6,898 carrying value of the ICP investment at December 31, 2012.

Summary Financial Information

Condensed financial information of the Company's non-consolidated equity method investment in ICP is shown below.

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
ICP's Operating results:			
Net sales (a)	$ 207,084	$ 131,181	$ 193,825
Cost of sales and expenses (b)	(208,623)	(132,421)	(196,964)
Net loss	$ (1,539)	$ (1,240)	$ (3,139)

ICP's Balance Sheet:	December 31, 2012	December 31, 2011
Current assets	$ 19,972	$ 30,483
Noncurrent assets	19,856	24,769
Total assets	$ 39,828	$ 55,252
Current liabilities	$ 16,631	$ 12,769
Noncurrent liabilities	203	18,929
Equity	22,994	23,554
Total liabilities and equity	$ 39,828	$ 55,252

(a) Includes related party sales of $48,611 for the year ended December 31, 2012, $40,159 for the six month transition period ended December 31, 2011 and $57,482 for the year ended June 30, 2011.
(b) Includes depreciation and amortization of $5,008 for the year ended December 31, 2012, $2,709 for the six month transition period ended December 31, 2011 and $5,103 for the year ended June 30, 2011.

The Company's equity in earnings (loss) is as follows:

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
ICP (30% interest) (a)	$ (327)	$ (620)	$ (1,570)
DMI (50% interest)	26	69	30
	$ (301)	$ (551)	$ (1,540)

(a) The Company's ownership percentage of ICP was 50 percent through February 1, 2012, when the Company sold a 20 percent interest of its investment. From February 2, 2012 through December 31, 2012, the Company's ownership percentage in ICP was 30 percent.

The Company's investment in the non-consolidated subsidiary is as follows:

	December 31, 2012	2011
ICP (30% interest) (a)	$6,898	$11,777
DMI (50% interest)	403	370
	$7,301	$12,147

(a) The Company's ownership percentage of ICP was 50 percent through February 1, 2012, when the Company sold a 20 percent interest of its investment. From February 2, 2012 through December 31, 2012, the Company's ownership percentage in ICP was 30 percent.

NOTE 4: CORPORATE BORROWINGS AND CAPITAL LEASE OBLIGATIONS

Indebtedness Outstanding. Debt consists of the following:

	December 31, 2012	2011
Revolving Credit Agreement, 2.84% (variable interest rate)	$25,893	$21,142
Secured Promissory Note, 6.39% (variable interest rate), due monthly to July, 2016.	1,070	1,374
Water Cooling System Capital Lease Obligation, 2.61%, due monthly to May, 2017	5,603	6,754
Other Capital Lease Obligations, 0.61%, due monthly to October, 2013.	178	394
Total	32,744	29,664
Less revolving credit agreement	-	(21,142)
Less current maturities of long term debt	(1,683)	(1,670)
Long-term debt	$31,061	$6,852

Credit Agreement and Former Credit Agreement. On November 2, 2012, the Company entered into an Amended and Restated Credit Agreement, and ancillary documents with Wells Fargo (the "Credit Agreement"). The Credit Agreement amends the Company's Former Credit Agreement with the lender in all material respects, key terms of the amended agreement are as follows:

The Credit Agreement matures on November 2, 2017, provides for the provision of letters of credit and revolving loans with a Maximum Revolver Commitment of $55,000, subject to borrowing base limitations. These limitations are generally based on the value of eligible inventory, as defined in the Credit Agreement, and accounts receivable owned by the Borrowers. The Credit Agreement includes a possible future $5,000 fixed asset sub-line facility that increases the applicable borrowing base by up to $5,000 in the event that certain unencumbered equipment and real estate is mortgaged (e.g., the equipment and real estate at the Lawrenceburg distillery) and certain Excess Availability (as defined in the Credit Agreement) thresholds are satisfied.

Borrowings under the Credit Agreement may bear interest either on a Base Rate model or a LIBOR Rate model. For LIBOR Rate Loans, the interest rate is equal to the per annum LIBOR Rate (based on 1, 2, 3 or 6 months) plus 2.00 – 2.50 % (depending upon the average Excess Availability, as described below). For Base Rate Loans, the interest rate shall be the greatest of (a) 1.00%, (b) the Federal Funds Rate plus 0.50%, (c) one-month LIBOR Rate plus 1.00%, and (d) Wells Fargo's "prime rate" as announced from time to time. The weighted average rate in effect at December 31, 2012 was 2.84%. The Credit Agreement provides for an unused line fee equal to 0.375% per annum multiplied by the difference of the total revolving loan commitment less the average outstanding revolving loans for the given period, as well as customary field examination and appraisal fees, letter of credit fees and other administrative fees.

The Company's Credit Agreement contains a number of financial and other covenants, including provisions that require the Company under certain circumstances to meet certain financial tests. These covenants may limit or restrict the Company's ability to:

- incur additional indebtedness;
- pay cash dividends or make distributions if the Company doesn't maintain excess availability of $9,625 and fixed charge coverage ratio for the most recently completed twelve months of at least 1.20:1.00;
- dispose of assets;
- create liens on Company assets;
- pledge the fixed and real property assets of LDI's Distillery Business; or
- merge or consolidate.

Under the Credit Agreement, the Company must comply with the following covenants:

Financial Covenants. For all periods in which the Excess Availability (which is the total availability for loans, less the Company's and its subsidiaries' trade payables aged in excess of historical levels and book overdrafts) is less than $9,625, the Borrowers are required to have a Fixed Charge Coverage Ratio ("FCC"_

[FCC means, with respect to any fiscal period and with respect to Parent determined on a consolidated basis in accordance with GAAP, the ratio of (i) EBITDA for such period minus unfinanced Capital Expenditures made (to the extent not already incurred in a prior period) or incurred during such period, to (ii) Fixed Charges for such period]

measured on a month end trailing basis, of at least 1.10:1.00 (a) for each month-end until October 31, 2013, for the trailing months from November 1, 2012 through such date, and (b) as of each month-end commencing November 30, 2013 using a trailing twelve-month measure. Moreover, Borrowers are required to maintain Excess Availability on a consolidated basis of at least $4,000 at all times prior to the later of (a) November 2, 2013 and (b) the last day of the first twelve month period for which Borrowers have maintained a Fixed Charge Coverage Ratio of at least 1.10:1.00.

Other Restrictions. The Company is generally prohibited from incurring any liabilities, or acquiring any assets, except for certain ordinary holding company activities as further described in the Credit Agreement. Wells Fargo has significant lending discretion under the Credit Agreement, and may modify borrowing base and advance rates, the effect of which may limit the amount of loans that the Borrowers may have outstanding at any given time. Wells Fargo may also terminate or accelerate our obligations under the Credit Agreement upon the occurrence of various events in addition to payment defaults and other breaches, including such matters as a change of control of the Company, defaults under other material contracts with third parties, and ERISA violations.

Financial Covenant Compliance/Violations

Under the Former Credit Agreement in effect at December 31, 2011, the Company was not in compliance with its Former Credit Agreement's minimum fixed charge coverage ratio of not less than 2.00 to 1.00 for the 12-month period ended December 31, 2011. The Company obtained a waiver from Wells Fargo for this default. The Company also obtained a waiver from Wells Fargo for noncompliance related to an administrative matter that requires submission of specified information to the lender within 120 days of year end for the year ending June 30, 2011.

Under the Former Credit Agreement as in effect at September 30, 2012, the Company was required to report adjusted net income each period. The Company was not in compliance with its Adjusted Net Income requirement to exceed a $(500) adjusted net income requirement at September 30, 2012. The Company obtained a waiver from Wells Fargo for this default and has since amended the agreement and eliminated the income requirement.

The Company was in compliance with its Credit Agreement's financial covenants at December 31, 2012.

6.39% (variable interest rate) Secured Promissory Note, due monthly to July 2016. On July 20, 2009, Union State Bank – Bank of Atchison ("Bank of Atchison"), which previously had loaned the Company $1,500, agreed to loan Processing an additional $2,000. The note for this loan is secured by a mortgage and security interest on the Company's Atchison plant and equipment. The note bears interest at 6.00% over the three year treasury index, adjustable quarterly, and is payable in 84 monthly installments of $32, with any balance due on the final installment. See Note 16. Related Party Transactions for further discussion on this related party transaction.

Leases

Capital Lease Obligations.

Water Cooling System Capital Lease Obligation. On June 28, 2011, Processing sold a major portion of the new process water cooling towers and related equipment being installed at its Atchison facility to U.S. Bancorp Equipment Finance, Inc. for $7,335 and leased them from U.S. Bancorp pursuant to a Master Lease Agreement and related Schedule. Monthly rentals under the lease are $110 (plus applicable sales/use taxes, if any) and continue for 72 months with a rate of 2.61%. Processing may purchase the leased property after 60 months for approximately $1,328 and at the end of the term for fair market value. Given this continuing involvement, the Company treated this as a financing transaction. The lessor may, at its option, extend the lease for specified periods after the end of the term if Processing fails to exercise its purchase option. Under the terms of the Master Lease, Processing is responsible for property taxes and assumes responsibility for insuring and all risk of loss or damage to the property.

Obligations under the Master Lease may be accelerated if an event of default occurs and continues for 10 days. In addition to payment defaults and breaches of representations and covenants, events of default include defaults under any other agreement with lessor or payment default under any obligation. In such event, among other matters, lessor may cancel the Master Lease, take possession of the property and seek to recover the present value of future rentals, the residual value of the property and the value of lost tax benefits.

Lenders having liens on the Atchison facility, including its revolving credit lender, Wells Fargo Bank, National Association, entered into mortgagee's waivers with respect to the leased property. As described in Note 2. Other Balance Sheet Captions, this equipment is included in property, plant and equipment.

Other Capital Lease Obligations. These were entered in connection with implementation of numerous information technology initiatives and other equipment purchases which have been funded under various capital lease agreements with rates ranging from 0.61% to 7.91%, certain of which expired during the six month transition period ended December 31, 2011. One capital lease remains outstanding at December 31, 2012, which has a final maturity of October 2013. This lease is unsecured. The assets are included in Property and Equipment on the accompanying Consolidated Balance Sheets.

4.90% Industrial Revenue Bond Obligation. On December 28, 2006, Processing engaged in an industrial revenue bond transaction with the City of Atchison, Kansas pursuant to which the City (i) under a trust indenture, ("the Indenture"), issued $7,000 principal amount of its industrial revenue bonds ("the Bonds") to Processing and used the proceeds thereof to acquire from the Company its newly constructed office building and technical innovations center in Atchison, Kansas, ("the Facilities") and (ii) leased the Facilities back to Processing under a capital lease ("the

Lease"). The assets related to this transaction are included in property and equipment.

The bonds mature on December 1, 2016 and bear interest, payable annually on December 1 of each year commencing December, 2007 at the rate of 4.90% per annum. Basic rent under the lease is payable annually on December 1 in an amount sufficient to pay principal and interest on the bonds. The Indenture and Lease contain certain provisions, covenants and restrictions customary for this type of transaction. In connection with the transaction, Processing agreed to pay the city an administrative fee of $50 payable over 10 years.

The purpose of the transaction was to facilitate certain property tax abatement opportunities available related to the constructed facilities. The facilities acquired with bond proceeds will receive property tax abatements which terminate upon maturity of the Bonds on December 1, 2016. The issuance of the Bonds was integral to the tax abatement process. Financing for the Facilities was provided internally from Processing's operating cash flow. Accordingly, upon consummation of the transaction and issuance of the Bonds, Processing acquired all bonds issued for $7,000, excluding transaction fees. As a result, Processing owns all of the outstanding Bonds. Because Processing owns all outstanding bonds, management considers the debt de-facto cancelled and, accordingly, no amount for these Bonds is reflected as debt outstanding on the Consolidated Balance Sheets as of December 31, 2012 or December 31, 2011.

Leases and Debt Maturities. Processing leases railcars and other assets under various operating leases. For railcar leases, the Company is generally required to pay all service costs associated with the railcars. Rental payments include minimum rentals plus contingent amounts based on mileage. Rental expenses under operating leases with terms longer than one month were $2,485 for the year ended December 31, 2012, $1,255 for the six month transition period ended December 31, 2011 and $2,128 for the year ended June 30, 2011. Minimum annual payments and present values thereof under existing debt maturities, capital leases and minimum annual rental commitments under non-cancelable operating leases are as follows:

			Capital Leases				
Year Ending December 31,	Revolving Credit Agreement	Long-Term Debt	Minimum Lease Payments	Less Interest	Net Present Value	Total Debt	Operating Leases
2013	$ -	$ 324	$ 1,495	$ 136	$ 1,359	$ 1,683	$ 2,583
2014	-	346	1,316	104	1,212	1,558	1,747
2015	-	369	1,316	72	1,244	1,613	1,728
2016	-	31	1,316	39	1,277	1,308	1,639
2017	25,893	-	695	6	689	26,582	1,178
Thereafter	-	-	-	-	-	-	1,357
Total	$ 25,893	$ 1,070	$ 6,138	$ 357	$ 5,781	$ 32,744	$ 10,232

NOTE 5: INCOME TAXES

The provision (benefit) for income taxes from continuing operations is comprised of the following:

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Current:			
Federal	$ -	$ -	$ -
State	318	30	68
	318	30	68
Deferred:			
Federal	-	(6,750)	-
State	-	(1,586)	-
	-	$ (8,336)	-
Total	$ 318	$ (8,306)	$ 68

A reconciliation of the provision for income taxes from continuing operations at the normal statutory federal rate to the provision included in the accompanying consolidated statements of operations is shown below:

Periods ended,	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
“Expected” provision at federal statutory rate	$ 680	$ 812	$ (463)
State income taxes	106	111	(45)
Bargain purchase gain	-	(4,985)	-
Change in valuation allowance	(447)	(4,263)	204
Change due to state rate change	-	-	320
Other	(21)	19	52
Provision for income taxes	$ 318	$ (8,306)	$ 68
Effective tax rate	16.4 %	(358.2)%	(5.5 %)

The Company continues to maintain a full valuation allowance against its net deferred tax assets as of December 31, 2012. During the six month transition period ended December 31, 2011, the Company recorded deferred tax liabilities on the acquired assets from the LDI acquisition. The Company determined it was more likely than not that it would be able to utilize additional income tax benefits from its existing deferred tax assets that were previously offset by a valuation allowance. As the resulting valuation allowance release of $4,263 related to the Company's deferred tax assets at December 31, 2011, the release was recorded as an income tax benefit outside of the business combination during the six month transition period ended December 31, 2011.

The tax effects of temporary differences related to deferred income taxes shown on the consolidated balance sheets are as follows:

	December 31, 2012	December 31, 2011	June 30, 2011
Deferred income tax assets:			
Post-retirement liability	$ 2,277	$ 2,520	$2,595
Deferred income	1,651	1,676	1,796
Stock based compensation	1,857	1,579	1,558
Federal operating loss carry-forwards	11,481	15,788	11,214
Capital loss carryforward	2,243	2,045	-
State tax credits	3,022	3,022	3,022
State operating loss carry-forwards	7,638	8,427	6,858
Other	4,626	4,833	3,947
Less: valuation allowance	(9,053)	(9,840)	(13,675)
Gross deferred income tax assets	25,742	30,050	17,315
Deferred income tax liabilities:			
Fixed assets	(20,180)	(21,860)	(10,878)
Equity method investment	(526)	(1,999)	(1,939)
Other	(5,036)	(6,191)	(4,498)
Gross deferred income tax liabilities	(25,742)	(30,050)	(17,315)
Net deferred income tax liability	$ -	$ -	$-

The Company establishes a valuation allowance against certain deferred income tax assets if management believes, based on its assessment of historical and projected operating results and other available facts and circumstances, that it is more-likely-than-not that all or a portion of the deferred income tax assets will not be realized. Management reassessed the need for a valuation allowance for its deferred income tax assets. It was determined that a valuation allowance was appropriate on its net deferred income tax assets for all periods presented.

As of December 31, 2012, the Company had approximately $32,804 and $93,362 of federal and state net operating loss carry-forwards, respectively. The federal net operating loss will expire as follows: $18,917 will expire before the end of calendar year 2028, and $13,887 will expire before the end of calendar year 2031. Due to varying state carry-forward periods, the state net operating losses will expire between calendar years 2013 and 2031. The Company has a capital loss carry-forward of $5,615 as of December 31, 2012, of which $1,989, $3,328, and $298 will expire at the end of calendar years 2015, 2016, and 2017, respectively. The Company also has state tax credit carry-forwards of approximately $3,022. The state tax credits will expire in varying periods through calendar year 2021.

The Company elected to change its fiscal year for income tax purposes to December 31 to conform with the change in its financial accounting year.

As of December 31, 2012, the total gross amount of unrecognized tax benefits (excluding interest and penalties) was $445, of which $29 would impact the effective tax rate, if recognized. As of December 31, 2011, the total gross amount of unrecognized tax benefits (excluding interest and penalties) was $445, of which $29 would impact the effective tax rate, if recognized. As of June 30, 2011, the total gross amount of unrecognized tax benefits (excluding interest and penalties) was $414, of which $29 would impact the effective tax rate, if recognized.

The Company has elected to treat interest and penalties related to tax liabilities as a component of income tax expense. During the year ended December 31, 2012, and for all periods presented, the Company's activity in accrued interest and penalties was not significant.

The following is a reconciliation of the total amount of unrecognized tax benefits (excluding interest and penalties) for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011:

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Beginning of period balance	$ 445	$ 414	$ 365
Additions for tax positions of prior years	-		13
Decreases for tax positions of prior years	-	(1)	-
Additions for tax positions of the current year	-	32	36
End of period balance	$ 445	$ 445	$ 414

The Company does not expect a significant change in the amount of unrecognized tax benefits in the next twelve months.

The Company's federal returns for the fiscal years ended June 30, 2004 through June 30, 2011, the short period ended December 31, 2011, and the year ended December 31, 2012 are open to examination as a result of the 5-year net operating loss carry-back claim filed for the fiscal year ended June 30, 2009. The amount of income taxes that the Company pays is subject to ongoing audits by federal and state taxing authorities. The Company was under joint committee review by the IRS for its tax year ended June 30, 2009, which was completed during the fiscal year ended June 30, 2011. The Company's state income tax returns for the fiscal years ended June 30, 2008 through June 30, 2011 and calendar years ended December 31, 2012 and 2011 remain open to examination by multiple jurisdictions.

NOTE 6: EQUITY

Capital Stock

Common Stock shareholders are entitled to elect four of the nine members of the Board of Directors, while Preferred Stock shareholders are entitled to elect the remaining five members. Common Stock shareholders are not 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 Common Stock shareholders adversely. Generally, Common Stock shareholders and Preferred Stock shareholders vote as separate classes on all other matters requiring shareholder approval. A majority of the outstanding shares of the company's preferred stock is held by the MGP Ingredients Voting Trust. The beneficial interests in the voting trust are held by the Cray Family Trust. The trustees of the MGP Ingredients Voting Trust and the Cray Family Trust are members of the Cray family and management.

On January 3, 2012, Processing reorganized into a holding company structure. In connection with this transaction, the new holding company was similarly structured in terms of number of shares of Common Stock and Preferred Stock, the articles of incorporation and officer and directors. This reorganization did not change the designations, rights, powers or preferences relative rights to holders of our Preferred or Common Stock as described above. Further, in connection with the reorganization, Processing's 1,414,379 treasury shares were canceled, which also reduced the number of issued shares by 1,414,379. The Company accounted for the cancellation of treasury stock as a charge to retained earnings, which reduced both treasury stock and retained earnings by $7,132. The Company had historically used this treasury stock for issuance of Common Stock under the Company's equity-based compensation plans. With the retirement of these treasury shares, the Company reserved certain authorized shares for issuance of Common Stock under its equity-based compensation plans.

Reserved shares of Common Stock at December 31, 2012 were as follows:

Stock options granted but not exercised	20,000
Restricted stock to non-employees (authorized but not granted)	39,797
Restricted stock to employees and executives (authorized but not granted)	1,344,312
Total	1,404,109

Earnings (Loss) Per Share

The computations of basic and diluted earnings (loss) per share from continuing operations are as follows:

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Net income (loss) from continuing operations attributable to shareholders	$ 1,624	$ 10,635	$ (1,313)
Amounts allocated to participating securities (non-vested shares)	(121)	(707)	(57)
Net income (loss) from continuing operations attributable to common shareholders	$ 1,503	$ 9,928	$ (1,370)
Basic weighted average common shares(i)	16,951,168	16,875,924	16,725,756
Additional weighted average shares attributable to: Stock options	-	3,229	(ii)
Diluted weighted average common shares	16,951,168	16,879,153	16,725,756
Earnings (loss) per share from continuing operations attributable to common shareholders:			
Basic	$ 0.09	$ 0.59	$ (0.08)
Diluted	$ 0.09	$ 0.59	$ (0.08)

(i) Shares listed reflect common stock outstanding after reducing the total for participating restricted stock. The Company had non-vested participating securities of 933,887 and 1,199,661at December 31, 2012 and 2011, respectively, as well as 423,264 and 0 restricted share units at December 31, 2012 and 2011.
(ii) The stock options have not been included in the earnings (loss) per share computation due to the loss experienced this year.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Commitments

The Company has grain supply agreements to purchase its corn requirements for each of its Indiana Distillery and Atchison plant through a single supplier. These grain supply agreements expire December 31, 2014. At December 31, 2012, the Company had commitments to purchase corn to be used in operations through December 2013 totaling $42,586.

The Company has commitments to purchase natural gas needed in the production at fixed prices at various dates through December 2013. The commitment for these contracts at December 31, 2012 totaled $5,576.

The Company entered into a supply contract for flour for use in the production of protein and starch ingredients. The initial term of the agreement, as amended, expires October 23, 2015. At December 31, 2012, the Company had purchase commitments to purchase aggregating $10,899 through June 2013.

As of December 31, 2012, the Company had contracts to acquire capital assets of approximately $585.

At December 31, 2012, the Company had $2,000 outstanding from a letter of credit with a vendor, which reduced the amount available to the Company under its revolving line of credit.

Contingencies

There are various legal proceedings involving the Company and its subsidiaries. Management considers that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position or overall trends in results of operations of the Company.

NOTE 8: EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan. The Company had an employee stock ownership plan ("ESOP") covering all eligible employees after certain eligibility requirements are met. On April 23, 2012, the Company received approval from the Internal Revenue Service to terminate the ESOP and the plan was terminated retroactively to be effective as of June 30, 2010. Participants of the ESOP were notified that they had several options for distributing their shares and cash from the ESOP, including an in-kind distribution to a qualified retirement plan or a lump sum cash distribution to them personally. The termination of the ESOP caused no recourse to the Company. There were no contributions to the plan during fiscal 2012, the six month transition period ended December 31, 2011 or the year ended June 30, 2011.

401(k) Plans. The Company has established 401(k) profit sharing plans covering all employees after certain eligibility requirements are met. Amounts charged to operations related to the plans totaled $773 for the year ended December 31, 2012, $509 for the six month transition period ended December 31, 2011 and $710 for the year ended June 30, 2011.

Defined Benefit Retirement Plans. The Company sponsors two partially funded, noncontributory qualified defined benefit pension plans, which covers substantially all union employees and certain former employees at the Pekin facility. The benefits under these pension plans are based upon years of qualified credited service; however benefit accruals under the Atchison plan were frozen as of October 15, 2009 and benefit accruals under the Pekin plan were frozen as of December 10, 2009. The Company's funding policy is to contribute annually not less than the regulatory minimum and not more than the maximum amount deductible for income tax purposes. Historically, the measurement and valuation date of the plans was June 30; however, in conjunction with the Company's change in fiscal year end, the measurement date was changed to December 31, beginning December 31, 2011.

During the year ended December 2012 our two defined benefit retirement plans were merged together and the beneficiaries of one plan were provided the opportunity to withdraw their pension funds resulting in a lump sum benefit payment of $1,997. Acceleration of the actuarial net losses (i.e. settlement losses) from accumulated other comprehensive income of $228 was required due to the significance of the lump sum benefit payments during 2012.

Other Post-Retirement Benefit Plan. The Company sponsors an unfunded, contributory qualified plan that provides life insurance coverage as well as certain health care and medical benefits, including prescription drug coverage, to certain retired employees. This post-retirement benefit plan is contributory and provides benefits to retirees and their spouses. Contributions are adjusted annually. The plan contains fixed deductibles, coinsurance and out-of-pocket limitations. The life insurance segment of the plan is noncontributory and is available to retirees only. During the year ended December 31, 2012, the Company made a change to the plan to terminate these health care and life insurance benefits at retirement age for non-union employees who were not at least 60 years old on September 1, 2012. The effect of this plan change was a negative plan amendment benefit of $1,165 and $79 curtailment gain. The negative plan amendment includes $1,021 for health care benefits and $144 for life insurance benefits. These amounts will be recognized into income over the average remaining years of service to retirement and the average expected lifetime remaining for health care benefits and life insurance benefits, respectively. The accounting impact for the curtailment results in immediate recognition of a benefit related to unamortized prior service cost of $79. The liability for such benefits is unfunded as it is the Company's policy to fund benefits payable as they come due. Consistent with the discussion above, the Company's measurement date is now December 31. The Company expects to contribute approximately $604, net of $30 of Medicare Part D subsidy receipts, to the plan in fiscal year 2013.

The status of the Company's plans at December 31, 2012 and 2011 was as follows:

	Defined Benefit Retirement Plans December 31,		Post-Retirement Benefit Plan December 31,	
	2012	2011	2012	2011
Change in benefit obligation:				
Beginning of period	$ 4,884	$ 4,024	$ 6,309	$ 6,498
Service cost	-	-	192	100
Interest cost	146	107	209	151
Actuarial loss (gain)	(300)	805	768	(134)
Negative plan amendment benefit	-	-	(1,165)	-
Benefits paid	(2,040)	(52)	(613)	(306)
Benefit obligation at end of period	$ 2,690	$ 4,884	$ 5,700	$ 6,309

The following table shows the change in plan assets:

	Defined Benefit Retirement Plans December 31,		Post-Retirement Benefit Plan December 31,	
	2012	2011	2012	2011
Fair value of plan assets at beginning of period	$ 3,278	$ 3,440	$ -	$ -
Actual return on plan assets	129	(228)	-	-
Employer contributions	353	118	-	-
Benefits paid	(2,040)	(52)	-	-
Fair value of plan assets at end of period	$ 1,720	$ 3,278	$ -	$ -

Assumptions used to determine accumulated benefit obligations as of the year-end were:

	Defined Benefit Retirement Plans			Post-Retirement Benefit Plan		
	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Discount rate	3.19 %	4.21 %	5.42 %	2.98 %	3.77 %	4.71 %
Measurement date	December 31, 2012	December 31, 2011	June 30, 2011	December 31, 2012	December 31, 2011	June 30, 2011

Assumptions used to determine net benefit cost for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011 were:

Defined Benefit Retirement Plans			Post-Retirement Benefit Plan		
Year Ended	Six Months Ended	Year Ended	Year Ended	Six Months Ended	Year Ended

	December 31, 2012	December 31, 2011	June 30, 2011	December 31, 2012	December 31, 2011	June 30, 2011
Expected return on Assets	7.00 %	7.00 %	7.00 %	-	-	-
Discount rate	4.21 %	5.42 %	5.25 %	3.26 %	4.71 %	5.11 %
Average compensation increase	n/a	n/a	n/a	n/a	n/a	4.50 %

The discount rate refers to the interest rate used to discount the estimated future benefit payments to their present value, referred to as the benefit obligation. The discount rate allows the Company to estimate what it would cost to settle the pension obligations as of the measurement date. The Company determines the discount rate using a yield curve of high-quality fixed-income investments whose cash flows match the timing and amount of the Company's expected benefit payments.

In determining the expected rate of return on assets, the Company considers its historical experience in the plans' investment portfolio, historical market data and long-term historical relationships as well as a review of other objective indices including current market factors such as inflation and interest rates.

Components of net benefit cost are as follows:

	Defined Benefit Retirement Plans			Post-Retirement Benefit Plan		
	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Service cost	$ -	$ -	$ -	$ 192	$ 100	$ 224
Interest cost	146	107	238	209	151	409
Expected return on assets	(166)	(118)	(197)	-	-	-
Amortization of prior service cost	-	-	-	(227)	(9)	(17)
Prior service cost recognized due to curtailment	-	-	-	(79)	-	-
Amortization of net actuarial gain	90	11	136	-	-	88
Settlement losses	228	-	-	-	-	-
Total	$ 298	$ -	$ 177	$ 95	$ 242	$ 704

Changes in plan assets and benefit obligations recognized in other comprehensive income (loss) are as follows:

	Defined Benefit Retirement Plans			Post-Retirement Benefit Plan		
	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Net actuarial (loss) gain	$265	$ (1,153)	$1,121	$(768)	$ 134	$1,634
Settlement losses	228	-	-	-	-	-
Recognized net actuarial gain	90	11	136	-	-	88
Prior service cost recognized due to negative plan adjustment	-	-	-	1,165	-	-
Prior service cost recognized due to curtailments	-	-	-	(79)	-	-
Amortization of prior service cost	-	-	-	(227)	(9)	(17)
Total other comprehensive income (loss)	$583	$ (1,142)	$1,257	$91	$ 125	$1,705

Amounts recognized in the Consolidated Balance Sheets are as follows:

	Defined Benefit Retirement Plans		Post-Retirement Benefit Plan	
	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011
Accrued expenses	$ -	$ -	$ (604)	$ -

Other non-current liabilities	(970)	(1,607)	-	-
Accrued retirement benefits	-	-	(5,096)	(6,309)
Net amount recognized	$ (970)	$ (1,607)	$ (5,700)	$ (6,309)

The following amounts have been recognized in accumulated other comprehensive income:

	Defined Benefit Retirement Plans		Post-Retirement Benefit Plans	
	As of December 31, 2012	As of December 31, 2011	As of December 31, 2012	As of December 31, 2011
Actuarial net (loss) gain	$ (799)	$ (1,382)	$ (865)	$ (97)
Net prior service cost	-	-	1,036	177
Net amount recognized	$ (799)	$ (1,382)	$ 171	$ 80

The estimated amount that will be recognized from accumulated other comprehensive income (loss) into net periodic benefit cost during the year ended December 31, 2013 is as follows:

	Defined Benefit Retirement Plans	Post-Retirement Benefit Plan
Actuarial net loss	$ (66)	$ (28)
Net prior service credits	-	647
Net amount recognized	$ (66)	$ 619

The assumed average annual rate of increase in the per capita cost of covered benefits (health care cost trend rate) is as follows:

	Post-Retirement Benefit Plan		
Periods ended,	Year Ended December 31, 2012	Year Ended December 31, 2011	Year Ended June 30, 2011
Health care cost trend rate	8.00 %	8.00 %	8.50 %
Ultimate trend rate	5.00 %	5.00 %	5.00 %
Year rate reaches ultimate trend rate	2024	2020	2021

A one percentage point increase (decrease) in the assumed health care cost trend rate would have increased (decreased) the accumulated benefit obligation by $299 ($269) at December 31, 2012, and the service and interest cost would have increased (decreased) by $20 ($34) for the year ended December 31, 2012.

As of December 31, 2012, the following expected benefit payments (net of Medicare Part D subsidiary for Post-Retirement Benefit Plan Payments), and the related expected subsidy receipts which reflect expected future service, as appropriate, are expected to be paid to plan participants:

	Defined Benefit Retirement Plan	Post-Retirement Benefit Plan	
	Expected Benefit Payments	Expected Benefit Payments	Expected Subsidy Receipts
2013	$ 158	$ 604	$ 30

2014	178	506	29
2015	225	474	28
2016	163	460	27
2017	210	439	25
2018-2022	989	2,237	98
Total	$ 1,923	$ 4,720	$ 237

The weighted average asset allocation by asset category is as follows:

	Defined Benefit Retirement Plan		
Asset Category	As of December 31, 2012	As of December 31, 2011	Target Allocation
Cash and cash equivalents	42 %	4 %	0 %
Equity Securities	36 %	67 %	62 %
Debt Securities	13 %	24 %	26 %
Other	9 %	5 %	12 %
Total	100 %	100 %	100 %

The Company's investment strategy is based on an expectation that equity securities will outperform debt securities over the long term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 62%/26%/12% allocation between equity, debt, and other securities. The strategy utilizes a diversified equity approach using multiple asset classes. The fixed income portion is actively managed investment grade debt securities (which constitute 80% or more of debt securities) with a lesser allocation to high-yield, international, inflation-protected, and rising rate debt securities. Of the lesser allocation, any one debt category will be no greater than 10% of the total debt portfolio. The portfolio may also utilize alternative assets to mitigate risk in the portfolio.

The Company further mitigates investment risk by rebalancing between equity and debt classes to maintain allocation parameters to be within approximately +/- 10% of established targets. This is done to handle changes in asset allocation caused by Company contributions, monthly benefit payments, and general market volatility. At December 31, 2012, the Company held 42% of its investments in cash due to anticipated benefit payments to be made during 2013. The following table sets forth the Company's defined benefit retirement plan assets as of December 31, 2012, by level within the fair value hierarchy.

	Fair Value Measurements at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$724	$-	$-	$724
Equity Securities:				
Domestic equity securities	487	-	-	487
International equity securities	135	-	-	135
Fixed income securities:				
Investment grade domestic bonds	207	-	-	207
Other	167	-	-	167
Total	$1,720	$-	$-	$1,720

The following table sets forth the Company's defined benefit retirement plan assets as of December 31, 2011, by level within the fair value hierarchy.

	Fair Value Measurements at December 31, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$159	$-	$-	$159
Equity Securities:				
Domestic equity securities	1,624	-	-	1,624
International equity securities	560	-	-	560
Fixed income securities:				
Investment grade domestic bonds	626	-	-	626
International bonds	165	-	-	165
Other	144	-	-	144
Total	$3,278	$-	$-	$3,278

Level 1 assets are valued based on quoted prices in active markets for identical securities. The majority of Level 1 assets listed above include exchange traded index funds, bond funds and mutual funds.

Equity-Based Compensation Plans. The Company has four equity-based compensation plans: the Stock Incentive Plan of 2004 (the "2004 Plan"), the Stock Option Plan for Outside Directors (the "Directors' Option Plan"), the 1998 Stock Incentive Plan for Salaried Employees (the "Salaried Plan") and the Non-Employee Directors' Restricted Stock Plan (the "Directors' Stock Plan"). The Company's equity based compensation plans provide for the awarding of stock options, stock appreciation rights and shares of restricted common stock ("restricted stock") for senior executives and salaried employees as well as outside directors. Compensation expense related to restricted stock awards is based on the market price of the stock on the date the Board of Directors communicates the approved award and is amortized over the vesting period of the restricted stock award.

The Consolidated Statement of Operations for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and for the year ended June 30, 2011, reflects share-based compensation cost of $969, $510, and $1,164, respectively related to these plans.

In conjunction with reorganization of the Company into a holding company structure on January 3, 2012, the new holding company adopted all of the active shareholder-approved stock plans, which are described as follows:

2004 Plan

Under the 2004 Plan, as amended, the Company may grant incentives (including stock options and restricted stock awards) for up to 2,680,000 shares of the Company's common stock to salaried, full time employees, including executive officers. The term of each award generally is determined by the committee of the Board of Directors charged with administering the 2004 Plan. Under the terms of the 2004 Plan, any options granted will be nonqualified stock options, must be exercisable within ten years and must have an exercise price which is not less than the fair value of the Company's common stock on the date of the grant. As of December 31, 2012, no stock options and 906,375 restricted stock awards (net of forfeitures) remained outstanding under the 2004 Plan.

Under programs approved by the Company's Board of Directors annually in fiscal years 2004 through 2007, shares of restricted stock were awarded to senior executives and other employees under plans in which they were eligible. These annual programs provided for the accelerated vesting of restricted stock after three fiscal years if the Company achieved certain specific operating and financial objectives over such period. If the objectives were not met, the program provided for the vesting of the restricted stock at the end of the seventh fiscal year of the restricted stock award. Except in the case of awards granted in fiscal 2004, the Company did not achieve the specific operating and financial objectives and accordingly, the awards vest at the end of the seventh year. Accelerated full or pro rata vesting may occur upon a change of control or if employment is terminated as a result of death, disability, retirement or termination without cause.

In connection with the Reorganization, the 2004 Plan was amended to provide for grants in the form of restricted stock units. The awards entitled participants to receive shares of stock following the end of a 5 year vesting period. Full or pro rata accelerated vesting generally may occur upon a “change in the ownership” of the Company or the subsidiary for which a participant performs services, a “change in effective control” of the Company or a “change in the ownership of a substantial portion of the assets” of the Company (in each case, generally as defined in the Treasury regulations under Section 409A of the Internal Revenue Code), or if employment of a participant is terminated as a result of death, disability, retirement or termination without cause. Participants have no voting of dividend rights under the awards; however, the awards provide for payment of cash dividend equivalents when dividends are paid to stockholders. As of December 31, 2012, 392,000 restricted stock unit awards remained outstanding under the 2004 Plan. As of December 31, 2012, an aggregate of 1,344,312 restricted stock and restricted stock unit awards remain available for future awards under the 2004 Plan.

Under the annual restricted stock program which has been administered under the Company’s 2004 Stock Incentive Plan since fiscal 2008, amounts awarded are conditioned in part on improvements to MEP (as defined below under Annual Cash Incentive Plan). Under the program, subject to the availability of shares under the 2004 Stock Incentive Plan, restricted stock awards are made each year and generally are based on a percentage (approximately 85.7 percent) of the increase in MEP over the prior year. However, subject to the discretion of the Human Resources and Compensation Committee, the maximum grant date market value of the awards made for any year to all participants is $4,500 and the minimum grant date market value made in any year to all participants, including years in which the change in MEP is negative, is $1,500. Shares awarded vest in 5 years and are eligible for dividends during the vesting period. Provisions for forfeiture and accelerated full and pro rata vesting generally are similar to those under the guidelines for the Company’s outstanding performance accelerated restricted stock awards.

Directors’ Option Plan

Under the Directors Option Plan, each non-employee or “outside” director of the Company received on the day after each annual meeting of stockholders an option to purchase 2,000 shares of the Company’s common stock at a price equal to the fair market value of the Company’s common stock on such date. Options became exercisable on the 184th day following the date of grant and expired no later than ten years after the date of grant. Subject to certain adjustments, a total of 180,000 shares were reserved for annual grants under the Plan. The Plan expired in 2006 and no further options may be granted under it. At December 31, 2012, the directors had outstanding options to purchase 20,000 shares under the Directors’ Option Plan, all of which were exercisable as of December 31, 2012.

Directors' Stock Plan

In addition to annual awards, under the Directors' Stock Plan, which was approved by stockholders at the 2006 Annual Meeting, as amended, the Company may grant incentives for up to 175,000 shares of the Company's common stock to outside directors. The plan allows for grants to be made on the first business day following the date of each annual meeting of stockholders, whereby each non-employee director is awarded shares of restricted stock with a fair market value of $13, as determined on such first business day following the annual meeting. The shares awarded become fully vested upon the occurrence of one of the following events (1) the third anniversary of the award date, (2) the death of the director, or (3) a change in control, as defined in the Plan. The Human Resources and Compensation Committee may allow accelerated vesting in the event of specified terminations.

In connection with the Reorganization, the Directors' Stock Plan was amended to provide for grants in the form of restricted stock units instead of restricted shares. As of December 31, 2012, 103,939 restricted stock awards (vested and non-vested, net of forfeitures) had been granted under the Directors' Stock Plan. In contrast to restricted stock awards, shares will not be issued (and participants will not have voting or dividend rights) before awards vest and are issued. However, the Directors' Stock Plan provides for the payment of "dividend equivalents" in the terms of such awards. As of December 31, 2012, 31,264 restricted stock units had been granted under the Directors' Stock Plan. As of December 31, 2012, 39,797 restricted stock units remain available for future awards under the Directors' Stock Plan.

Salaried Plan

Under the Salaried Plan, the Company was authorized to grant stock incentives for up to 600,000 shares of the Company's common stock to full-time salaried employees. The Salaried Plan provides that the amount, recipients, timing and terms of each award be determined by the Committee of the Board of Directors charged with administering the Salaried Plan. Under the terms of the Salaried Plan, options granted could be either nonqualified or incentive stock options and the exercise price could not be less than the fair value of the Company's common stock on the date of the grant. At December 31, 2012, the Company had no remaining outstanding incentive stock options under the Salaried Plan. These options originally had ten-year terms and have exercise prices equal to fair market value of the Company's common stock as of the date of grant. On March 5, 2008 the period in which the Company could make awards under the Plan expired and no further awards may be made under the Plan.

Stock Options. The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model. For the year ended December 31, 2012, the six month transition period ended December 31, 2011 and for the year ended June 30, 2011, no options have been granted.

A summary of the status of stock options awarded under the Company's stock option plans as of December 31, 2012, December 31, 2011, and June 30, 2011 and changes during the periods then ended is presented below:

	Year Ended December 31, 2012		Six Months Ended December 31, 2011		Year Ended June 30, 2011	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of Period	42,000	$6.98	63,100	$6.35	168,350	$5.91
Granted	-	-	-	-	-	-
Cancelled/Forfeited	22,000	4.88	(1,600)	5.95	(30,000)	4.75
Exercised	-	-	(19,500)	5.02	(75,250)	6.01
Outstanding at end of Period	20,000	$9.30	42,000	$6.98	63,100	$6.35

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During the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011, the aggregate intrinsic value of stock options outstanding and exercisable was $0, $17, and $146, respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value (the difference between the Company's average closing stock price on the last ten trading days of the related fiscal period and the exercise price, multiplied by the number of related in-the-money options) that would have been received by the option holders had they exercised their options at the end of the period. This amount changes based on the market value of the Company's common stock. Total intrinsic value of options exercised for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and for the year ended June 30, 2011 (based on the difference between the Company's stock price on the exercise date and the respective exercise price, multiplied by the number of options determined to be in the money) was $0, $33, and $187, respectively. Cash received from stock option exercises for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and for the year ended June 30, 2011 aggregated $0, $98, and $452, respectively.

Outstanding options are comprised as follows:

	Shares	Exercise Price	Remaining Contractual Lives (Years)	Shares Exercisable at December 31, 2012
Directors Option Plan	10,000	10.45	2.75	10,000
	8,000	9.09	1.75	8,000
	2,000	4.38	.75	2,000
Total	20,000			20,000

Restricted Stock. A summary of the status of restricted stock awarded under the Company's restricted stock plans at December 31, 2012, December 31, 2011, and June 30, 2011 and changes during the periods then ended is presented below:

	Year Ended December 31, 2012		Six Months Ended December 31, 2011		Year Ended June 30, 2011	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Non vested balance at beginning of period	1,199,661	$ 6.26	1,088,644	$ 6.23	843,870	$ 5.99
Granted	-	-	303,052	5.87	323,629	6.93
Forfeited	(181,696)	5.97	(112,354)	6.70	(60,726)	5.99
Vested	(84,078)	7.33	(79,681)	5.41	(18,129)	8.65
Non vested balance at end of period	933,887	$ 6.22	1,199,661	$ 6.26	1,088,644	$ 6.23

During the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011, the total fair value of restricted stock awards vested was $616, $431, and $157, respectively. As of December 31, 2012 there was $2,388 of total unrecognized compensation costs related to stock awards. These costs are expected to be recognized over a weighted average period of approximately 1.8 years.

Restricted Stock Units. A summary of the status of restricted stock awarded under the Company's restricted stock plans at December 31, 2012 is presented below. The Company had no outstanding restricted stock units prior to the year ending December 31, 2012.

	Year Ended December 31, 2012		
	Units		Weighted Average Grant-Date Fair Value
Non vested balance at beginning of year	-	$	-
Granted	432,264		4.33
Forfeited	(9,000)		5.92
Vested	-		-
Non vested balance at end of year	423,264	$	4.29

As of December 31, 2012 there was $1,623 of total unrecognized compensation costs related to restricted stock unit awards. These costs are expected to be recognized over a weighted average period of approximately 3.8 years.

Annual Cash Incentive Plan. In December 2011, the Human Resources and Compensation Committee ("HRCC") recommended and the Board of Directors approved the adoption of a new annual cash incentive plan. This plan was amended and restated in December 2012 and applies to fiscal 2012 and subsequent years ("New Cash Incentive Program"). For certain senior executives of the Company, the New Cash Incentive Program will function similarly to the prior modified economic profit ("MEP") program. For other eligible participants, 50 percent of the target award is based on improvement in MEP and the remaining 50 percent is based on attainment of individual performance goals. No incentive compensation is payable if growth is less than 50% of target. If growth in MEP ranges between 50% and 100% of target, an equivalent percentage of targeted bonus that is based on MEP will be paid. If growth in MEP is over 100% of target, then an equivalent percentage of targeted MEP bonus will be paid, provided that no bonus in excess of 125% will be paid and the HRCC has discretion to limit the payout to 100% where growth in MEP over target ranges from 100% to 125%. Any MEP improvement in excess of 100% that is not paid will be carried over to the next plan year and be added to the growth in MEP for the following year to determine the amount of incentive compensation payable with respect to that year, unless the HRCC decides to carry over a lesser, or no, amount.

In the final month of each plan year, the HRCC may use projections of MEP and MEP growth performance to determine estimated annual incentive compensation payments to participants where the HRCC wishes to make a 90% payment in such final month (a "December Payment"). After the financial results for the plan year are available, the annual incentive compensation payment of those participants who received a December Payment will be calculated and a true-up payment for any remainder will be paid. In the event that a December Payment is in excess of the finally determined amount of actual incentive compensation, the participant is required to pay to the Company the amount of such excess payment within 15 days of the Company's demand and the Company may elect to set-off any amount it otherwise owes to the participant by the amount of such excess.

For 2012, growth in MEP was measured from calendar year 2011. For 2012, the HRCC estimated that the MEP improvement was substantially more than 100% of target. A December Payment equal to 90% of the incentive compensation payable of the MEP improvement at 100% was paid under the plan. For the six month transition period ended December 31, 2011, the target for growth in MEP was 50% of the increase amount that was targeted for fiscal 2011. The Company did not exceed its targeted growth in MEP of $1,500 for the six month transition period ended December 31, 2011, and no incentive was paid for the six month transition period ended December 31, 2011. For the year ended June 30, 2011, the growth in MEP was measured against fiscal 2010. The Company did not exceed its targeted growth in MEP of $3,000 in fiscal 2011, and no annual incentive was paid for fiscal 2011.

Amounts expensed under the annual cash incentive plan totaled $2,911, $0 and $0 for the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011, respectively.

NOTE 9: RESTRUCTURING COSTS AND LOSS ON IMPAIRMENT OF ASSETS

Six month transition period ended December 31, 2011:

The Company has determined not to renew the lease at the production facility where Wheatex® has been produced and to abandon its equipment on the leased premises upon the expiration of the lease in August 2012, which required an impairment analysis to be performed. The estimated undiscounted future cash flows generated by the equipment that manufactures Wheatex® were less than their carrying values. The carrying values of the equipment were reduced to fair value, which resulted in an impairment charge of $706. Fair value was estimated using discounted future cash flows.

In conjunction with the impairment described above, management performed an impairment review of certain other equipment used to produce Wheatex®. In this review, management reviewed the timing of the anticipated business development and recent decisions to not renew leases where Wheatex® is currently produced. The carrying values of the equipment were reduced to fair value, which resulted in an impairment charge of $595. Because on the uncertainty in estimated cash flow estimates, management estimated fair value using a third party appraisal. During the year ended December 31, 2012, the Company was able to identify a buyer for certain equipment previously used to produce Wheatex® that had previously been impaired. The Company sold this equipment, resulting in a gain on sale of $889 during the year ended December 31, 2012.

These fair value measurements are considered to be Level 3 in the fair value hierarchy as the estimates used were based on significant unobservable inputs.

During fiscal 2009, the Company restructured its business, resulting in the accruals for various restructuring activities including severance costs and lease termination charges among other items.

Activity related to restructuring costs was as follows:

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Balance at beginning of period	$ 915	$ 1,655	$ 2,685
Provision for additional expense	-	-	249
Payments and adjustments(a)	(431)	(740)	(1,279)
Balance at end of period	$ 484	$ 915	$ 1,655

NOTE 10: ASSETS HELD FOR SALE

In conjunction with the acquisition of LDI's Distillery Business, the Company acquired a grain elevator that was not expected to be used. Accordingly, this facility and its related assets totaling $2,300 were reported as current assets as Assets held for sale on the Company's Consolidated Balance Sheet as of December 31, 2011. On March 21, 2012, the Company sold this facility and its related assets for $2,252, resulting in a loss on sale of $48.

NOTE 11: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Business combination – On December 27, 2011, the Company acquired LDI's Distillery Business for approximately $11,041, which equals the current assets minus the current liabilities on that date. The Company has recorded, at the acquisition date, purchased assets and assumed liabilities at their estimated fair values. Significant estimates and assumptions used in valuing the acquisition of LDI's Distillery Business and allocating purchase price include: (a) the business enterprise value, which is based on estimated future cash flows (including timing) which are estimated using the income approach and discount rates reflecting the risk inherent in the future cash flows, and (b) the values of land, buildings and improvements and machinery and equipment, which are estimated using the cost and market approaches as determined by the Company with the assistance of an independent third party.

Defined benefit pension and post-retirement benefit obligations. The Company accrues amounts for defined benefit pension and post-retirement benefit obligations as discussed in Note 8. Employee Benefit Plans. An accrual of $2,690 for defined benefit pension obligations and $5,700 for post-retirement benefit obligations is included in the accompanying consolidated balance sheet at December 31, 2012. Claim payments and pension obligations based upon actual experience could ultimately differ materially from these estimates.

Inventory valuation. The Company has recorded the carrying value of its inventories at the lower of cost or market based upon management estimates. Actual results could differ significantly in the near term. Inventory valuations are impacted significantly by constantly changing prices paid for our key raw materials, primarily corn.

Impairment. The Company reviews 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. During the six month transition period ended December 31, 2011, the significant estimates and assumptions used in determining fair value included undiscounted future cash flows. Third party appraisals may be used when cash flows are uncertain. Undiscounted future cash flow estimates were determined based on estimated business to develop, and the timing of the estimated business development. 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. The Company recognized a non-cash impairment loss of $1,301 for the six month transition period ended December 31, 2011. The Company may incur further impairment losses with respect to these assets if the estimates that it made when it performed its analysis prove to be inaccurate or if it determines that it needs to change its assumptions. See Note 1. Nature of Operations and Summary of Significant Accounting Policies and Note 9. Restructuring Costs and Loss on Impairment of Assets.

The Company also reviews its investments in non-consolidated subsidiaries for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary include, but are not limited to, the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment. See Note 1. Nature of Operations and Summary of Significant Accounting Policies and Note 3. Equity Method Investments.

Significant customers. For the year ended December 31, 2012, the Company did not have sales to any individual customer that accounted for more than 10 percent of consolidated net sales. During the year ended December 31, 2012, the Company’s ten largest customers accounted for approximately 36 percent of consolidated net sales.

For the six month transition period ended December 31, 2011, the Company did not have sales to any individual customer that accounted for more than 10 percent of consolidated net sales. During the six month transition period ended December 31, 2011, the Company’s ten largest customers accounted for approximately 46 percent of consolidated net sales.

For the year ended June 30, 2011, the Company did not have sales to any individual customer that accounted for more than 10 percent of consolidated net sales. During the year end June 30, 2011, the Company’s ten largest customers accounted for approximately 45 percent of consolidated net sales.

Significant suppliers. For the year ended December 31, 2012, the Company had purchases from one grain supplier that approximated 42 percent of consolidated purchases. In addition, the Company's 10 largest suppliers accounted for approximately 86 percent of consolidated purchases.

For the six month transition period ended December 31, 2011, the Company had purchases from one grain supplier that approximated 36 percent of consolidated purchases and from a flour supplier that accounted for 10 percent of consolidated purchases. In addition, the Company's 10 largest suppliers accounted for approximately 86 percent of consolidated purchases.

For the year ended June 30, 2011, the Company had purchases from one grain supplier that approximated 38 percent of consolidated purchases and from a flour supplier that accounted for 26 percent of consolidated purchases. In addition, the Company's 10 largest suppliers accounted for approximately 90 percent of consolidated purchases.

Tax Valuation Allowance. The Company establishes a valuation allowance for deferred income tax assets if management believes, based on its assessment of historical and projected operating results and other available facts and circumstances, that it is more-likely-than-not that all or a portion of the deferred income tax assets will not be realized. Management has determined that a valuation allowance was appropriate on its net deferred income tax assets of $9,053 and $9,840 at December 31, 2012 and December 31, 2011.

Workforce subject to collective bargaining. As of December 31, 2012, the Company had 267 employees, 142 of whom are covered by collective bargaining agreements with two labor unions. As of December 31, 2011, the Company had 256 employees, 97 of whom are covered by collective bargaining agreements with one labor union. The agreements, which expire December 31, 2017 and August 31, 2014, cover employees at the Indiana Distillery and Atchison Plant, respectively.

NOTE 12: OPERATING SEGMENTS

As of December 31, 2012, the Company's operations were classified into three reportable segments: distillery products, ingredient solutions and other. On February 8, 2013, the Company sold substantially all of the assets of included in its other segment as further described in Note 20. Subsequent Events. The distillery products segment consists of food grade alcohol, along with fuel grade alcohol, and distillers feed, which are co-products of our distillery operations. Ingredient solutions consist of specialty starches and proteins, commodity starch and vital wheat gluten (commodity protein). The 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.

Operating profit (loss) for each segment is based on net sales less identifiable operating expenses. Non-direct selling, general and administrative, interest expense, investment income and other general miscellaneous expenses have been excluded from segment operations and classified as Corporate. Receivables, inventories and equipment have been identified with the segments to which they relate. All other assets are considered as Corporate.

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Sales to Customers			
Distillery products	$ 276,690	$ 118,437	$ 188,993
Ingredient solutions	56,488	27,596	57,765
Other(i)	1,157	444	1,157
Total	$ 334,335	$ 146,477	$ 247,915
Depreciation and amortization			
Distillery products	$ 5,662	$ 2,128	$ 4,720
Ingredient solutions	2,427	1,240	2,148
Other(i)	244	122	245
Corporate	3,235	1,557	1,730
Total	$ 11,568	$ 5,047	$ 8,843
Income (loss) before Income Taxes			
Distillery products	$ 14,874	$ 1,234	$ 19,720
Ingredient solutions	5,217	1,044	1,828
Other(i)	(429)	(274)	(521)
Corporate	(21,775)	(11,422)	(22,272)
Gain on sale of joint venture interest (ii)	4,055	-	-
Impairment of long-lived assets (ii)	-	(1,301)	-
Bargain purchase gain, net of tax(ii)	-	13,048	-
Total	$ 1,942	$ 2,329	$ (1,245)

(i) This segment was sold subsequent to December 31, 2012 as further described in Note 20. Subsequent Events.
(ii) The Company's management reporting does not assign or allocate special charges to the Company's operating segments. For purposes of comparative analysis, gain on sale of joint venture interest, impairment of long-lived assets and bargain purchase gain for the year ended December 31, 2012, the six month transition period ended December 31, 2011, and for the year ended June 30, 2011 have been excluded from the Company's segments.

	December 31, 2012	December 31, 2011
Identifiable Assets		
Distillery products	$107,140	$99,374
Ingredient solutions	27,038	26,546
Other(i)	1,247	1,448
Corporate	27,746	41,789
Total	$163,171	$169,157

(i) This segment was sold subsequent to December 31, 2012 as further described in Note 20. Subsequent Events.

Information about the Company's capital expenditures, by segment, is as follows:

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Distillery products(i)	$ 7,422	$ 12,033	$ 9,340
Ingredient solutions	1,078	765	4,434
Other (ii)	20	-	-
Corporate	1,187	545	808
Total	$ 9,707	$ 13,343	$ 14,582

(i) Includes $11,041 related to acquisition of LDI's Distillery Business (see Note 18. Business Combination) for the six months ended December 31, 2011.
(ii) This segment was sold subsequent to December 31, 2012 as further described in Note 20. Subsequent Events.

Revenue from foreign sources total $18,957, $10,274 and $21,919 for the year ended December 31, 2012, six month period ended December 31, 2011, and the year ended June 30, 2011, respectively and is largely derived from Japan and Canada. There is an immaterial amount of assets located in foreign countries.

NOTE 13: SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Non-cash investing and financing activities:			
Purchase of property and equipment in Accounts Payable	$ 478	$ 800	$ 1,806
Reclassification of assets held for sale from Property and equipment	-	2,300	-
Stock plan shares issued from Treasury	-	1,057	1,350
Additional cash payment information:			
Interest paid	928	375	515
Income tax (paid)/ refunds received	293	169	(234)

NOTE 14: DERIVATIVE INSTRUMENTS AND FAIR VALUE MEASUREMENTS

Derivative Instruments. Certain commodities the Company uses in its production process are exposed to market price risk due to volatility in the prices for those commodities. The Company used financial derivative instruments to reduce exposure to market risk in commodity prices, primarily corn, through a combination of forward purchases, long-term contracts with suppliers and exchange traded commodity futures and option contracts. Specifically, the Company will sell put options on commodity futures at exercise prices that were deemed attractive to the Company and use the premiums received to reduce the overall cost of inputs utilized in the production process. Beginning July 1, 2011, the Company began to buy and sell derivative instruments to manage market risk associated with ethanol purchases, including ethanol futures and option contracts. These contracts were entered into to mitigate risks associated with the Company's investment in ICP. Between Effective July 2011 and February 2012, management elected to restart hedge accounting for qualifying derivative contracts entered into on and after July 1, 2011. No ethanol futures or option contracts had been designated as hedges as of December 31, 2012.

During 2012, the Company entered into a grain supply contract for its distillery in Indiana Atchison facility that permits the Company to purchase corn for delivery up to 12 months in the future, at negotiated prices. The pricing for these contracts is based on a formula using several factors. The Company has determined that the firm commitments to purchase corn under the terms of these new contracts meet the normal purchases and sales exception as defined under ASC 815, Derivatives and Hedging, and has excluded the fair value of these commitments from recognition within its consolidated financial statements until the actual contracts are physically settled. Accordingly, given these purchase agreements, in February 2012, the Company made the decision to close out of the corn futures contracts designated as cash flow hedges prior to their scheduled delivery and simultaneously de-designated 100 percent of these cash flow hedges at that time. As of December 31, 2012, the Company has no future contracts designated as cash flow hedges.

Derivatives Not Designated as Hedging Instruments

The Company's production process involves the use of natural gas and raw materials, including corn and flour. The contracts for raw materials and natural gas range from monthly contracts to multi-year supply arrangements; however because the quantities involved have always been for amounts to be consumed within the normal production process, the Company has determined that these contracts meet the normal purchases and sales exception as defined under ASC 815, Derivatives and Hedging, and have excluded the fair value of these commitments from recognition within its financial statements until the actual contracts are physically settled. See Note 7. Commitments for discussion on the Company's corn, flour and natural gas purchase commitments.

The following table provides the gain or (loss) for the Company's commodity derivatives not designated as hedging instruments and where it was recognized in the Consolidated Statements of Operations.

	Classified	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Commodity derivatives	Cost of sales	$ 2,173	$ (634)	$ 11,299

The Company used corn futures contracts for the purchase of corn and also uses call and put options in order to mitigate the impact of potential changes in market conditions. Beginning July 1, 2011, the Company began to buy and sell derivative instruments to manage market risk associated with ethanol purchases, including ethanol futures and option contracts, in order to mitigate risks associated with the Company's investment in ICP. At December 31, 2012, the Company had no ethanol derivative contracts outstanding.

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Derivatives Designated as Cash Flow Hedges

The Company, from time to time, uses futures or options contracts to fix the purchase price of anticipated volumes of corn to be purchased and processed in a future month. The Company's corn processing plants currently grind approximately 1,750,000 bushels of corn per month. The Company typically enters into cash flow hedges to cover between 70 percent and 80 percent of its monthly anticipated grind. As previously discussed, in connection with the Company's new grain supply agreements, the Company de-designated its cash flow hedges and had no corn futures at December 31, 2012.

Derivatives in Cash Flow Hedging Relationship	Amounts of Gains (Losses) Recognized in OCI on Derivatives			Location of Losses Reclassified from AOCI into Income	Amount of Gains (Losses) Reclassified from AOCI into Earnings		
	Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011		Year Ended December 31, 2012	Six Months Ended December 31, 2011	Year Ended June 30, 2011
Commodity derivatives	$ (286)	$ (1,252)	n/a	Cost of sales	$ (413)	$ (539)	n/a

During the year ended December 31, 2012, the Company de-designated 100 percent of its cash flow hedges, which resulted in a reclassification of a $27 loss from AOCI into current period earnings. The Company also reclassified $200 of net losses deferred in AOCI, prior to the de-designation, to cost of sales as a result of cash flow hedge ineffectiveness.

As of December 31, 2011, the Company recorded $1,252 of net losses in AOCI related to gains and losses from changes in fair value of commodity cash flow hedge transactions and reclassified $586 of net losses deferred in AOCI to cost of goods sold as a result of cash flow hedge ineffectiveness. The Company expects any losses ultimately realized to largely be offset by changes in the underlying cost of corn purchased. The actual amount of any losses realized for open derivative positions will be dependent on future prices. As of December 31, 2011, the Company had deferred net losses of $127 in AOCI.

Fair Value Measurements.

The Company did not have any outstanding derivatives (designated or non-designated) at December 31, 2012. The following table shows the fair value of the Company's derivatives (both designated and non-designated hedging instruments), where the derivatives are classified on the Consolidated Balance Sheets and the level, within the fair value hierarchy, at December 31, 2011.

			Fair Value Measurements		
	Classified	Total	Level 1	Level 2	Level 3
December 31, 2011					
Assets					
Corn Derivatives	Derivative Assets	$1,091	$1,091	$-	$-
Ethanol Derivatives	Derivative Assets	$213	$213		
Liabilities					
Corn Derivatives	Derivative Liabilities	$(974)	$(974)	$-	$-
Ethanol Derivatives	Derivative Liabilities	$(2,491)	$(2,491)	$-	$-

Counterparty credit risk. The Company enters into commodity derivatives through a broker with a diversified group of counterparties. Under the terms of the Company's account with its broker, it is required to maintain a cash margin account as collateral to cover any shortfall in the market value of derivatives.

The Company classifies certain interest bearing cash accounts on deposit with and maintained with the Company's broker for exchange-traded commodity instruments, which totaled $12 and $7,605 at December 31, 2012 and December 31, 2011, respectively, as restricted cash to reflect the fair value of open contract positions relative to respective contract prices. The Company is also required to provide required margin, serving as collateral, in accordance with commodity exchange requirements which totaled $0 and $4,680 at December 31, 2012 and December 31, 2011, respectively.

NOTE 15: RELATED PARTY TRANSACTIONS

Information related to the Company's related party transactions is as follows:

Transactions with ICP and ICP Holdings

The Company has entered into various agreements with ICP and ICP Holdings including a Contribution Agreement, an LLC Interest Purchase Agreement, a Limited Liability Company Agreement and a Marketing Agreement. Based on the facts and circumstances that existed at December 31, 2012, including recurring losses experienced, forecasted losses expected for 2013, the expiration of ICP's revolving credit agreement resulting in no assured liquidity source and the Company's plan to substantially reduce the sourcing of their product from ICP, the Company' management decided to assess their investment in ICP for impairment. These agreements and management's assessment of ICP's current status are further described in Note 3. Equity Method Investments.

As of December 31, 2012 and 2011, the Company recorded $4,008 and $6,167, respectively, of amounts due to ICP that is included in the Accounts payable to affiliate, net caption on the accompanying Consolidated Balance Sheets and purchased approximately $48,611, $40,159 and $57,482 of product from ICP during the year ended December 31, 2012, the six month transition period ended December 31, 2011 and the year ended June 30, 2011, respectively, which is included in the Cost of sales caption of the Consolidated Statements of Operations.

Randy M. Schrick serves as the Vice President of Engineering of the Company and served as President of ICP from November 2009 to December 2011.

Long term debt

On July 20, 2009, Union State Bank – Bank of Atchison ("Bank of Atchison"), which previously had loaned the Company $1,500, agreed to loan the Company an additional $2,000. The Company's President and Chief Executive Officer, Mr. Newkirk, is a director of the Bank. At December 31, 2012 and 2011, the Company had $1,070 and $1,374 outstanding, respectively on a 6.39% Secured Promissory Noted, due monthly to July 2016.

Consulting contract

The Company had a consulting contract with Ladd Seaberg, its former Chairman of the Board, who is also the son-in-law of Mr. Cloud L. Cray, Jr., spouse of a member of the Board of Directors and a voting trustee of the voting trust. Under the contract, $250 was paid annually in exchange for consulting services. The contract expired June 14, 2011.

NOTE 16: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting pronouncements not yet adopted

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"), which requires an entity to disclose certain information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments in this Update for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company is currently evaluating what impact this standard may have to its financial statements. The FASB has clarified the scope of ASU 2011-11 and proposed to limit the disclosures to derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and lending arrangements.

NOTE 17: TRANSITION PERIOD COMPARATIVE DATA

In August 2011, the Company changed its fiscal year end from June 30 to December 31. The unaudited information for the year ended December 31, 2011 (which reflects the combined results for the six months ended June 30, 2011 and the six month transition period ended December 31, 2011) and for the six month transition period ended December 31, 2010 is presented below for comparative purposes.

	Year Ended		Six Months Ended	
	December 31, 2012	December 31, 2011 (unaudited)	December 31, 2011	December 31, 2010 (unaudited)
Operating Data:				
Sales	$338,232	$ 279,656	$146,563	$ 115,142
Less: excise tax	3,897	193	86	213
Net sales	334,335	279,463	146,477	114,929
Cost of sales	309,312	272,786	143,531	95,783
Gross profit	25,023	6,677	2,946	19,146
Selling, general and administrative expenses	26,536	21,987	11,417	10,587
Other operating costs and (gain) loss on sale of assets, net	(569)	539	114	650
Impairment of long-lived assets	-	1,301	1,301	-
Bargain purchase gain, net of tax	-	(13,048)	(13,048)	-
Income (loss) from operations	(944)	(4,102)	3,162	7,909
Gain on sale of joint venture interest	4,055	-	-	-
Other income, net	2	53	48	3
Interest expense	(870)	(422)	(330)	(266)
Equity in earnings (loss)	(301)	(2,723)	(551)	632
Income (loss) before income taxes	1,942	(7,194)	2,329	8,278
Provision (benefit) for income taxes	318	(8,272)	(8,306)	34
Net income (loss)	$1,624	1,078	10,635	8,244
Other comprehensive income loss, net	802	1968	(1,020)	(176)
Comprehensive income	$2,426	$ 3,046	$9,615	$ 8,068
Per Share Data				
Total basic earnings per common share	$0.09	$ 0.06	$0.59	$ 0.46
Total diluted earnings per common share	$0.09	$ 0.06	$0.59	$ 0.46
Shares used in computing basic earnings per share	16,951,168	16,804,797	16,875,924	16,684,606
Shares used in computing diluted earnings per share	16,951,168	16,808,883	16,879,153	16,702,189
Dividends per common share	$0.05	$ 0.05	$0.05	$ 0.05
Cash Flow Data:				
Net cash used in operating activities	$(5,026)	$ (5,480)	$(9,603)	$ (1,160)

Net cash provided by (used in) investing activities	