

MGP INGREDIENTS INC  
Form 10-K  
March 13, 2014

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2013  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-17196

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of common equity held by non-affiliates, computed by reference to the last sales price as reported by NASDAQ on June 28, 2013, was \$71,671,444.

The number of shares of the registrant's common stock outstanding as of March 5, 2014 was 17,672,814.

#### 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 22, 2014 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.



## 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 acquired substantially all the beverage alcohol distillery assets of Lawrenceburg Distillers Indiana, LLC ("LDI") at its Lawrenceburg and Greendale, Indiana distillery ("Indiana plant") 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.

### 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, 2013, we had three reportable segments: distillery products, ingredient solutions and other. Effective February 8, 2013, we sold all assets included

in our other segment. This transaction resulted in a net-of-tax gain of \$878 that was recognized as a gain on sale of discontinued operations for the year ended December 31, 2013. The remaining income statement activity for the year ended December 31, 2013 and 2012 are not presented as discontinued operations due to their immateriality relative to the consolidated financial statements as a whole. This transaction is further described in in Note 11: Operating Segments.

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. The other segment had no sales since February 8, 2013.



We purchase corn, which we use in our distillery operations, primarily from a single supplier, Bunge. We purchase rye and barley from other suppliers. 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 from 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, all of which 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 plant, 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, 2013 was our plant located in Atchison, Kansas. We operate an Indiana plant, 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" or "Indiana 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 a SEACOR 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 is sold to us and other customers, and fuel grade alcohol and chemical intermediates, which are marketed separately by ICP.

## FINANCIAL INFORMATION ABOUT SEGMENTS

Note 11: 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) from continuing operations before income taxes for the years ended December 31, 2013 and 2012, 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, 2013 and 2012.

## BUSINESS STRATEGY

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. 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. Through these strategies, we seek to deliver strong profit margins and high returns on capital over time.

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 supply chain management and customer service practices. In 2014, part of our strategy is to make our cost structure more competitive, through the aforementioned areas of supply chain management and plant efficiencies, as well as reducing administrative overhead. The potential savings generated will be redeployed to support marketing and new product

innovation.

In the distillery segment, we have positioned the Company to serve the major spirits marketers as well as the growing base of independent craft distillers. This typically means selling a mix of newly produced distillate and product aged in barrels. Some of our products compete on price and value in highly competitive market segments, while others are sold on the basis of high quality, taste, performance, and other key criteria. Customer service is an important part of our value equation. For the coming year we look for sales growth to be driven by products from our Indiana plant, including new customer grain mixtures, known as mash bills, and from our ICP joint venture.

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We continue to be a leading company in the food grade alcohol industry and 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 plant's capacity is dedicated to the production of high quality, high purity food grade alcohol. Our former Pekin plant is now owned and operated by a joint venture, ICP, which produces food grade alcohol, which is sold to us and other customers, and lower grade alcohol products, which are marketed separately by ICP.

In the ingredients segment, we hope to benefit from 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.

## PRODUCT SALES

The following table shows our net sales from continuing operations by each class of similar products, during the years ended December 31, 2013 and 2012, and such net sales as a percent of total net sales.

	PRODUCT GROUP SALES					
	Year Ended December 31,					
	2013			2012		
Distillery Products:	Amount	%	%	Amount	%	%
Food grade alcohol	\$208,695	64.6	%	\$224,323	67.1	%
Distillers feed and related co- products	43,513	13.5	%	40,739	12.2	%
Fuel grade alcohol	8,026	2.5	%	9,073	2.7	%
Warehouse revenue	3,864	1.1	%	2,555	0.8	%
Total Distillery Products	\$264,098	81.7	%	\$276,690	82.8	%
Ingredient Solutions:						
Specialty wheat starches	\$27,820	8.6	%	\$26,393	7.9	%
Specialty wheat proteins	20,086	6.2	%	19,947	6.0	%
Commodity wheat starch	8,509	2.6	%	9,027	2.7	%
Vital wheat gluten	2,552	0.8	%	1,121	0.3	%
Total Ingredient Solutions	\$58,967	18.2	%	\$56,488	16.9	%
Other Products:						
Net Sales	\$199	0.1	%	\$1,157	0.3	%
	\$323,264	100.0	%	\$334,335	100.0	%

Substantially all of our sales are made directly or through distributors to manufacturers and processors of finished packaged goods or to 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 the Indiana 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, 2013, our five largest distillery products customers combined accounted for 24.8% of our consolidated net sales, and our five largest ingredients solutions customers combined accounted for 12.7% of our consolidated net sales.

## 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 plant processes corn, rye and barley into food grade alcohol (primarily beverage alcohol) and distillers feed (commonly called dried distillers grain in the industry).

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. ICP reactivated distillery operations at the Pekin facility during the quarter ended March 31, 2010. 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 plant, where we now produce premium bourbon, corn and rye whiskeys, gin, grain neutral spirits and distillers feed.

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, taking into account the possibility of buying additional aged product in the market. Production schedules are adjusted from time to time to bring inventories into balance with estimated future demand.

**Food Grade Alcohol.** The majority of our alcohol plant capacities are dedicated to the production of high quality, high purity food grade alcohol for beverage and industrial applications. State-of-the-art equipment was installed in 2004 that 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 the Indiana 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.

Distillers Feed, related Co-Products and By-Products. The bulk alcohol co-products sales in the year ended December 31, 2013 consisted of distillers feed and fuel grade alcohol. 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. We produce corn oil as a value-added co-product through a corn oil extraction process in dry-grind ethanol plants. We produce fuel grade alcohol as a co-product of our food grade alcohol business at our distillery in Atchison. 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 margins.

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 costs.

Warehouse revenue. Customers who purchase unaged whiskey or bourbon may also enter into separate warehouse service agreements with us, which include services for barrel put away, barrel storage and barrel retrieval. Revenue from warehousing services is recognized upon providing the service and/or over the passage of time, as in the case of storage fees.

## INGREDIENT SOLUTIONS SEGMENT

Our ingredient solutions segment consists primarily of specialty wheat starches, specialty wheat proteins, commodity wheat starch and vital wheat gluten.

In recent years, our specialty wheat starches and proteins have accounted for a sizable share of our total sales in this segment as a result of our business strategy of focusing on higher margin products. Our results were generated, 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 of our specialty products to the largest and most innovative producers of consumer packaged goods in the United States. Future margin growth will depend on executing these strategies.

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 in spray, flash or drum dryers. 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. 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 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 ingredient 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, carbon-less 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 year ended December 31, 2013, 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<sup>TM</sup> 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.

**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<sup>®</sup>, Wheatex<sup>®</sup>, HWG 2009<sup>™</sup> and FP<sup>™</sup> 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<sup>®</sup> series.** Our Arise<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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<sup>™</sup> series.** The FP<sup>™</sup> 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<sup>™</sup>.** 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.

**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.

**Vital Wheat Gluten.** Vital wheat gluten is a free-flowing light tan powder which contains approximately 70 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 the flavor and color of certain foods. 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 use it as a base for further processing into our specialty wheat proteins.

#### OTHER SEGMENT

As discussed in Note 11: Operating Segments, on February 8, 2013, we sold 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), were 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. MGPI Terratek® was sold in conjunction with the February 8, 2013 sale.

## 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 years ended December 31, 2013 and 2012, we spent \$2,472 and \$2,344, respectively, on research and development activities. These activities were principally in the ingredient solutions for 2013 and the ingredients solutions and other segments for 2012.

## SEASONALITY

Our sales are generally not seasonal. There is a degree of seasonality with respect to our purchase of natural gas as further described under “Energy.”

## TRANSPORTATION

Historically, our output has been transported to customers by truck and rail, most of which is provided by common carriers. We use third party transportation companies to help us manage truck and rail carriers who deliver inbound

materials to us and deliver our products to our North American customers. We currently lease 214 rail cars.

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## RAW MATERIALS

Our principal raw materials are wheat flour, which is processed into our starches and proteins, and corn, which is processed into food grade alcohol and distillery co-products consisting of fuel grade alcohol and animal feed. 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 quarters ended March 31, 2012 and June 30, 2012, we entered into grain supply contracts for our Indiana plant and Atchison facility, respectively, that permit us to purchase corn for delivery up to twelve months into the future, at negotiated prices. The pricing is based on a formula using several factors. We now expect to order corn anywhere from one to twelve months into 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. We purchase new oak barrels from three suppliers.

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.

## ENERGY

Because energy constitutes 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 plants 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 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 typically enter contracts for future delivery only to protect margins on contracted alcohol sales and expected ingredients sales and general usage.

## EMPLOYEES

As of December 31, 2013, we had a total of 268 employees. A collective bargaining agreement covering 98 employees at the Atchison plant expires on August 31, 2014. Another collective bargaining agreement covering 47 employees at the Indiana plant expires on December 31, 2017. As of December 31, 2012, we had a total of 267

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.

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 permit is valid through September 30, 2015. 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.

#### 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. ICP reactivated distillery operations at the Pekin facility during the quarter ended March 31, 2010.

On February 1, 2012, ICP Holdings exercised its option and purchased an additional 20% 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 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.

Effective January 1, 2013, the Marketing Agreement expired, although we continue to purchase product from ICP.

An affiliate of SEACOR 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, 2013 our total capital commitment to the joint venture was \$750, of which we had contributed \$571.

#### OFFICERS OF THE REGISTRANT

The Company's officers as of December 31, 2013 are listed below.

Name	Age	Position
Donald P. Tracy	56	Interim Co-Chief Executive Officer and Vice President, Finance and Chief Financial Officer
Randy M. Schrick	63	Interim Co-Chief Executive Officer and Vice President, Engineering
Donald G. Coffey, Ph.D.*	59	Vice President, Research, Development and Innovation
David E. Dykstra	50	Vice President, Alcohol Sales and Marketing
Michael J. Lasater	45	Vice President, Ingredient Sales and Marketing
Scott B. Phillips*	48	Vice President, Supply Chain Operations
David E. Rindom	58	Vice President, Human Resources
Lori D. Norlen	52	Corporate Secretary

\* Donald G. Coffey, Ph.D and Scott B. Phillips left the Company on January 3, 2014 and January 6, 2014, respectively.

Mr. Tracy has served as Vice President of Finance and Chief Financial Officer of MGP Ingredients, Inc. since November 2009. He was named Interim Co-Chief Executive Officer effective December 17, 2013. 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.

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 was named Interim Co-Chief Executive Officer effective December 17, 2013. 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.

Dr. Coffey served as Vice President of Research, Development and Innovation from August 2010 until January 3, 2014. Prior to that, he had jointly served as Vice President of Research, Development and Innovation and of Sales and Marketing since June 2009. Prior to that, he had been 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 Vice President of Ingredient Sales and Marketing. 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 served as Vice President of Supply Chain Operations from June 2009 until January 6, 2014. 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.

Ms. Norlen joined the Company in October 2010 as Assistant Controller and was named Corporate Secretary in 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 the Atchison or Indiana facility, or a disruption of transportation services, could negatively affect our business.

The bulk of our ingredient solutions production takes place at our facility in Atchison, while food grade alcohol is produced both at our Atchison plant and our Indiana plant. 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 whiskeys and bourbons at our Indiana plant. If there were a catastrophic event at our Indiana plant, 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.

During January 2014, the Company experienced a small fire at our Indiana plant. The fire damaged equipment in the Company's feed dryer house, and caused a temporary loss of production in January, but did not impact our or customer owned warehoused inventory. The Indiana plant is back in operation and by the end of February the Company was at pre-fire production capacity. The Company is currently working with its insurance carrier to determine the coverage for equipment damage and business interruption losses. See Note 17: Subsequent Events.

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 corn purchasing program, which allows to us purchase corn for delivery up to 12 months in the future may not be an effective strategy in mitigating our exposure to commodity price fluctuations. We may not be able to recoup cost increases in our selling prices changes in prices of commodities and natural gas.

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.

With our grain supply agreements, we may purchase corn for delivery up to twelve months into the future, and because of this we have eliminated 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 are 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.

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

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

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

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

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

the difficulty of assimilating and integrating the acquired operations into our current business;

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



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

Disruption in the supply or shortage of oak barrels could negatively affect our business.

New oak barrels are available from only a few sources and the industry is currently experiencing a shortage of oak barrels compared to the rapidly increasing demand for products aged in these barrels. We are exploring alternatives to alleviate the effect of this shortage of oak barrels. However, the shortage could limit our ability to fulfill our existing customer arrangements and our ability to lay out stock for our own use in future years. The effect of our inability to stock for our own use could limit future growth.

If ICP incurs losses, it could result in closure of its Pekin plant. ICP's access to capital may limit needed financing. 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, 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. 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, 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. 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,

ICP experienced an EBITDA loss in excess of \$500 for the quarter ended March 31, 2013, which prompted the Company to provide notice to shutdown the plant, but ICP experienced positive EBITDA for the remainder of fiscal 2013. The Company's current plan is to source more product from ICP. The losses incurred during the quarter ended March 31, 2013 and the Company's election to provide notice to shut down the plant did not cause the Company to determine that its investment in ICP was not fully recoverable at March 31, 2013. The Company has determined that there were no triggering events subsequent to March 31, 2013 that required an impairment analysis.

The Company has a minority ownership position in ICP, and that could limit 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 sourced significantly less product from ICP in fiscal 2013 than we did in fiscal 2012. We plan to increase

sourced product from ICP in 2014; however ICP is under no obligation to sell us these products, which could lead to reduced sales to us and to an impairment in the value of our investment in ICP.

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, 2013, approximately 145 of our 268 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. If we cannot replace our CEO and certain other key members of management, we may not be able to fully implement our business strategies.

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.

On December 3, 2013 the Company entered into a Settlement and Mutual Release Agreement, pursuant to which the Company terminated the employment of its Chief Executive Officer and President, Timothy W. Newkirk. We have hired a third party to assist us in the search for our permanent Chief Executive Officer. The uncertainty inherent to the search process may limit our strategic moves. It could also negatively impact our stock price. With the new CEO, the Company could experience additional turnover in management as some managers could leave, by choice or otherwise.

Subsequent to the termination of our CEO, certain other key members of management also left the Company, including Scott B. Phillips (Vice President, Supply Chain Operations) and Donald G. Coffey, Ph.D (Vice President, Research, Development and Innovation).

If we cannot attract and retain key management personnel, or if our search for qualified personnel is prolonged, our operating results could be adversely affected. In addition, it could be difficult, time consuming and expensive to replace any key management member or other critical personnel, and no guarantee exists that we will be able to recruit suitable replacements or assimilate new key management personnel into our organization to achieve our operating objectives.

We do have key personnel life insurance covering one key executive, 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 Wells Fargo 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.

Our level of indebtedness could adversely impact our business, financial condition or results of operations.

We have \$18,000 borrowed under our Credit Agreement as of December 31, 2013, and we incurred \$1,118 of interest expense in 2013. Should the amount of our borrowings increase then 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

Our indebtedness under our Credit Agreement is subject to interest rate increases because we pay interest at the base rate or LIBOR rate plus a fixed spread. We would be adversely affected by any increases in prevailing interest rates.

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.

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.

We import some of the ingredients used in our production. The import of the ingredients is subject to federal regulation. Difficulty in complying with existing federal rules or any changes in such federal rules could impact how we source our ingredients. This, in turn, could have an impact on our profitability.

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.

Donald G. Coffey, Ph.D, Vice President, Research, Development and Innovation, left the Company on January 3, 2014. The impact of Mr. Coffey's departure is unclear at this time. While we believe there will be no negative consequence to research or product innovation, we may not know the effect until after it has occurred. It is possible his departure will negatively affect future growth and 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. Strong price competition in the industrial alcohol market at times can restrict profitability. We intend to protect the margins on our alcohol contracts, but may not always be able to do so completely. If we are not successful in protecting our margins 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, but, 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.

Determining the quantity of maturing stock of our aged distillate could affect our future profitability.

There is an inherent risk in determining the quantity of maturing stock of aged distillate 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 the value of maturing stocks of aged distillate. As a result, profitability of the distillery products segment could be affected.

Water scarcity or 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, water 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.

We may be 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.

Adverse public opinion about any of our specialty ingredients could reduce demand for our products.

Consumer preferences with respect to our specialty ingredients might change. In fact, in recent years, we have noticed shifting consumer preferences with respect to gluten and increased media attention directed at gluten intolerance. Shifting consumer preferences could decrease demand for our specialty ingredients. This could, in turn, significantly decrease our revenues and revenue growth.

New solutions competing with our Fibersym® resistant starch could lead to decreasing margins and lower profitability.

Our patent rights to Fibersym® will expire in 2017. We are already facing new solutions competing with our Fibersym® resistant starch. This could lead to diminished returns. When our patent rights expire in 2017, our margins could fall even further.

#### 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.

The majority of the outstanding shares of our Preferred Stock is beneficially owned by one individual, whom is entitled to vote for five directors under the limited rights of the common stockholders under our Articles of Incorporation.

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, 2013 (including non-vested restricted stock awards held by non-affiliates) was approximately 11,620,303 shares, as approximately 6,130,118 shares are held by affiliates. Over the year ended December 31, 2013, our daily trading volume as reported to us by NASDAQ has fluctuated from 700 to 170,800 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.

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## 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
Lenexa, Kansas	Administrative office space	Leased	3,222	1

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
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The foregoing facilities are generally in good operating condition, and are generally suitable for the business activity conducted therein. We operated both our Atchison distillery and Indiana plant operations at near full capacity during much of 2013. We have existing manufacturing capacity to grow our ingredients business at our Atchison plant if the market for our ingredients business improves.

Except for our process water cooling system project, which is leased under a capital lease, all of the other production facilities that we utilize are owned, and all of our owned properties are subject to mortgages in favor of one or more of our lenders. The executive offices and technical innovation center in Atchison are leased from the City of Atchison pursuant to an industrial revenue bond financing. Our leasehold interest in these properties is subject to a leasehold mortgage. We also own or lease transportation equipment and facilities and a gas pipeline described under 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 matters, 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 connection with the proxy contest related to the Company's 2013 Annual Meeting of stockholders, the Company was involved in various proceedings with respect to MGP Ingredients, Inc. Voting Trust, the 2013 Annual Meeting and the Special Committee of the Board of Directors (the "Proceedings"). On December 3, 2013, the Company entered into a Settlement and Mutual Release Agreement (the "Settlement Agreement") with the Cray Group, which resolved certain issues surrounding the proxy contest and the Proceedings. As part of the Settlement Agreement the Company agreed to pay expenses and legal fees incurred by the Cray Group, as described in Item 7 - Management's Discussion

and Analysis - 2013 and Recent Initiatives, but otherwise no payment was made to settle the claims at issue in the Proceedings. Pursuant to the Settlement Agreement, the following Proceedings have been dismissed:

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(i) On June 14, 2013, the Company filed a petition for declaratory judgment in the District Court of Johnson County, Kansas, against Richard B. Cray, Thomas Cray, Cloud L. Cray Jr., Karen Seaberg, Laidacker M. Seaberg, and Timothy W. Newkirk, as co-trustees of either MGP Ingredients Inc. Voting Trust or the Cray Family Trust. The Company requested a declaratory judgment determining the parties' legal rights and obligations in the context of proxies for the 2013 Annual Meeting and the status of the Voting Trust. The case was disposed of by a Notice of Stipulation of Dismissal with Prejudice filed on December 6, 2013.

(ii) On July 10, 2013, Cloud L. Cray, Jr. and Karen Seaberg filed a petition for inspection of corporate records pursuant to K.S.A. §17-6510 by a shareholder in the District Court of Atchison County. The case was disposed of by a filing of a Notice of Stipulation of Dismissal with Prejudice filed on December 5, 2013.

(iii) On July 11, 2013, Cloud L. Cray, Jr. and Karen Seaberg filed a petition for an order requiring the Company to conduct the Annual Meeting in the District Court of Atchison County, Kansas. The case was disposed of by a filing of a Notice of Stipulation of Dismissal with Prejudice filed on December 4, 2013.

(iv) On August 1, 2013, Cloud L. Cray, Jr. and Karen Seaberg filed a petition against the Company and the Board of Directors, for a temporary injunction pursuant to K.S.A. § 60-901 et seq. relating to formation, actions and powers of the Special Committee of the Board of Directors. The case was disposed of by the filing of a Notice of Dismissal by Stipulation filed on December 5, 2013.

#### 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 years ended December 31, 2013 and 2012:

	Sales Price High	Low	Dividend Per Share
2013			
First Quarter	\$5.62	\$3.26	\$0.05
Second Quarter	5.96	4.24	—
Third Quarter	6.18	4.77	—
Fourth Quarter	5.32	4.60	—
			\$0.05
2012			
First Quarter	\$6.37	\$5.28	\$0.05
Second Quarter	4.90	3.43	—
Third Quarter	3.68	3.30	—
Fourth Quarter	3.71	3.40	—
			\$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 1.10:1.00.

On February 28, 2014, the Board of Directors declared a five (5) cent dividend per share of common stock. The dividend will be paid on April 9, 2014 to common stockholders of record on March 17, 2014.

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.

## RECORD HOLDERS

At March 5, 2014, there were approximately 660 holders of record of our Common Stock. We believe that the Common Stock is held by approximately 3,574 beneficial owners.

TRADING VOLUMES

According to reports received from NASDAQ, the average daily trading volume of our Common Stock (excluding block trades) ranged from 700 to 170,800 shares during the year ended December 31, 2013.

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## PURCHASES OF EQUITY SECURITIES BY ISSUER

We did not sell equity securities during the quarter ended December 31, 2013.

## ISSUER PURCHASES OF EQUITY SECURITIES

	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2013 through October 31, 2013	—		—	\$—
November 1, 2013 through November 30, 2013	—		—	
December 1, 2013 through December 31, 2013	17,841	(1) \$5.02	(1) —	
Total	17,841		—	

(1) Aggregate number of shares repurchased to satisfy withholding tax obligations under restricted stock that vested during the month.

## 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, 2013, we had three reportable segments: a distillery products segment, an ingredient solutions segment, and an other segment. 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.

Our business is focused on the production of value-added ingredients and distillery products. As a part of our strategy, given the available capacity at our Indiana plant, 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. Whiskey and bourbon production for 2014 is anticipated to be lower than full capacity due to an industry shortage of oak barrels, which are needed to store and age the product. We are exploring alternatives to alleviate the effect of this shortage of oak barrels. Production schedules are adjusted from time to time to bring inventories into balance with established future demand.

In 2014, we plan to reduce costs, selling higher value products, and increasing volume. Our cost structure needs to be more competitive, especially for our commodity products. Areas of focus include sourcing, plant efficiency, and administrative overhead. The anticipated savings will be redeployed to support marketing and new product innovation. One goal for 2014 is to reduce selling, general and administrative expenses compared to 2013, after adjusting for \$5,465 of costs associated with the proxy contest and related matters. For the coming year we look for sales growth to be driven by products from our Indiana plant, including new customer grain mixtures, known as mash bills, and from our ICP joint venture.

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. Corn prices have fluctuated significantly over the past several years. 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 to purchase wheat flour for use in the production of protein and starch ingredients. The supply agreement price we pay 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.

During the quarters ended March 31, 2012 and June 30, 2012, we entered into a grain supply contracts for our Indiana plant and our Atchison facility, respectively, that permits us to purchase corn for delivery up to twelve months into the future, at negotiated prices. The pricing is based on a formula with several factors. We now expect to order corn anywhere from one to 12 months into the future. Because we now expect to order corn anywhere from one to twelve months into the future, we have reduced the volume of our corn futures and options contracts.

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.

## 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.

**Revenue Recognition.** Except as discussed below, revenue from the sale of the our 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. We do not offer a right of return but will accept returns if we shipped the wrong product or wrong quantity.

Our 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 our customers. This product must meet customer acceptance specifications (if applicable), 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 us recognizing revenue for this product. Separate warehousing agreements are maintained for customers who store their product with us, and warehouse revenues are recognized as the service is provided.

Inventory. Inventory includes finished goods, raw materials in the form of agricultural commodities used in the production process, and certain maintenance and repair items. Whiskey must be aged in barrels for several years, following industry practice; we classify all barreled whiskey as a current asset. We include insurance, and other carrying charges applicable to barreled whiskey in inventory costs.

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. We assess the valuation of our inventories and reduce the carrying value of those inventories that are obsolete or in excess of our forecasted usage to their estimated net realizable value. We estimate the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand, and market requirements. Reductions to the carrying value of inventories are recorded in cost of product sold. If the future demand for the our products is less favorable than the our forecasts, then the value of the inventories may be required to be reduced, which could result in material additional expense to the Company and have a material adverse impact on our financial statements.

Impairment of Assets.

Impairment of Investments

We review our investments in equity method investments 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. No other than temporary impairments were recorded during the years ended December 31, 2013 and 2012 for the Company's equity method investments.

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 an assessment to whether the carrying values are fully recoverable, 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 years ended December 31, 2013 and 2012 that required us to record an impairment.

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.



## 2013 ACTIVITIES AND RECENT INITIATIVES

### Proxy Contest and Related Matters

On May 23, 2013, the Company was unable to hold its annual meeting of stockholders (“Annual Meeting”) due to a lack of quorum of outstanding shares of preferred stock. On July 10, 2013 certain common and preferred stockholders (referred to as the “Cray Group”) launched a proxy contest to elect two alternative directors to the board and to seek approval of several corporate governance matters.

In June 2013, the Company filed suit against the co-trustees of the MGP Ingredients Inc. Voting Trust (the “Voting Trust”) and the Cray Family Trust (the “Family Trust”), which owned a majority of the Company’s outstanding preferred stock, seeking judicial clarification as to the proper trustees of the Voting Trust. The former Chief Executive Officer of the Company, Timothy W. Newkirk, who was a trustee of the Family Trust, sued the trustees of the Voting Trust for the same purposes. The Voting Trust and Family Trust were each dissolved in September 2013.

During the course of the proxy contest, certain members of the Cray Group sued the Company (a) in order to force the Annual Meeting to be reconvened prior to resolution of the Trust litigation, (b) for access to the Company’s list of stockholders, and (c) to challenge the formation and actions of a Special Committee of the Board of Directors charged to review Strategic Alternatives.

On December 3, 2013, the Company and each of the directors at that time entered into a Settlement Agreement and Mutual Release Agreement (“Settlement Agreement”) with the Cray Group, which provided for the dismissal with prejudice of all claims brought by any party and the termination without cause of Mr. Newkirk’s employment as Chief Executive Officer, and established a date to reconvene the Annual Meeting, among other matters described therein.

The Company incurred \$3,701 of expenses related to these related matters. The Cray Group is also entitled to reimbursement of reasonable out-of-pocket expenses up to a cap of \$1,775 as further described in Note 7:

Commitments and Contingencies. Pursuant to the terms of Mr. Newkirk’s Employment Agreement and a Transition Services Agreement, \$915 of severance and fees are due to the Company’s terminated Chief Executive Officer, Mr. Newkirk, as further described in Note 9: Restructuring and Severance Costs. The Company held its Annual Meeting on December 17, 2013.

### ICP Matters

ICP’s revolving credit agreement with an affiliate of SEACOR expired as of December 31, 2012 and has not been renewed.

Under a 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”). Effective January 1, 2013, the Marketing Agreement expired.

Rights granted to us under the ICP Limited Liability Company Agreement allow us to shut down the plant if ICP experiences an EBITDA loss of \$500 in a quarter. ICP experienced an EBITDA loss of in excess of the \$500 threshold for the quarter ended March 31, 2013. Such shutdown notice was provided on April 18, 2013 under the terms of the ICP Limited Liability Company Agreement and such notice was rejected by ICP Holdings. The Company has not withdrawn its election as of the date of this filing.

### Sale of Bioplastics Business

On February 8, 2013, we sold the 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 \$2,797 and resulted in a gain, net of tax, of \$878 that was recognized as discontinued operations.

### Business Interruption

During January 2014, we experienced a small fire at our Indiana plant. The fire damaged equipment in our feed dryer house, and caused a temporary loss of production in January, but did not impact our or customer owned warehoused inventory. Our Indiana plant is back in operation and by the end of February we were at our pre-fire production capacity. We are currently working with our insurance carrier to determine the coverage for equipment damage and business interruption losses. The net book value of equipment damaged was approximately \$200. We do not expect this incident to impact our first quarter 2014 sales, as we were able to meet customer demand with stock on hand. See Note 17: Subsequent Events.

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## SEGMENT RESULTS

The following is a summary of revenues and pre-tax income (loss) allocated to each reportable operating segment for the years ended December 31, 2013 and 2012. See Note 11: Operating Segments set forth in Item 8 for additional information regarding our operating segments.

	Year Ended December 31,	
	2013	2012
<b>Distillery Products</b>		
Net Sales	\$264,098	\$276,690
Income from continuing operations before income taxes	11,987	14,874
<b>Ingredient Solutions</b>		
Net Sales	58,967	56,488
Income from continuing operations before income taxes	4,503	5,217
<b>Other<sup>(1)</sup></b>		
Net Sales	199	1,157
Loss from continuing operations before income taxes	(90	) (429

<sup>(1)</sup> Assets from this segment were sold February 8, 2013 as further described in Note 11: Operating Segments.

The following table is a reconciliation between income (loss) from continuing operations before income taxes by segment and net income (loss).

	Year Ended December 31,	
	2013	2012
Income (loss) from continuing operations before income taxes	\$11,987	\$14,874
Distillery products	4,503	5,217
Ingredient solutions	(90	) (429
Other <sup>(1)</sup>	(22,921	) (21,775
Corporate <sup>(2)</sup>	—	4,055
Gain on sale of joint venture interest <sup>(2)</sup>	(6,521	) 1,942
Total income (loss) from continuing operations before income taxes	(714	) 318
Provision (benefit)for income taxes	(5,807	) 1,624
Net income (loss) from continuing operations	878	—
Discontinued, operations, net of tax	\$(4,929	) \$1,624
Net income (loss)		

<sup>(1)</sup>Assets from this segment were sold February 8, 2013 as further described in Note 11: Operating Segments.

<sup>(2)</sup>Non-direct selling, general and administrative, interest expense, earnings from equity method investments 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 for the year ended December 31, 2012 has been excluded from our segments.

The following table shows our net sales from continuing operations by each class of similar products, during the years ended December 31, 2013 and 2012, and the year-versus-year dollar and percent increases/(decreases).

	PRODUCT GROUP SALES					
	Year Ended December 31, 2013	Year Ended December 31, 2012	Year-versus-Year Change Increase/ (Decrease)			
	Amount	Amount	\$ Change		% Change	
Distillery Products:						
Food grade alcohol	\$208,695	\$224,323	\$(15,628)	)	(7.0)	)%
Distillers feed and related co- products	43,513	40,739	2,774		6.8	%
Fuel grade alcohol	8,026	9,073	(1,047)	)	(11.5)	)%
Warehouse revenue	3,864	2,555	1,309		51.2	%
Total Distillery Products	\$264,098	\$276,690	\$(12,592)	)	(4.6)	)%
Ingredient Solutions:						
Specialty wheat starches	\$27,820	\$26,393	\$1,427		5.4	%
Specialty wheat proteins	20,086	19,947	139		0.7	%
Commodity wheat starch	8,509	9,027	(518)	)	(5.7)	)%
Vital wheat gluten	2,552	1,121	1,431		127.7	%
Total Ingredient Solutions	\$58,967	\$56,488	\$2,479		4.4	%
Other Products <sup>(1)</sup> :	\$199	\$1,157	\$(958)	)	(82.8)	)%
Net Sales	\$323,264	\$334,335	\$(11,071)	)	(3.3)	)%

<sup>(1)</sup> Assets from this segment sold February 8, 2013 as further described in Note 11: Operating Segments.

## DISTILLERY PRODUCTS

Total distillery products sales revenue for the year ended December 31, 2013 decreased \$12,592, or 4.6 percent, compared to the year ended December 31, 2012. This decrease was primarily attributable to a decrease in sales of food grade alcohol of 7.0 percent, which was due to a 17.4 percent decrease in volume partially offset by a 12.6 percent increase in the average per unit selling price compared to a year ago. The volume decrease in our food grade alcohol was primarily driven by an 82 percent reduction in the sourcing of industrial alcohol from ICP for re-sale compared to a year ago. The decrease in distillery products sales revenue was partially offset by increases of \$2,774 and \$1,309 in distillers feed and warehousing revenue, respectively, for the year ended December 31, 2013, compared to a year ago. The increase in net sales of distillers feed was due primarily to a 7.2 percent increase in volume compared to a year ago. Despite increases in volume in our overall distillery products segment, we experienced a decrease in return on sales from 5.4 percent for the year ended December 31, 2012 to 4.5 percent for the year ended December 31, 2013, which was primarily impacted by the decrease in the average per unit selling prices relative to the costs of corn. Our overall distillery segment average per unit pricing decreased 5.0 percent year-versus-year compared to a 1.9 percent year-versus-year decrease in per bushel cost of corn (exclusive of the impact related to the accounting for open commodity contracts). For the year ended December 31, 2013, the per million cubic foot cost of natural gas averaged 3.0 percent higher than the year ended December 31, 2012.

## INGREDIENT SOLUTIONS

Total ingredient solutions sales revenue for the year ended December 31, 2013 increased by \$2,479, or 4.4 percent, compared to the year ended December 31, 2012. Specialty wheat starches saw a 5.4 percent increase in revenues compared to a year ago due to a volume increase along with an increase in the average per unit selling price. Revenues for specialty wheat proteins for the year ended December 31, 2013 increased 0.7 percent compared to the year ended December 31, 2012 due to an increase in per unit selling price partially offset by a decrease in volume. Vital wheat gluten saw an 127.7 percent increase in revenues compared to a year ago due to a significant volume increase along with an increase in per unit selling price, as tight market conditions for vital wheat gluten created a temporary selling opportunity. Commodity wheat starch saw a 5.7 percent decrease in revenues compared the same period a year ago due to a volume decrease partially offset by an increase in per unit selling price. Revenues for commodity wheat starch and vital wheat gluten combined for 18.7 percent of total segment for the year ended December 31, 2013 compared to 18.0 percent a year ago. While we experienced a year-versus-year increase in our commodity products (wheat starch and vital wheat gluten) as a percentage of total segment net sales, our focus remains on the production and commercialization of specialty ingredients, which accounted for over 81.3 percent of our segment net sales for the year ended December 31, 2013. While we experienced increases in pricing and volume, these increases were out-paced by the increased price of flour, which led to a decrease in ingredient solutions return on sales from 9.2 percent for the year December 31, 2012 to 7.6 percent for the year ended December 31, 2013. Flour costs averaged approximately 14.7 percent higher per pound compared to a year ago.

## OTHER SEGMENT

As discussed in Note 11: Operating Segments, on February 8, 2013, we sold all assets included in the other segment.

YEAR ENDED DECEMBER 31, 2013 COMPARED TO DECEMBER 31, 2012

CONSOLIDATED RESULTS

Consolidated results for the year ended December 31, 2013 decreased compared to a year ago, with a net loss of \$4,929 on consolidated net sales of \$323,264 versus net income of \$1,624 on consolidated net sales of \$334,335 for the year ended December 31, 2012. We generated a loss from operations of \$5,199 for the year ended December 31, 2013, compared to a loss from operations of \$944 for the year ended December 31, 2012. Our loss from continuing operations before income taxes totaled \$6,521 for the year ended December 31, 2013 compared to income of \$1,942 from continuing operations for the year ended December 31, 2012.

Our net sales for the year ended December 31, 2013 decreased \$11,071, or 3.3 percent, compared to the year ended December 31, 2012. This decrease was primarily the result of our decreased food grade alcohol sales volume in the distillery products segment. Our year-versus-year earnings decreased \$6,553, primarily due to:

- lower gross margins as further discussed in "-Cost of Sales";
- a \$47 loss on sale of equipment for the year ended December 31, 2013, compared to a \$832 gain on sale of assets recorded during the year ended December 31, 2012; and
- a \$4,055 gain recorded related to the sale of a 20 percent interest in our joint venture, ICP, during the year ended December 31, 2012, which we did not have this year.

These decreases to net income were partially offset by increases to earnings related to income taxes and discontinued operations. Pursuant to intraperiod allocation requirements discussed at Note 5: Income Taxes, we saw a \$714 income tax benefit for the year ended December 31, 2013 compared to income tax expense of \$318 for the year ended December 31, 2012. Our 2013 results included a net-of-tax gain of \$878 on sale of the bioplastics business, which was treated as discontinued operations, which we did not have a year ago.

NET SALES

Net sales for the year ended December 31, 2013 decreased \$11,071, or 3.3 percent, compared to the year ended December 31, 2012. This decrease was primarily attributable to a decrease in net sales in the distillery products and other segments partially offset by increased net sales in the ingredient solutions segment.

COST OF SALES

For the year ended December 31, 2013, cost of sales decreased \$7,287, or 2.4 percent, compared to the year ended December 31, 2012. For the year ended December 31, 2013, cost of sales was 93.4 percent of net sales, which generated a gross profit margin of 6.6 percent. 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. Our lower overall total cost of sales was primarily due to a decrease in the cost of corn and an 82 percent reduction in the sourcing and subsequent sales of alcohol from ICP. For the year ended December 31, 2013, we saw a decrease in the average per-bushel cost of corn (exclusive of the impact related to the accounting for open commodity contracts) of 1.9 percent compared to the year ended December 31, 2012. Also contributing to the overall decrease in cost of sales was the impact of our hedging activity. A year-ago, costs of sales was reduced by a hedging gain of 2,164, compared to no hedging impact to cost of sales in the current year.

These increases to cost of sales were partially offset by an increase in raw materials costs for flour and natural gas as well as additional costs associated with an unanticipated operational issues, which included incoming power and water supply interruptions at our Atchison facility on 3 different days resulting in decreased manufacturing output compared to a year ago. During the year ended December 31, 2013, the per-pound cost of flour, and the per-million cubic foot cost of natural gas were approximately 14.7 percent and 3.0 percent higher, respectively, than the year ended

December 31, 2012.

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#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the year ended December 31, 2013 decreased by \$334, or 1.3 percent, compared to the year ended December 31, 2012. The decreases in selling, general and administrative expense were primarily due to:

- an \$1,801 decrease in the year-versus-year personnel costs, which was primarily related to synergies in management of the Indiana plant,

- a \$1,478 decrease in professional fees (exclusive of proxy-related expenses) compared to the prior year. The prior year expense for professional fees related to our corporate reorganization and our acquisition of LDI's Distillery Business,

- a \$971 decrease in the year-versus-year bonus expense related to our incentive programs,

- a \$735 decrease in property taxes as well as miscellaneous low-dollar expense decreases.

These items which caused selling, general and administrative expenses to decrease were offset by higher costs related to:

- A \$3,701 increase in professional fees primarily related to the proxy contest and related matters. We also incurred \$1,764 of expenses related to reimbursing the Cray Group for fees they incurred related to the proxy contest; and
- Severance and related costs totaling \$1,525 for the year ended December 31, 2013 compared to \$0 for the year ended December 31, 2012.

#### GAIN ON SALE OF JOINT VENTURE INTEREST

On February 1, 2012, ICP Holdings exercised its option to purchase from the Company 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, 2013 increased \$250 compared to the year ended December 31, 2012. These increases were primarily the result of higher average daily revolving credit facility balance and interest rate thereon compared to a year ago.

#### EQUITY METHOD INVESTMENT LOSS

##### ICP

For the year ended December 31, 2013, ICP had a loss of \$837. With a 30 percent allocation of net loss for the year ended December 31, 2013, our portion of the net loss was \$251. For the year ended December 31, 2012, ICP had a net 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 June 2012, our portion of the net loss was \$327.

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

For the years ended December 31, 2013 and 2012, DMI had net income of \$94 and \$52, respectively. As a 50 percent joint venture holder, our equity in net income (loss) was \$47 and \$26 for the years ended December 31, 2013 and 2012, respectively.

#### DISCONTINUED OPERATIONS, NET OF TAX



On February 8, 2013, we sold the 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 \$2,797 and resulted in a net of tax gain of \$878 that was recognized as discontinued operations in the year ended December 31, 2013.

## NET INCOME/LOSS

As the result of the factors outlined above, we experienced a net loss of \$4,929 for the year ended December 31, 2013, compared to net income of \$1,624 for the year ended December 31, 2012.

## QUARTERLY FINANCIAL INFORMATION

Our sales have not been seasonal during the years ended December 31, 2013 and 2012. The table below shows quarterly information for the years ended December 31, 2013 and 2012.

	Quarter				Total
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter	
Year Ended December 31, 2013					
Net sales	\$86,404	\$79,395	\$80,171	\$77,294	\$323,264
Gross profit	7,229	5,281	815	7,914	21,239
Net income (loss) <sup>(1) (2) (3) (4)</sup>	1,477	280	(6,325	) (361	) (4,929
Earnings (loss) from continuing operations per share (diluted) <sup>(7)</sup>	\$—	\$0.02	\$(0.37	) 0.01	\$(0.34
Earnings (loss) from discontinued operations per share (diluted) <sup>(1)(2)(7)</sup>	\$0.08	\$—	\$—	(0.03	) \$0.05
Year Ended December 31, 2012					
Net sales	\$86,344	\$85,534	\$76,107	\$86,350	\$334,335
Gross profit	5,579	5,916	6,060	7,468	25,023
Net income (loss) <sup>(5) (6)</sup>	1,876	(850	) 418	180	1,624
Earnings (loss) from continuing operations per share (diluted) <sup>(7)</sup>	\$0.10	\$(0.05	) \$0.02	\$0.01	\$0.09